

Business Valuations Are A Value Proposition Beyond the Sale of Your Company

Business valuations serve more purposes than simply determining what the sale price is for your company. Seeing their value beyond that process requires a shift in mindset though. A short explanation may provide some more clarity on this issue.

In the context of the sale of a business, valuations are used as tools to determine the accuracy of the sale price. The buyer wants to make sure they are not overpaying; and the seller wants to make sure they are not giving the company away cheaply. The purpose is limited to verifying the financials and worth of the company. Conversely, a whole new set of opportunities arise when valuations are viewed from a broader and more strategic perspective.

Spoiler alert: Shannon Fowler and I will be presenting on this subject matter at the MBCEA Conference in May. In advance of that program, here are some other reasons to perform business valuations:

1. Understanding What You Own - It gives you a picture of the value of your company. Remember, a valuation is nothing more than a snapshot in time. It can change – purposely or not – over time. For this reason, you are not locked into that first snapshot and there is no reason to fear the feedback. Getting an accurate assessment of the company's worth gives you a good baseline from which to work and sets realistic expectations.
2. It Helps Set Strategy – Solid periodic valuations give insights into how the company is working and highlight critical things like the allocation of liquid and non-liquid assets. With this information in hand, company leaders can evaluate what is working, what is not working, and how to reallocate resources to be more successful. It also allows company leadership to identify whether the company is properly structured for “over-the-horizon” market opportunities.
3. Allows For Better Risk Management – When you know what your company is worth, you can more easily figure out how to protect it. Companies with large valuations based on their cash position are going to take different steps to protect themselves than a company that has a moderate valuation and a high debt load. Both are acceptable business models depending on the circumstances; but the legal strategy to protect the company looks different in those 2 scenarios. It's easier to make decisions like what insurance policies to buy, how to handle contracts, and whether to buy or rent equipment when you have this information.

These are just some of the reasons conducting a periodic business valuation is a good idea. There are others that can be a central part of the strategy at a highly successful company. Business valuations don't have to be expensive, scary, or limited to one use. Think of them as data points that both measure whether your current business plan is working and reveal how to make adjustments to improve company performance.