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What is Your Business Worth?

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Did you know that up to 80% of an entrepreneurs net worth is typically tied up in his or her privately owned business? So how much is your business worth and what are some of the key drivers that determine market value? What you don't know may hurt you.

I recently sat down with Steve Wrubleski, Managing Director at A Neumann & Associates, to discuss the importance of building business value – even if you don't plan on selling today!

According to Steve, most owners are universally wrong about the value and sale-ability of their business. This is often due to myths around profit, uniqueness and size. Here's a few that may sound familiar: My business is so unique who would want to buy it? I'm a one-person business. My company does not make a lot of profit.

Do I Need a Business Valuation?

A business valuation is a processed set of procedures used to estimate the economic value of a business. Most owners recognize the need for transaction valuations. These are done if you plan to sell, purchase or even re-finance a business. Valuations are also used to determine the tax basis for an owner's estate and settlement in the case of divorce.

So do you need to wait for one of these events to have a business valuation? No. Many business owners have them done for strategic planning. In other words, to help them determine the driving factors to maximize future value. Better data and information means better decisions. It's a great business tool!

7 Business Value Drivers

As a business owner, you have an emotional attachment. That's normal. But when it comes to business value, you need to look at it from a potential buyer's perspective. Here are some factors that impact business value – in a positive or negative way:

1. Quality, motivated management team
2. Established, documented operating systems
3. Above industry-average profit margins
4. No reliability on any one customer or vendor
5. Attractive facility
6. Realistic growth strategy
7. Good and improving discretionary cash flow

If you want to build business value (and you should), here's a few questions to start asking yourself...

- Is my business dependent on me – or a quality team with operating systems?
- Do we sell on value and/or uniqueness – or price with low margins?
- Are sales spread among a lot of customers – or are we too dependent on one or two?
- Do we have multiple vendors for all your critical needs – or too reliant on one supplier?
- Do I have a written plan for growth? Is that growth sustainable in any economy or only during economic booms?
- Do I have consistent financial statements – and understand the numbers, trends and opportunities?

As a final thought, your reputation can also impact the long-term value. Potential buyers will likely do an internet search. Are you find-able by search engines? Is your website a positive reflection of your business? Do you have reviews from customers? Are you in the news and part of the community?

Special thanks to Steve Wrubleski for sharing his knowledge and expertise. For additional information, visit www.NeumannAssociates.com or call (732) 872-6777.