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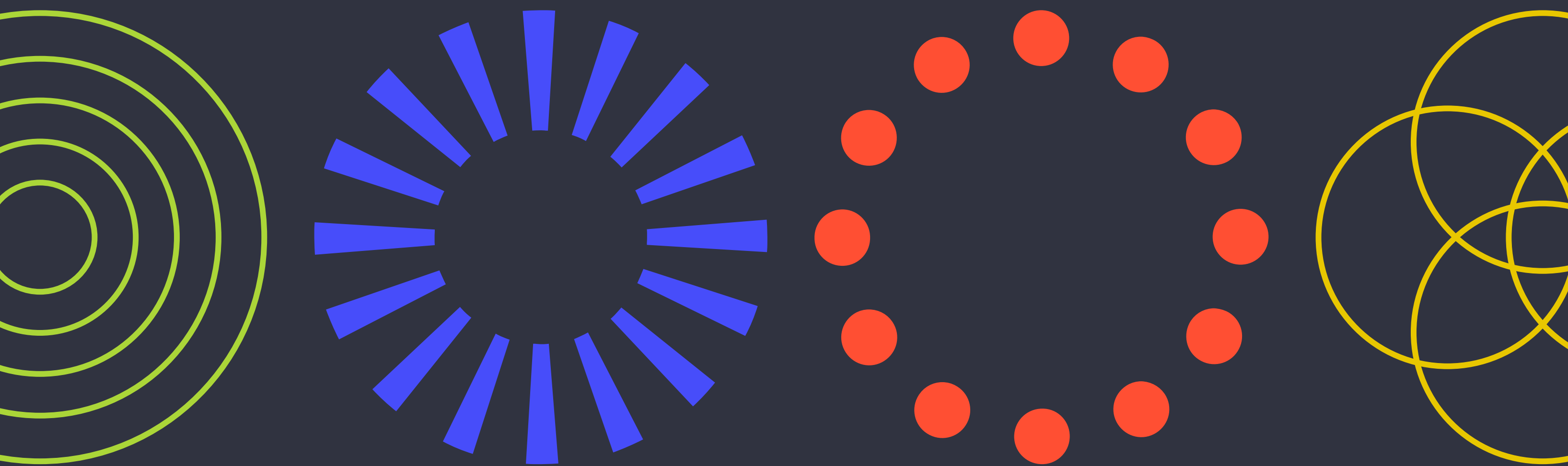
Is Your Baby Ugly?



BUSINESS
BY DESIGN

Is Your Baby Ugly?

You love your business. It must be worth a lot of money. Right? WRONG!!
Ugliness, like beauty, is in the eye of the beholder.

Getting Real About the Value of Your Business

As a business owner, you put your heart, blood, sweat, and tears into your company. This is your baby, not some entity or number ...

All mothers think their baby is the most beautiful baby in the world, and the same applies to many business owners. To you, your company is the most beautiful thing in the world, and I'm sure you believe everyone else will think the same. After all, you created it and it has served you and your family well for the many years.

I am going to give you some tough love now—your business may be an ugly baby!

Your company is probably worth much less than you may think. The sooner you can come to this realisation, the higher are your chances of creating something of beauty and achieving a successful exit.

I am sure you have come across methods for valuing a business. The typical rules of thumb are based upon revenue, profits, and assets. Although these are important, you need to first focus on whether or not your company is an attractive and saleable acquisition target. Even if you are not looking to sell now, it is still important to know who your target buyer is and how you wish to exit.

I had a meeting with a business owner, let's call him Mike, and he was looking to retire. He started his business some 27 years ago, and it served him well. After a personal bereavement and the realisation that life is short, Mike concluded that while he and his wife were still in good health, they wanted to enjoy this time of their lives. He, therefore, decided to contact me to see if I would buy his business.

Mike had done really well for himself, but over the past four years, he lost his focus due to the bereavement, which led to the business suffering. As it stood, the company owed £180,000 and had made losses for the past three consecutive years. In the given financial year, they were due to make a £7,000 profit.

When I asked Mike what he wanted for the business, he sat back and calmly said he thought the business was worth at least £500,000!

I thought he was joking for a second until he continued. He explained that after he received the £500,000, he would be able to pay off the £180,000 worth of debt, which would leave him with £320,000. As he had spent over 27 years slaving away, Mike believed it was worth at least that amount for all his hard work and effort.

I had to explain to him, in the nicest possible way that his business was technically insolvent and actually not worth anything. By taking on the business, I would need to employ a branch manager and possibly an administrative assistant. The rent would increase as Mike owned the building and was not paying market rates. And given the fact that the business was only going to £7,000 profit in the given financial year, it would simply not be a viable business for any buyer to take on.

Mike was not viewing the business as a transferable entity. He was viewing it as his identity, his legacy, his baby. He could not accept that he had not built a business with transferable value but, instead, had built himself a job.

Transferable value has nothing to do with how long you have been in business or even how loyal your customers are. Most of the value of your company is based on whether the new owner is able to replicate your results, get a return from the business, and grow the business for a return on their investment.

If you step into the shoes of the buyer or investors, you will find all acquisitions are based upon the level of risk a buyer is taking on. If you, as the owner, can remove some of that risk in the form of predictable earnings, good cash flow, a growth culture, documented systems, and well-trained employees, you will receive a higher valuation and better terms when you exit. If, on the other hand, all you are focusing on is multiples of earnings with declining trends, many savvy buyers will walk away or agree to terms that offset the risk in some way.

So how can you avoid making these costly mistakes?

- Get good, honest third-party advice. Seek guidance from someone who will tell you the truth, such as an exit planning advisor or someone with knowledge and experience in acquisitions.
- Allocate the various rolls within the business to the most appropriate people.
- Empower your team to take on the day-to-day running of your business.
- Remove yourself as the go-to person for all problem solving and advice.
- Ensure all results can be reproduced to prove concept and a working business model.
- Know who your target buyers are.
- Determine the value of your business.

You can find out more by going to www.businessbydesign.co.uk.

When you, as the business owner, are integral to the company, it makes it very unattractive to potential buyers and decimates the business valuation. Do not work hard at building yourself a really good job, work hard at creating transferable value.

In the hustle and bustle of running a business it is very easy to take your eye off the ultimate end goal—successfully exiting your business. Keep focused and do not be afraid to ask for help.

Would you like to make sure your business is ready for sale? Learn more about how we can assist you. Please contact Cliff at Business By Design for a free confidential phone call to see how we can assist you.

Written by Cliff Spolander

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The Smarter Exit: A Strategic Plan to Grow and Exit Your Business

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