# What Is My Business Worth?

# What Is My Business Worth?

After I sold my first business and bought a new one, I found myself asking this question all the time.

## What is my new business worth now? If I were to sell right now, how much money would I make?

I could list several formulas and valuation methods. Some are easy and others you will need a supercomputer to work it all out. Although there may be significant benefits in having a professional business valuation, I still believe every buyer or investor will determine themselves the value of their business rather than relying on any professional valuation.

### Why Is This the Case?

Most of these valuation methods and content relating to valuation you see online are targeted for much larger companies, companies with revenues and profits in the millions. Buying a business with profits between £50,000 and £500,000 becomes a lot riskier and, therefore, needs to be treated slightly differently.

So, most of us business owners own a small- or medium-size business, and there is little in way of information about how to value an SME. The examples you read about and the conclusions drawn from those examples are almost always about much larger businesses. We need to be comparing apples with apples, not apples with great big giant watermelons.

I remember meeting with an owner who had a business with sales of £2.3M. Part of the valuation was based on a multiple of revenue and part was based upon a multiple of profits. This owner, we will call him John, wanted at least £2.25M for his business. The problem was his business had debt of £335,000 and was only making a £70,000 profit. I do not know about you, but only making £70,000 in a business generating sales of £2.3M seems like a lot of hard work for not much reward.

That example again confirms that these multiples and metrics for valuing an SME are all meaningless. In the example above John was achieving a revenue of £2.3M, but essentially his business was not worth a fraction of what he wanted.

### What Is the Solution?

There is a common mistake to equate transferrable value with the financial value of a business.

So many business owners obtain incomplete or inaccurate valuations not designed for a business of their size, and that leads to faulty conclusions and expectations.

Different valuation methods or different rules of thumb used to estimate the value of a business are not the problem. Here is the problem:

- Business owners tend to ignore target buyers' realities.
- Business owners believe that their years of hard work, good reputation, loyal workforce, revenue/profit or some other business metric creates value in their business.
- Business owners cannot demonstrate that the results achieved by the business can be replicated by someone other than them (i.e., the current owner).
- Business owners forget that the results their business generates—the cash flow it produces—is what sells the business.

> **Note:** *Your ability to sell your business is based solely on whether the buyer or investor can replicate your results and the cash flow generated by your business can provide a return.*

To find out more about how to exit your business successfully please visit [www.businessbydesign.co.uk](www.businessbydesign.co.uk).

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

*Founder of:*
Business By Design— Value Creation Process
Business Optics


*Author of:*
**The Cash Flow Code**: 6 Keys to Unlocking Ultimate Cash Flow
**The Smarter Exit**: A Strategic Plan to Grow and Exit Your Business

**To get your free copies of these books please visit businessbydesign.co.uk**