



Business Valuations

The Increasing Demand for Strategic Appraisals

When interacting with small to mid-sized business owners and their advisors, there is increasing evidence that “strategic” business valuations are being employed as a vital planning tool. A recent study indicated that over 65% of the total valuations performed in 2011 were tactical in nature, meaning they were requested by owners with no plans to sell within the next three years.

“The increasing number of strategic appraisals is confirmed locally at our three offices here in New Jersey” says Achim Neumann, President of A Neumann & Associates—a professional business brokerage organization with over 25 years of experience in the industry. “The trend is that savvy business owners realize that they need to establish a baseline value for their operation in order to then improve certain features of it.”

Simply put, there are generally two types of business valuations. “Transactional valuations” are utilized for a sale or transfer of ownership, and “strategic valuations” are established to determine the key factors driving the value of an operation. While both types of appraisals are essentially the same in so much that they represent “an independent third-party fair market value” of the firm—the primary difference lies in the way that the client uses the valuation information.

For a business owner not looking to sell, there are various motivations for obtaining a business valuation. According to Neumann, “We increasingly find business coaches, financial planners, estate attorneys, wealth managers and CPAs suggesting that their clients look into the business appraisal process for the purposes of family succession planning, partnership buy-outs or disputes, business expansion and long term exit strategies.”

“Over 85% of business owners do not really know what their company is worth”, adds Neumann. “The business owners we speak with are increasingly recognizing that they must get a handle on this information in order to address certain concerns and put themselves in a position to ultimately meet their long-term objectives. After all, how can you get to where you want to be if you don’t know where to start from?”

It’s only natural for small and family business owners to spend the majority of their time thinking about such things as short-term cash flow, personnel issues, customer satisfaction and the like. The wise businessperson however,

also finds the time to look at the bigger picture by understanding what the true value of their largest asset is—namely the business itself.

[Simply put, there are generally two types of business valuations. “Transactional valuations” are utilized for a sale or transfer of ownership, and “strategic valuations” are established to determine the key factors driving the value of an operation. While both types of appraisals are essentially the same in so much that they represent “an independent third-party fair market value” of the firm—the primary difference lies in the way that the client uses the valuation information.]

While the business valuation process is simple and cost-efficient requiring only about an hour of the business owner’s time, the benefits of an independent fair-market business appraisal are long-lasting and essential for ALL business owners regardless of size or industry:

1. Ensures that a business will not be undersold—maximizing financial return at time of sale transaction, whenever that may be.
2. Establishes baseline value for insurance, financial and estate planning purposes.
3. Eliminates incorrect assumptions of value based upon risky industry rules of thumb.
4. Provides a credible basis for asking price and satisfies buyer financing requirements.
5. Provides feedback about buyer demand within firm’s specific industry.
6. Identifies vital value drivers—provides a “call to action” to get to final value goal.
7. Helps to better position the company for ultimate sale

in the future—provides financial guidance and structural recommendations to be implemented to maximize value.

In addition to getting the bottom line dollar amount of what their company is worth on the open market, the business owner also gets vital information about the factors that are driving that value (positively and negatively). Neumann concludes, "It's here that they truly benefit from a strategic valuation. It's here that they truly become empowered. It's here that they have all the information they need to succeed and effectively operate to meet their goals."

The increasing demand from business owners for strategic business valuations is clear evidence of this positive trend in the marketplace. ■

Gary W. Herviou is a Marketing Director with A Neumann & Associates. For more information about business valuations, please call 732-872-6777 or visit www.neumannassociates.com. Please reference this article.

