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A CONVERSATION WITH A PROSPECTIVE BUSINESS VALUATION CLIENT

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This morning I was speaking with a prospective client that was interested in knowing the value of her business. The subject company was an owner-managed, 100%-owned specialty retail business. The owner was tired of the 7-day per week grind, depressed about a looming one hundred percent rent increase and knew that the company was underperforming. She was unable to strategically plan as she spent each day "putting out fires". She was fed up and wanted to know what a buyer would pay for her business.

VALUING THE BUSINESS

The owner asked how I would go about valuing her business. I explained that there were typically three approaches to valuing a business – the asset (cost) approach, the market approach and the income approach, and I further explained the methodologies applied under each approach. We discussed the information necessary to perform the valuation and how we would rely on her to provide such information. We also discussed the different scopes of work in preparing a valuation – calculation or conclusion of value – and the different types of reports that can be issued (oral or written, summary or complete). Lastly, we discussed the likely cost of performing our services which depended on the scope of work we would provide.

WHO IS THE LIKELY BUYER?

What became clear to me through our conversation was that the business owner was unaware of who the likely buyer would be (i.e., another owner-manager, a financial investor for this one site, or a financial investor who would look to regionalize the service business in other locations) and how to get in touch with these potential buyers. Additionally, she had not thought about the income stream that each prospective buyer would realize post-acquisition. The owner stated that if she could improve her work/life balance and her financial return from owning the business, she would reconsider selling.

OFFERED DIRECTION

It was obvious that the owner/seller had a lot of work to do before requesting a valuation for a one-location specialty retail company with an expiring lease. We discussed different retail space options; different potential uses of retail space; a change in the mix of product offerings; different store hours; the impact of these different options on revenues, labor costs and other expenses; and other matters. From a person feeling helpless and out of control over her circumstances, the business owner was now empowered and felt more in control.

THE RIGHT CONVERSATION CAN MAKE A DIFFERENCE

Although it is unclear whether our firm will ultimately be needed for this valuation engagement, this much is certain – the right conversation with the owner made a huge difference. With a plan, the owner will now be able to make

informed decisions on how to maximize profits and cash flows, and the value of the business (if she ultimately decides to sell). It's an important analysis for both the seller and any prospective buyer.

Having the right conversation can dramatically impact your business too. If you are not having the type of conversation with your CPA/advisor that your business needs, contact Eric Barr at:

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