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Q&A

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By RON CONSOLINO

Q: I was talking to my banker recently about extending my line of credit, and she asked what my business is worth. I didn't have a good answer. What should I know about valuing my business?

A: Too often, business owners brush aside valuations, believing them necessary only if they decide to sell.

Well, there are many other reasons to value your business. Perhaps you're thinking about taking on a partner who will buy into the business, or a partner is leaving. Before that can happen, you both need to know what the business is worth.

Other reasons you might need a valuation include applying for an expansion loan, disputing an IRS audit, major strategic planning initiatives and estate or gift planning that involves company stock. You might simply want to know how your investment is doing.

Most entrepreneurs are capable of boosting the value of their businesses significantly simply by paying attention to the things that increase their value. Going through the valuation process can help you learn what those things are.

You can determine the value of a business in many ways, from quick and cheap software-based calculations you do yourself to full-scale certified valuations by professional appraisers. The price range is enormous, from as little as \$15 for the simplest software, to thousands for a detailed analysis performed by certified pros. Business brokers, hoping to sell your business, may do them for free.

None of the many valuation procedures are perfect. Most are based on an analysis of forecasted cash flows that produces a current value for the business. Also, there are accepted rules of thumb for all kinds of small businesses, in all types of industries.

Bankers and investors, as well as the IRS, are generally skeptical about rules of thumb. You can expect both groups to require a valuation, usually to be performed by appraisers of their choice, whenever a company seeks either a significant increase in credit or a new infusion of capital. But, even though rules of thumb are not precise, they can provide a good sanity check.

Appraisers analyze such information as historical financial records, cash flow forecasts, the customer base, internal controls, key employees and more.

The National Association of Certified Valuation Analysts offers a free service online to help you find a business valuation expert in your area. Look for the Credentialed Member Directory at the Web site www.nacva.com.

PriceYourBusiness.com offers simple small-business valuation software you can buy or access online.

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