

The Salt Lake Tribune

Business Insight: Set up your business so it runs without you doing daily tasks

July 17, 2006

The logo for The Salt Lake Tribune, featuring the text "The Salt Lake Tribune" in a white, stylized serif font on a blue background with a thin gold border.

Business Insight: Set up your business so it runs without you doing daily tasks

The Salt Lake Tribune

Gary E. Jones

CEO, Center for Economic Industry Research, LLC.

Do businesses obtain a valuation report mostly for bankruptcies or buy-sell agreements?

No. In fact, they are infrequent reasons and generally only when forced to do so. For bankruptcy they are generally out of money and not going to spend dollars for a valuation unless forced to by the court or the law. Buy-sell agreements are normally formula based. The most common reasons for a valuation are divorce, estate- or gift-tax motivated, stock options, litigation, financial reporting, allocation of purchase price, and more.

Give some overlooked strategies for improving a company's value.

Many businesses are not transferable and their value is diminished by this. In other words, the owners and managers of the business have not put the people, systems and processes in place to transfer the business to a new owner without the risk of loss of customers or clients, employees and vendors because the business will suffer without the current owner. Strategy: put the people, systems and process in place to reduce the business' dependence on the owner. Also, do some serious house cleaning at least three years before the owner of the business intends to put the business on the market for sale or merger. This means cleaning up all the tax-driven expenses and begin to drive value with sound business practices and not the tax tail wagging the business dog. In addition, have annual business valuations done to establish a benchmark of your progress in increasing the value of the business before you put it on the market. Use an independent valuation analyst for this purpose.

You recommend in your book, *The Business of Business Valuation*, that clients update their valuation at the end of every business operating cycle or at least every three years. Why?

Benchmarking is huge. How else do you measure your progress toward a goal?

You have said the more business owners can extricate themselves from the detailed operations, the more the company is worth. What's the first step?

Increasing revenues and profits do not create value on their own. The increases must be sustainable and have a lasting quality. This goal for someone looking to increase the value of their business is no different from the person looking to transfer their business to a family member, the employees or to a buyer. They all have one thing in common: To increase the value of the business, the business must be able to run without the owner doing daily tasks associated with the business or "working in the business." The owner's focus must be on developing strategy, overseeing the implementation of strategy and "working on the business." Most business owners cannot let go of control and hover over the day-to-day details, thereby missing opportunities to build value. They are the major road block to building value - their own worst enemy.

- Dawn House

