

BUSINESS VALUATION AS THE BASIS OF YOUR STRATEGIC PLAN

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There are many different approaches to strategic planning. Some processes focus on the mission and vision, some focus on strengths, weaknesses, opportunities and threats, and still others focus on key differentiators of the company. Goals and objectives within the strategic plan may emphasize sales growth, customer satisfaction, employee satisfaction or financial stability. While all of these issues are important, the central goal, whether stated or unstated, is to build value in the business.

Most of us are in business to succeed. The bottom line of success is how much the value of your company grows from year to year. Nothing gives you a more holistic measure of your success than seeing your businesses value increase. This is in fact the premise on which the public stock markets are based. One very effective approach to assessing the effectiveness and success of your strategic plan is to use a business valuation as a benchmark. Strategic planning sessions guided by a solid business valuation give you the overall view of the business and can identify areas in need of improvement. Business valuations will help you keep focused on the overall value by considering all of these factors:

Sales and revenue growth are critical to the health of your business and are reflected in the business valuation. However, increases in sales may be at the cost of increased incremental marketing, staff or production costs. Basing your strategic plan only on revenue increases may not increase the overall health of your business.

Cost cutting measures are another item on the list at many strategic planning sessions. It is important that you look at your systems and processes each year and take out unnecessary costs. But cost cutting can prevent your business from growing if the wrong costs are eliminated. And, although the increased cash flow will look good in your business valuation, decreasing expenses is only one part of building value.

Mission, vision and values are critical to keep everyone in a company working together towards company objectives, but they must be the guide for successful actions taken to improve the overall workings of the company and not an end in themselves.

Factors in your market including competition are critical to the

well-being of your company. A thorough business valuation will outline competitive threats and identify industry opportunities. For example, a business valuation will address whether your market is flat or expanding and how your company can take advantage of the current market conditions. Most strategic planning sessions are inward focused. A good business valuation also considers the external environment.

Cash flow to owners. The traditional basis of a business valuation is discretionary cash flow available to owners. Cash flow is the ultimate return on investment. For example, if a company has a patent on a product or process, the income that product or process generates is what gives the patent value. The benefits that the owners can either take out of the business or use to grow the business are what drives value. Valuation takes into account the future expected returns to the owners.

When you are thinking of your exit strategy or are within five years of selling, a business valuation becomes even more critical. You want to know what your business is worth and what may need to be done in order to increase the value of your business to a level where you will receive a greater reward for your hard work. That is the time you need to focus on the total value picture for maximizing the value of your business and measuring success.

A business valuation should be done by professionals with specialized valuation expertise. For example, valuations done for life insurance purposes are not usually comprehensive enough to provide the information and analysis needed for planning. Look for credentials such as the Certified Valuation Analyst (CVA) or Accredited in Business Valuation (ABV). While your first business valuation may cost from \$4,000 to \$8,000, subsequent regular updates should cost less.

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