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THE IMPORTANCE OF BUSINESS VALUATIONS

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Deciding to sell your small business is never an easy choice. Whether you want to retire, having trouble keeping afloat with business expenses, or



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you just do not have a passion for the industry anymore, selling a business can be painful emotionally.

Let's make it easy by discussing the importance of a [third party business valuation](#). Then, you can be ready for if and when the time comes to sell your business.

What Is Business Valuation?

Business valuation is a term for discovering how much your business is worth when you are ready to sell it to another owner. The procedure evaluates assets, cash flow, liabilities, and other elements of your business so potential buyers know what to pay you to become the new owner.

Neumann Associates, a leading business brokerage on the East Coast explains, "When seeking a certified business valuation, keep in mind that one of the most important concepts is "Goodwill" which can define everything from dedicated customers to long-term business partners.

To understand how these relationships are valued, and how the value of a company as a whole is evaluated, it's important to look at the methodologies used by various business valuation companies. Once this is established, the components can be broken down."

Reassures the Business Is Not Undervalued

Some business owners may believe that using their [tax returns](#) is the correct way to value a business. Sure, this shows your total income and written-off expenses, but more information is needed to get the total true valuation of a business.

For example, let's talk about business assets. A third party company with business valuation experience will evaluate:

- Checking account funds.
- Savings account funds.
- Other cash (like what is currently in your cash register) and cash equivalents.
- Accounts receivable.
- Value of trademarks and patents for products.
- Marketable securities.

Forgetting to include these key elements can cause a business to be undervalued when only using a tax return. Business assets add value to a business and should not be missed when preparing a business valuation.

Acts As a Snapshot For Business Performance

When potential business buyers are interested in purchasing your small business, they want a snapshot of how it performs. What are the monthly sales? What is the total cash flow for the month and an overall year for this business?

The better the business performs, the more the buyer will want the establishment in their name. With at least a great cash flow, a great product or service that constantly sells, and interested customers to keep the income coming in, potential buyers could be flocking to buy your business when it has these three elements.

A [business valuation](#) will help facilitate this snapshot and produce an easily digestible report of what the business is really doing, especially when it's performed by a 3rd party. Business valuation firms have different formulas and formats they use for different types of businesses and lawyers and potential buyers will know how to decipher the information provided much more easily than if they just got access to the business back end (which will of course happen at some point also).

Owners Know How Long It Will Take To Get a Profit

Of course, we are all in business to make a profit. Based on the value of the business and its yearly income, the new owner will want to know how long it will take to get a profit from their return on investment after purchasing your business.

Say that your business is worth \$100,000 and you have an annual net income of \$90,000 per year. That works out to about \$6,667 per month. It



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will take one year and three months to earn back the investment. Any income thereafter will be considered profit from the new owner's investment.

The quicker that a new owner can achieve a profit from your business means they will be more interested in purchasing it. Talk with your business valuation representative so that you have this key detail ready to inform potential buyers. Tailoring the business snapshot to a potential business owner will also make things much more attractive as they will have an easier time at identifying ways to expand verticals and create new ones.

FINAL THOUGHTS

Having a business valuation performed is important because it makes sure your business is not undervalued, it acts as a snapshot of business performance, and potential owners will know how long it will take to get a profit from their investment. Take the extra step and consider business valuation services so you are ready to sell your business the correct way. They also help a current business owner find ways to grow business or clean up processes to earn more in the meantime, only further raising the value of the business.

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