



Jim's Profit Accelerator 152 Don't Leave This Money on the Table

Are you willing to give up half the value of your business? The following may surprise you.

Here's a quick way to estimate what you might be giving up: It's a thumbnail valuation formula (not accurate for your individual business, but adequate for this discussion). "Valuation" is shorthand for a likely sale price for your business. If you own it all, it comes to you.

Here's a valuation estimate, with values to show how it works:

	EXAMPLE	MY COMPANY
PRE-TAX ANNUAL PROFIT	\$2,000,000	
EBITDA	\$2,500,000	
MULTIPLE	4.5	
VALUATION	\$11,250,000	
HALF	\$5,625,000	

This is standard valuation math, before adjustments for your special situation. Find out what money is on the table for you: Insert your numbers into this template.

Warning Label: *These are averages, and likely won't apply to your situation.*

SPEED BUMP: Why would anyone voluntarily give up \$5 million?

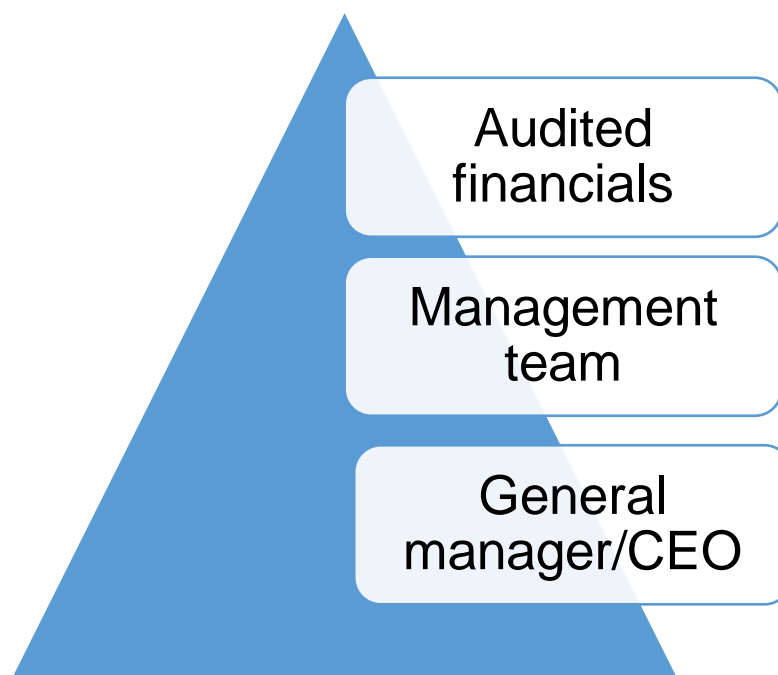
Here are three common reasons:

1. **They don't think the math applies to them.** Research question: Has any bad situation happened to your family (cancer, auto accident, permanent disability, addiction)? If yes, then unfortunately you can see that you may not be special, and "it can happen to you."
2. **They don't want to** make the changes. As you start to face the end of your current career, it's daunting to invest the time and emotional energy to do these things.
3. **They don't know how** to change the outcome.

I'm here to tell you that the math does apply to you, and there are three actions* that you, as CEO, can take, if you plan ahead:

- Shift to audited financials soon enough to have three years' worth.
- Develop a management team that can run your business superbly while you're out of range for two months ("range" = email, phone, text, snail mail).
- Grow a general manager who can grow your business better than you can, especially in the future environment facing the business.

SPEED BUMP: Without these three, you'll lose over half the valuation of your business.



Each of these three factors commonly impacts business valuation by at least one EBITDA: In the example above, that's \$2,500,000 **EACH**. For the above, then, value drops by 3 x \$2,500,000, or \$7,500,000. The new lower price is \$3,750,000, versus a "full price" of \$11,250,000—more than half!

SPEED BUMP: Actual selling price always varies, but without these three your price will drop. Usually a LOT.

Do you believe these common theories?

- There's so much money available that buyers are desperate to make deals.
- My business fits so well with an industry buyer that these "mechanics" won't dent my price.
- My business model is so unique that buyers will pay more for it.
- Buyers can put their own people in to run my company, so they won't cut their price to me. (They will insert their people if necessary, cutting the price to compensate for their risk in putting an outsider into your business. The risks are market and customer knowledge, tribal knowledge that's essential to quality and productivity, and your knowledge about likely growth spots.)

I can find no data to support any of these commonly held beliefs. Sadly, for the sellers, they are unlikely dreams.

SPEED BUMP: Business sale pricing is closely checked for reasonableness.

Every business transaction usually has at least the investors listed below, who are careful, conservative, and allergic to risk. All will dig through the facts of your business, and any can stop the deal unless the price makes sense to **them**. None has your emotional attachment to the deal or the business:

- Lender: yours and buyer's
- CPA: yours and buyer's
- Board or family and friends: yours and buyer's

Even worse, buyers are all subject to audit, oversight, and ridicule for bad investments. The pressure to be "right" equals the pressure to "place their funds."

ACCELERANT: Which of the three actions* will you start this month?

For more information on how you can accelerate revenues and profits in your business, please call or email me.

A note on **SPEED BUMPS:** Use them to click quickly with an idea that can immediately be implemented in your life as a business leader. Think: "How can I use this today?" or "Who can use this?"

For more information, visit www.grewco.com.

Jim Grew, the Business Defogger and Accelerator, helps leaders discover hidden opportunities within their businesses and exploit them for dramatic results. Jim has led 9 businesses, worked in 31 companies at C-level, and is an expert in strategy and executive leadership. He presents regularly to industry groups, mentors business leaders, and shares insights in his Executive Letter (above). Jim holds BA and MBA degrees from Stanford University. In his new book, *The Other Side of Succession*, he shares how to plan for the future by growing your business now.

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