Jim's Profit Accelerator 99:
Will You Leave Money on the Table?

Are you willing to give up half the value of your business? No? Well then, 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. It you own it all, it comes to you.

Here's a valuation worksheet, with sample 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 what's on the table for you, and insert your numbers into this template.

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

SPEED BUMP: Why would anyone voluntarily give up $5,000,000?

Here are three common reasons why owners surrender half the value of their business:

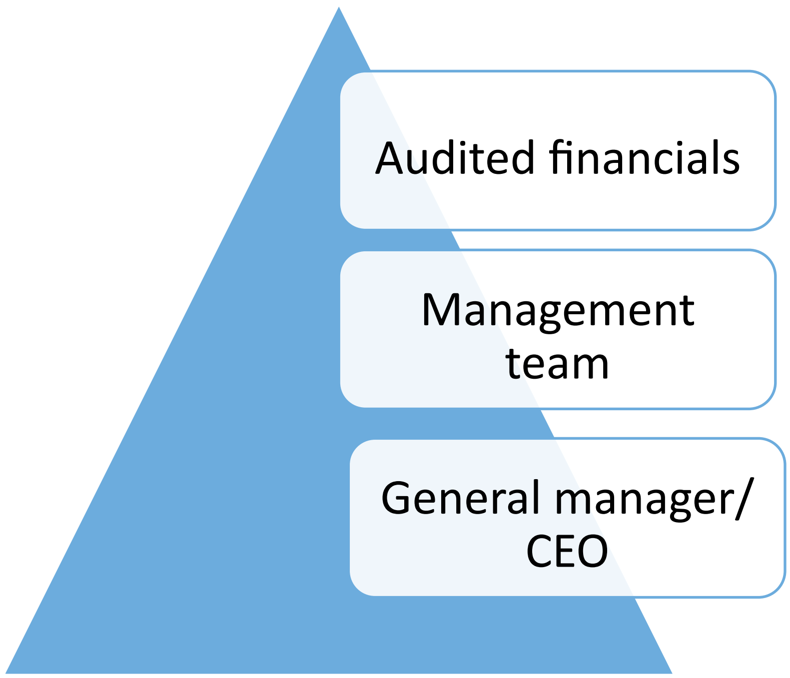
1. **They don't think the math applies to them.** Research question: Has any bad situation happened to your family (cancer, auto accident, permanent disability, addiction)? If yes, then unfortunately you can see that you may not be special, and "it can happen to you."
2. **They didn't want to** make 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 didn't know how** to change the outcome.

Both 1 and 2 are up to you now that I've made you aware of them, but here are three actions to help with number 3 that you, as CEO, can take, if you plan ahead:

1. Shift to audited financials soon enough to have three years' worth before ownership change.

2. Develop a management team that can run your business superbly while you're out of electronic range for two months ("electronic range" = email, phone, text, and even snail mail).
3. 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 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—that's *more* than half!

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

Do you believe the following 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 these ideas. Sadly, they are unlikely dreams.

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

Every business transaction usually has at least these investors, 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, visit www.grewco.com.
Jim Grew is an expert in CEO-level strategy and executive leadership whose clients refer to him as the Business Defogger and Accelerator. Jim helps leaders swiftly discover the hidden opportunities within their businesses and exploit them for dramatic results. Nearly three decades of success as a COO and CEO coupled with his experience running nine thriving businesses provide the foundation for his consulting work as president of the Grew Company. He presents regularly to industry groups, mentors business leaders, and shares insights on his blog, BizBursts.com: http://bizbursts.com/. He holds BA and MBA degrees from Stanford University.