

How Do You Value Your Business—Business Blueprint Interview



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Intro:

Kerry Boulton is Australia's most respected exit strategy advisor and CEO of The Exit Strategy Group. Welcome to this week's segment.

Dale Beaumont:

How do you value your business? I'm guessing, if you work with someone that's an exit audit person, they can give you a bit of an indication. You can talk to your accountant, and they can maybe give you some suggestions. But what data or metrics should you be using to set a price?

Kerry Boulton:

If you can benchmark your business against others in your industry, that will give you a bit of a guide. And there are quite a few tools around. I have a couple of tools that I like to use too, which are just online tools that you can get some sort of an indication. So you can type in business benchmarking tools into Google, and you can find them there.

Dale Beaumont:

Do they also list what businesses sell for in this industry?

Kerry Boulton:

You can usually get that information from, say, the Business Broker Association. If you talk to a business broker, especially, they'll be able to give you a guide. They might say mortgage broking businesses normally sell for this, etc. There are general rules of thumb for different industries, but we want to kind of break those rules of thumb. We want to go beyond that. So, how do we break those rules that kind of other people say, "Well, your business is only worth this"? How do we actually get, you know, 50% more? Or, how do we get double what the industry average is? Because no one's average that watches this show, correct? We don't want industry averages at all. And that, to me, would be the low ball. You know, always look.

Dale Beaumont:

So, you could just laugh when they say that?

Kerry Boulton:

Oh, no. Thank you.

Dale Beaumont:

How did you arrive at that figure?

Kerry Boulton:

Yes. Look, it comes back to the work that we were talking about before, and that's about thinking about who it is that's going to buy your business, and therefore you can pitch it so that it becomes attractive.

Dale Beaumont:

So how do you do that?

Kerry Boulton:

The things that you really need to do are understand where the market's heading, understand who the competitors are, and understand how you can project the future cash flows, because that's what people are buying. That's what the purchaser is going to buy. They're buying the future cash flow that they will be able to extract from your business to put into their business. So, I mean, take me away from discounted cash flow calculations. It's not me, but your accountant will be able to help you out on that one. With your future financial projections, look at the revenue that you're going to generate, and bring that back to today's value based on an interest rate. That will give you some idea. They will give you some idea of what they think that your business could be worth. Couple that with what you need as well, that financial planning discussion, and see if there's a gap. If there's a gap, then we need to examine it more closely to find out what we can do to fill or close the gap so that it doesn't exist.

Dale Beaumont:

Now, I'm going to put you into a sort of a scenario right now. Because the moment that someone gets a sniff that you want to sell your business, they're going to say, "What do you want for it? What do you want for it? What do you want for it?" How do you answer that question?

Kerry Boulton:

Why are you asking?

Dale Beaumont:

Yeah, to put it back on them.

Kerry Boulton:

Yeah. Well, I'm thinking about buying a business—your business. Okay, and what would you plan to do when you bought a business like mine?

Dale Beaumont:

I've just come in and run it basically and try to kind of grow it a bit more, see what else I could do with it.

Kerry Boulton:

And what sort of things would you do to grow the business?

Dale Beaumont:

Great. So basically, turning it back around them. So what are the questions? These are awesome, by the way. So you're asking, "What was the first question you asked?"

Kerry Boulton:

What do you want for the business?

Dale Beaumont:

Why are you interested?

Kerry Boulton:

Why are you interested? That's the most important question. Why are you interested? Why are you interested?

Dale Beaumont:

Great. So, even if all you did was just answer that question with another question, you're already going to be, you know, eight-tenths of the way there.

Kerry Boulton:

One of the really important things to do is to understand the buyer. It's getting into the head and understanding what motivates the buyer. Why do they want the business? No matter what type of sale it is that you're making, even if it's a family business and there's succession happening, understanding that the successor or what's the successor thinking, what's the planning that's going on in them? So some of those questions, if you take notes, are: Why are you interested? What are you going to do with the business? How do you plan to grow it? How are you going to run it? What are you going to do differently?

Dale Beaumont:

So just basically asking all those questions. So if they've answered all those questions and they're still saying, "So, you know, what you're asking price?" then what would your next step be?

Kerry Boulton:

What do you think it might be worth?

Dale Beaumont:

Okay, so you put it back on them.

If you don't have a copy of Kerry's new book, ***The Uncensored Truth About Exit Strategy***, please visit freeexitstrategybook.com.au.