

Improving value at all stages of your business

The Theory

There are many ways to value a business, however the most commonly used valuation methodology for a profitable trading business is the Capitalisation of Profits Methodology.

This methodology is based on the average earnings of the business (before interest and tax - EBIT) multiplied by a capitalisation rate.

Therefore to increase the value of your business, a business owner should focus on:

1. maximising sustainable profits ; and
2. achieving the highest capitalisation rate.

These are good goals for any business regardless of your stage in the business lifecycle.

So what makes up a capitalisation rate?

In determining the capitalisation rate of your business we look at the following 7 business value drivers:

- the business' reliance on the owner;
- the quality and mix of your clients/customers;
- the innovation and differentiation of your business;
- the performance of your business compared to others in the market;
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- the loyalty and commitment of your staff;
- the systems and procedures of your business; and
- the likelihood of succession in the business.

By focusing on these 7 value drivers, you will improve the efficiency of your business and maximise your business wealth.

It Takes Time

Improving the value of a business is a long term goal – it won't happen overnight. You will need support along the way to make sound business decisions and ensure strategies are executed. Harris Black has a unique way of determining the areas you need to focus on to get the best results out of your business.

We will prepare a focus list to prioritise and record your progress along the way.

We will meet with you regularly to help you stay on track and execute the items on the focus list. Many of our clients have taken up the value improvement challenge and have experienced the following improvements in their business:

- reduced reliance on the owner;
- a better commitment by staff to the goals of the business;
- more streamlined, cost effective and documented business processes;



- a better understanding of their clients and client groups and therefore understanding of their revenue streams; and
- higher profits.

- 44% will sell within 10 years;
- More and more business will come on the market; and
- 50% business owners expect sale of business to fund their retirement.

These are great achievements for any business whether selling or not.

Improving Profits

Using the Capitalisation of Earnings Valuations Methodology, the higher the profits the higher the value of your business.

Improvements in the 7 business value drivers will automatically lead to improved profits.

However if we focus on the numbers, below is a traditional list of profit improvement strategies:

1. Increase revenue;
 - Increase prices;
 - Improve product mix; and
 - Invoice timeliness.
2. Increase sales volume;
3. Reduce variable costs;
4. Reduce fixed costs;
5. Look for new business opportunities;
 - New markets; and
 - New products.
6. Improve fixed asset performance;
7. Improve debtor performance;
8. Improve inventory performance; and
9. Improve creditor efficiency.

So what if I am selling my business?

Firstly, you are not alone – here are the facts.

- It is estimated that the wealth of family businesses in Australia is A\$3.6 trillion;
- Average age of a small business owner is 56;
- 20% of proprietors are over the normal retirement age of 65;
- 11% are over the age of 70;

Your business will need to stand out from the crowd to maximise its value.

If you are thinking about selling, it usually takes 2 to 3 years of focus on your profit and value drivers to realise the maximum value from your business.

Value optimisation will provide you with greater choices at retirement. With a plan, you can be in control of your business **succession**.

Do you know what your business is really worth?

Are you relying on the sale of your business for your retirement?

Do you know how much you will need to sell your business to fund your retirement?

Have you identified who you will sell to?

We have the tools to accurately value the current value of your business.

We then help you to identify areas for improvement, and project the value of your business after these improvements are made. That way you have a clear path with known outcomes.

Improving your business value should be a focal point throughout the business lifecycle, not just when it's time to sell.

We can help your business reach its full potential.