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Is Your Business Worth as Much as You Think?

As a successful business owner, you know that your business has value. It likely supports the lifestyle you and your family live. It provides a paycheck and perhaps benefits to the people you employ. The products or services you provide are meaningful to your clients. But if someone asked you, “How much is your business worth?” could you confidently provide a dollar amount?

Many business owners aren't exactly sure what their businesses are worth. More commonly, many business owners overestimate the value of their businesses, based on rules of thumb, comparing what outwardly similar businesses have sold for, or simple gut feeling. Less commonly, owners undervalue their businesses for the same reasons. But one thing is clear: Failing to know what your business is worth right now can have negative consequences for how you plan for the future of your business. Why is knowing the value of your business today so important?

Knowing Your Business' Value Can Guide Growth

A business' value can be indicative of how well (or whether) it's growing. While factors such as gross sales and cash flow play an important role in determining business value, they aren't the only factors. For example, if your business' yearly cash flow is around \$3 million, and the equipment and property the business owns is worth \$1 million, you might assume that the business' value is around \$4 million at the low end.

However, if your business' cash flow results from two or three big clients, potential buyers may value the business below \$4 million due to the risk of large losses if one of those clients leaves after a sale. Likewise, if you as the owner are the primary reason for strong cash flows, a potential buyer may reduce their assessment of the business' value to reflect the cost and risk associated with you leaving. This is because if you were ever to leave the company, whether by choice or chance, revenue and cash flow can decrease or



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cease. Even if you never intend to sell your business, its value is primarily based on what qualified buyers would be willing to pay for it.

In short, knowing what your business is worth right now—as a consequence of what you’re currently doing—can help you determine which areas of your business can improve to allow you to pursue your growth goals. Growth relies on numerous factors, some of which aren’t as obvious as hard numbers like cash flow. Awareness of these less obvious factors can get you thinking about and acting on strategies to potentially strengthen them in your business, which can help guide your business toward the growth you desire.

Knowing Your Business’ Value Can Solidify Your Planning

Without knowing what you currently have, it’s difficult to create a plan that allows you to pursue what you want and need. This applies to goals you may have for your post-business life, such as traveling more or spending more time with family or friends. It applies to goals you may have to leverage your business’ success as a force for good in the community, such as through charitable donations. It applies to estate planning goals you may have, such as passing wealth to future generations.

Whatever your future goals may be, it’s difficult to plan for how to pursue them without knowing what you currently have and what you will eventually need to adequately pursue them. Being overly ambitious about what you believe you can do, based on a gut feel or rule of thumb about what your business is worth, can damage how the business functions. Conversely, underestimating what your business is really worth today can focus your attention, allowing you to pursue important short-term and long-term goals right now.

Knowing Your Business’ Value Gives You Time to Adjust

Growing business value to a point at which you can achieve your goals can take years. It’s rarely as easy as flipping a switch or making a small change, yet many business owners severely underestimate how much time it takes. This commonly leads to burnout, especially when owners view the challenge of spurring growth as insurmountable. Knowing what the business is worth now can prevent you from burning out or staying in the business for longer than you want because it helps you determine how long it may take to build the business to where you need it to be.

Unless business ownership is merely a pet project, the value of your business will likely affect you, the goals you want to pursue, and the people and causes you care about. If you’d like help in learning about whether your business is worth as much as you think and to start considering strategies to make your business as valuable as you need it to be, contact us today.

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