Disinfect that Business Valuation with Pointed Questions

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It can be easier to jog up the stairs than to find the mental energy to study a business valuation thoroughly! We may often be to blame, insisting of stringent norms of brevity, which do more justice to egos than to capital resources! However, planners let loose, can indeed fire volleys of pages which can match theses by weight! Who is not short of time, and left wondering how to be truly sure that everything relevant has been taken in to account during a business valuation exercise?

A standard set of questions can help. It does not matter if subordinates learn your style, because they will prepare full answers during the next business valuation opportunity! Working Capital is a good area to put under a business valuation microscope, because so many junior people in an organization may tinker with it, without outsiders who are new to an operation, realizing the truth behind numbers.

You can start the Working Capital section of your business valuation review, by searching for slow-moving items in reported inventory. Has anyone been to the warehouses, and removed damaged and expired goods from the books? Many companies resort to deals for the trade, to window-dress results at the end of a reporting period. Take a look at how inventory levels moved in-between reporting periods, and suspect any peaks and troughs that you see.

Working Capital analysis is a bit like archeology! You can uncover an entire corporate culture by a painstaking restoration of statements concerning inventory, receivables, and payables. An investment proposal which stand up to scrutiny in this area is probably sound in the other parts as well. Sellers, who would like to make favorable impressions on potential buyers, can use this Working Capital approach to good effect as well.

Do Not Forget Intangibles in Business Valuation: The triad of brands, goodwill, and know-how has no slots in financial statements, and therefore tend to be left out in formal business valuation. Yet, they can spring nasty surprises on an investor, and leave a seller in hopeless recrimination as well! The value of brands is relatively well known, but finance professionals, who generally lead business valuation exercises, are usually at a loss to discern trends in rank, image, and margins. You might think that accountants can apportion contributions to individual lines of revenue, but there could be many operational realities, such as the time of sales people, which are misleading in business valuation exercises.

Even the most qualified and experienced professionals can be guilty of subjective bias when it comes to the goodwill aspects of business valuation. It may appear wasteful at first sight to invest in an objective survey with a duly stratified sample, but a reliable basis for estimating the effect of goodwill in business valuation can prevent costly and irreversible mistakes. Overly enthusiastic backers or opponents of a specific business valuation exercise may try to use benchmarks and market precedents to support their points of view, but your capital deserves more specific proof!

Know-how is perhaps the most elusive of the drivers of commercial worth, which weigh down efforts to determine the true worth of an enterprise. Technologists in dark corners of a company may not only substitute weak in-house processes, but represent enormous potential if deployed effectively. This sword has two edges, because key people may leave after a business changes hands. You can be sure that top guns will lobby hard to save their jobs, but the real value may reside in the engine room of your proposed acquisition. Due diligence should never leave out distant sites and the ‘innards’ of an organization.