

What's your business really worth?

Every business, at some point, will change hands -sometimes to family members but more often in this day and age to an outside party. When selling a store can often bring you four or five times your annual profit the trick is to make sure you maximize the value that you can realize from it.

The days of the family business are, sadly, becoming something of a rarity. Retail stores that were once second, third and fourth generation are now being replaced by first time owners, often fresh with a redundancy check. Children of retailers have grown up witnessing the long hours and sacrifices their parents have had to make and, faced with a world full of opportunities that earlier generations could only imagine, they are turning their back on tradition.

Store owners have to groom their businesses for sale, and many don't think about it until they are ready to make the decision. Preparing a business for sale is not something that can be done quickly. Potential owners will be looking at a new stores' balance sheet and many of these assets and liabilities can't be transformed overnight. Profitability can't be improved with a click of the fingers, there is careful planning required.

So what factors should a business owner consider if wanting to groom his business for sale?

The primary factor in determining what a business is worth is profit. After all a new owner is purchasing a future income stream – the value he places on your business is relative to the return and he will be comparing this return against what he would gain by investing his money elsewhere. A purchaser would expect a return on his investment of somewhere between 20% and 30% - in other words for every \$100000 he invests he would be seeking \$20000 to \$30000 per annum in pre tax

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earnings (excluding any income he may collect in salary from working in the business). Maximizing your profits seem fairly obvious but there are a few factors that will help:-

Bank all your takings. Some stores can engage in the dubious practice of not declaring all their income in an effort to avoid tax. This may save you \$0.20 - \$0.50 cents in the dollar in tax by not reporting income, but when it comes to selling your business that \$1 of profit is worth \$3-\$5 to the value of your business (again based on that 20% -30% return on investment). And there is no point trying to tell a buyer about it afterwards, they will only value what they can see, not what you claim you have been making.

Reduce unnecessary costs. It seems obvious but many businesses don't look at their overheads until they have to and this can sometimes be too late. A smart buyer will look at your financial performance for the last three years at least – tidying up your act the year you wish to sell is leaving it a little too late. The big three costs for any retailer are wages, advertising and rent. Look at these areas first and justify your expenditure but don't be manipulative by trying to defer expenses into later periods to make the financial statements appear better.

Reduce Inventory. Depending on how you sell the inventory may be part of the purchase price or quoted separately. Either way unless you plan to continue trading elsewhere you will need to eliminate as much aged inventory as possible. Make sure you aren't running more inventory than you need as this will create extra costs within the business through freight, staffing and display. Make sure the inventory is fresh. Again a smart buyer will look at the age of your inventory and often only offer cents in the dollar if it is too old. Start planning your inventory strategy now

Look at the intangibles you can promote. A buyer is interested in the profit but other factors can make a difference. How much competition do you have? How long has the business been established? Are you able to stay on and assist with the transition? How large and tidy is your database? Does the business rely entirely upon you to succeed? This one is particularly relevant. We all know Mr. or Mrs. Indispensable whose staff can't make a decision without them and whose customers always ask for them even if they only require a battery. Many of these owners get a great deal of enjoyment being tied to their business. Sadly when they come to sell their stores have very little goodwill as the true value of the business will be walking out the door with them when they leave.

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