BRENTWOOD GROWTH

How to Increase the Value of of Your Business

Understanding the true value of your business is more than just a matter of numbers on a balance sheet; it is an essential insight that directly impacts your current and future financial well-being. For many entrepreneurs, especially those running a small business, their venture is not just a source of income, but a significant part of their identity and life's work. However, it's startling how many business owners overlook the importance of knowing their company's actual worth. This knowledge is crucial, not only for making informed decisions in the present, like when you ask yourself, "should I sell my business?", or engage a business broker, but also for effectively planning for the future, particularly retirement.

The value of your business, whether that is anything from a HVAC, roofing, electrical or appliance service company, intertwines with your personal financial security in ways that are often underestimated. In the immediate term, a thorough business valuation guides strategic decisions—ranging from investment and expansion to potential partnerships or even divestment. Understanding this valuation is also vital when identifying prospective buyers or working with business brokers during the sale process. More importantly, for a vast majority of business owners, their company represents the bulk of their net worth. This makes grasping its value critical for personal financial planning, especially when it comes to preparing for a comfortable and secure retirement.

As retirement approaches, the significance of this knowledge becomes even more pronounced. Whether it's selling the business through a business broker, passing it on to the next generation, or restructuring it for continued income post-retirement, having an accurate valuation is key. It’s not just about ensuring financial stability in your golden years; it's about reaping the rewards of a lifetime of hard work and dedication to your business and maintaining your financial health by strategically considering potential buyers and the overall sale process.

The Reality of a Business Valuation When Selling

One of the most prevalent yet overlooked aspects among small business owners, whether that is a lawn care, restoration, pool service, or garage door company, is their unfamiliarity with the true value of their enterprises. This gap in knowledge is not a minor oversight; it's a critical business blind spot that affects decision-making and future planning. Over 95% of the business owners we speak with, including those running small businesses, do not know the actual worth of their businesses. This lack of awareness is not confined to newly established businesses; it spans across various sizes and stages of business development. Understanding the value of their business, often through an assessment of financial statements and business assets, is crucial for owners, as it plays a pivotal role in strategic planning, investment decisions, and risk assessment.

This lack of business valuation understanding has far-reaching implications, particularly considering that for most entrepreneurs, their business is their primary asset. It often forms the lion’s share of their net worth, a fact that many small business owners may not fully realize. This oversight is not just about the numbers; it's about not understanding a key component of their personal financial health.

Without a clear understanding of their business's value, planning for retirement becomes a game of guesswork. This can lead to unrealistic expectations about retirement income or the proceeds from a potential sale of the business. In some cases, owners might delay retirement due to uncertainty about their financial readiness, while others might find themselves in a position where the decision to sell their business doesn't yield the financial security they expected. Understanding the value of their business, therefore, is not just a matter of good business practice but a cornerstone of sound financial and retirement planning.

The Consequences of Being Uninformed

Imagine a business owner in their late 60s, who, after decades of pouring sweat, time, and passion into their business, stands on the brink of retirement. This individual, like many in their position, has not only invested their energy but also their dreams into the business. As retirement looms, they face a daunting reality: they do not know the actual value of their business, or its fair market value. This lack of knowledge isn't just a gap in financial understanding; it represents a profound disconnect between their perceived and actual net worth. For years, they've envisioned retirement as a time of comfort and security, supported by the fruits of their lifelong labor. But without a clear understanding of their business’s worth and the interest it might garner from qualified buyers in the same industry, this vision is shrouded in uncertainty.

The emotional impact of discovering that their business is worth less than expected can be devastating. For many business owners, their company is not just a source of income; it's a part of their identity and legacy. Learning that its value is lower than anticipated, possibly due to an overestimated asking price or incomplete financial records, can feel like a personal failure, even if the reasons for the lower valuation are market-driven and beyond their control. This revelation often comes with a harsh realization that the retirement they had envisioned - whether it involves travel, leisure, or simply the peace of knowing they have a secure financial cushion - may not be as attainable as they thought. This can lead to a profound sense of loss and disappointment, compounded by the stress of having to reassess and potentially alter retirement plans at a stage in life when flexibility is limited.

Financially, the implications are equally significant. A lower-than-expected business valuation can mean insufficient funds to support a comfortable retirement, necessitating drastic changes in lifestyle or the need to continue working well past the desired retirement age. This situation can lead to a scramble to increase the business's value in a short time, often a challenging task given market conditions and the time it takes to implement and see the results of business improvements. For those who planned to pass on the business to heirs or sell it to interested buyers as a retirement nest egg, the realization of a lower value can necessitate a complete overhaul of estate and financial planning. In essence, the late discovery of the business's true worth not only disrupts retirement plans but also forces a last-minute reevaluation of both personal and professional life goals.

Steps to Empower Yourself And Your Business

Step 1

The first critical step for any business owner is to gain a clear understanding of their current business value. This involves more than a casual estimate, or a rough guess based on annual revenues or profits. Business owners should seek a professional valuation that takes into account a variety of factors, including market conditions, assets, liabilities, and earning potential. This professional assessment provides a solid foundation for making informed decisions about the future of the business. Knowing the current value isn't a one-time task; it's a dynamic process that should be revisited regularly, as the business evolves, and market conditions change.

Step 2

Understanding how this valuation is calculated is equally important. Business owners should familiarize themselves with the key components that affect their business's worth, such as cash flow, industry trends, customer base, and the overall economic environment. This knowledge empowers them to identify areas of strength and weakness within their business, and understand how different operational decisions can impact its value. By comprehending the valuation process, owners can strategically focus their efforts on areas that will most significantly increase their business’s worth, making their future endeavors more targeted and effective.

Step 3

Finally, business owners should set targeted valuation goals. For instance, if an owner aims to retire in 10 years with a certain amount from selling the business, they should work backward to determine what the business value should be at different intervals leading up to that point. Regularly measuring progress toward these goals is essential for staying on track. This might involve annual re-evaluations of the business's value and adjustments to the business plan as necessary. Holding oneself accountable, possibly with the assistance of financial advisors or a board of directors, ensures that the business not only grows in value but also aligns with the owner's long-term personal and financial aspirations.

How Brentwood Growth Can Help

Brentwood Growth stands out in its commitment to helping business owners understand and enhance the value of their businesses. Recognizing the common challenges and uncertainties faced by entrepreneurs, Brentwood Growth offers commission-only services designed to demystify the process of business valuation. These services are not just cursory overviews; they provide in-depth analyses tailored to each business's unique situation. By leveraging our expertise, business owners can gain a clear, accurate picture of their current business value, understand the factors influencing it, and receive guidance on potential growth strategies. This commitment from Brentwood Growth underscores our dedication to forming long-term, mutually beneficial relationships with business owners.

The suite of services offered by Brentwood Growth is meticulously designed to cater to commercial, residential, industrial and service provider business owners at various stages of their entrepreneurial journey. For those contemplating an immediate sale, the company provides insights into the current market value of the business, along with advice on positioning it attractively to potential buyers. This includes identifying key value drivers and areas for quick improvement to enhance sale prospects. On the other hand, for owners who are in the earlier stages of their journey or are not yet ready to sell, Brentwood Growth focuses on long-term valuation growth strategies. This includes setting realistic valuation targets, creating a roadmap to achieve these goals, and offering ongoing support in implementing growth strategies.

Don't let uncertainty about your business's value be a barrier to your future success and security. Take the initiative to become informed and seek the necessary assistance to understand and enhance your business's worth. Remember, knowledge in this area is not just power—it's a crucial aspect of your business and personal financial health. So, don't stay in the dark about the value of your most significant asset. Let's begin a conversation, explore the possibilities, and pave the way for a more secure and prosperous future.