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ACCOUNTING

How to Turn Post Tax Season Into Business Valuation Season

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Apr. 18, 2016



When accounting or valuation professionals [position themselves as trusted advisors](#) with the ability to offer consulting, they can leverage their knowledge of a business's financial data to provide a useful service that extends far beyond valuing the business.

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A home is a useful metaphor for accounting and valuation professionals to consider as they try to generate repeat valuation and consulting work with business owner clients. Home sellers know that the first step to selling a home is getting it ready to be shown to potential buyers. With that said, business appraisers have an excellent vantage point to see deep into the workings of a business in the process of doing their appraisal. They can then offer their insights to owners who would like to increase the value of their business.

And even if you're not selling your home, a thorough cleaning is much more valuable than just the lemon scent. Organizing your possessions can optimize the use of your spaces and can save time in daily tasks. When spaces are clean and items like pots and pans are easier to find, life goes more smoothly. During a thorough cleaning, you may notice a broken door lock or leaky pipe that, if caught in time, could save money down the road.

Checking the value of a home periodically and working to maintain and improve the asset is important, even if a sale is years away or not even in the plans. In the same way, business owners might believe that valuation pertains only to a business sale or acquisition. But valuation experts can market and sell their services as more than a **one-off calculation by teaching business owners** that the process of arriving at the appropriate value of the business (often their most important asset) can be as important as the value itself. A thorough valuation can both optimize a business's existing strategy and prepare it for impending or eventual sale.

Business Optimization: Highlight the remodeled kitchen

Making the most of a home's selling points can make the difference between attracting a buyer and languishing on the market. Similarly, a valuation expert can **advise on the financials and operations of a business** to help the owner improve the overall value. Asking the right questions and requesting the right documents will allow the valuation professional to understand every facet of the business.

For example, does the business use too many suppliers and lose economies of scale? Are existing contracts outdated and overpriced? Are profit margins factoring in costs like salaries or the owner's time? Are there low-cost technology solutions that would increase efficiency, reduce costs, or improve customer experience?

The valuation expert can focus on low-risk recommendations that increase the business's efficiency and improve overall operations.

Financial Risk Mitigation: Finding the leaky pipe

While optimizing a business's operations focuses profitability, **identifying and mitigating risk** can avoid some of the major pitfalls that lead to the high business failure rate that exists in the United States. Sometimes a business looks healthy until, after digging into the financials, it becomes clear that some products are loss leaders or that some products are simply costing the company more revenue than they are bringing in. It's similar to how a house may look perfect until the home inspector discovers termites or water damage.

A **valuation** can open the door to reviewing cost structure, revenue sources, cost of capital, and direct competitors to help identify major red flags that should be addressed — regardless of whether a business exit is in the near future. Running “what if” scenarios will illustrate where the company could face challenges. If the business owner is looking to expand, cost of capital will be important to identifying risk and opportunity cost associated with different expansion plans. If the owner wants to acquire a new tractor-trailer or warehouse, the cost of capital needed for that transaction will impact current and future liquidity.

Future Sustainability and Growth: What is the best use for this room?

Business owners may not realize that a business valuation is a strategic tool to help them determine the best path for growth, and it can be useful even if the owner isn't considering a sale in the near future. Once a valuation expert has diagnosed inefficiencies and raised a flag above key risks, it's an easy transition to discuss the future. In the same way a homeowner who doesn't intend to move may turn a spare bedroom into a home office or otherwise take steps to make the house more livable, a business owner can benefit from optimizing the business for the long haul.

Keeping in mind that some business owners are not interested in growth, a conversation about the future may focus on sustainability. Since a business is itself an investment and likely is the business owner's largest asset, sustainability is core to one's personal financial planning. Even if the business owner is not interested in growth, projecting financials is a useful exercise where a valuation expert can add tremendous value.

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