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BASIC CONCEPTS OF VALUATION

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WHY YOU NEED VALUATION

Often promoters do not see any need to value their business. It is just like a healthy person who thinks why I should go for routine checkup? The routine checkup may show symptoms when the disease is in incipient stage. It takes years together to detect high blood pressure or diabetes, whereas it remains silent causing damage to your vital organs. When your vital organs start malfunction, you face the music.

YEARLY CHECK UP

Your business needs a yearly checkup. This valuation exercise comprises of more than financial numbers. Valuation prepare you/your company for a calculated decision of further growth, estate planning, preventing shareholder's dispute, gifting or in selling of the company, in merger & acquisition.

OFFER BASIS FOR LONG TERM STRATEGY

Valuation determines the economic value of a business, asset or company. Valuation depends on many factors including industry, sector, valuation method and the economic conditions. These factors keep changing.

Business owners remain busy in day to day operation of the company; they don't have time to think over long term strategy. A report prepared by valuation experts gives them a handy tool based on that, they can discuss and strategies long term.

BUSINESS CONTINUITY AFTER YOU

We know, some thing in life just happen. This is when valuation matters. You can't wait for any eventuality to happen and then react to it. The preparation, now, will make everyone's life after you, less stressful and more productive. Valuation keep the business continuity plan handy

KPI FOR NON-FINANCIAL ASPECTS

A comprehensive valuation utilizes key performance indicators (KPIs) to look at the non- financial aspects of a business including corporate structure, client demographics, technology usage, and firm infrastructure. KPIs are instrumental in identifying areas of potential improvement for the business and these may be included in your action plan.

CONCENTRATION IN ONE BUSINESS

You will recall the saying "all eggs should not be kept in same basket". For business owner, the business value typically represents 50-70% of their personal net worth. Your personal net worth should be deployed in diversified income generating avenues. The Business valuation give an insight how concentration may impact your personal financials and thus can help you to better plan for your family's future. If one business is in down cycle, other revenue stream will keep you floating in adverse time.

CONCENTRATION IN ONE BUSINESS

There are 3 sub-types of valuation: Financial valuation, land & building valuation and plant and machinery valuation. There is different method of valuation of businesses viz income approach, market approach, asset approach, discounted cash flow method.

WHY VALUATION HELPS IN BUSINESS

1. A regular valuation provides a baseline. A good performance of the company improves the valuation each year. A yearly valuation indicates of what you're doing is right and where you need to do better.

2. You don't know where to go if you don't know where you are. Valuations can help you determine ways to improve the business. A valuation may indicate the need for a technology investment or hiring an employee or what expense can be reduced or cut down.

3. The purpose of a yearly valuation is to track the effectiveness of decision-making process and provide the ability to track performance in terms of estimated change in value, not just in revenue. This helps you to take a holistic look at your business and make decisions that are highly impactful for increasing profit.

4. In case of an external sale of business or internal next-generational transfer, you now have an idea of what your business could be worth to a prospective owner.

5. If you are considering borrowing debt for an acquisition or capital for other business investment, lender / investor always wants to know what leverage lies in your business Your valuation is the first step in the process of securing debt or capital.