As more baby boomers join the ranks of the retired, those still in the game wonder if it's time to sell their business. Much of their focus centers around the merits of getting a business valuation: Should it be the determining factor to whether or not you'll put your business up for sale?

A business valuation does have its place in the process. But it's not the end-all, be-all as you make the decision. Let's consider first what a business valuation is, and then how it fits within the process of selling your business.

If you are considering selling, it's also important to understand all the other areas for which you need to prepare, and the important steps you need to take as you ready your company for sale.

The Numbers Set the Stage

There's never a bad time to order a business valuation. Whether you're selling today or 10 years down the line, a business valuation can be instrumental in every strategic decision you make moving forward.

Why? Chances are, you don't really know how much your business is worth. In an article titled "Why You Need to Know What Your Business is Worth," The Washington Post noted that "a typical business owner misjudges the value of his or her company by 59 percent."

That's a huge miscalculation. Here are three reasons why understanding your business's true value is essential:

1. Current status: A valuation will provide you with an accurate picture of your entire company. For example, you may be running beautifully, with good cash flow and smooth-running operations. But a valuation may indicate that 50 percent of your revenue comes from one or two primary customers.

Those kind of sobering numbers can kick-start some strategic reactions, ones that can set the stage for a sale down the road.

2. Retirement planning: Ok, Baby Boomers, are you ready to retire? And if you are ready, do you know how much you need to retire? For many owners, the answer lies in the value of their business. You'll never know if you're close to the magic number you need to live comfortably unless a valuation provides the answer.

3. Foundation for negotiations: Without a doubt, your buyer is going to order a valuation of your business. And if they do, they may produce a lower number. It's smart to go with an accredited, independent appraiser so you can get an agreed-upon number from which to start negotiations.

Rock LaManna, President/CEO, LaManna Alliance

You get the point. Whether you're selling a business or not, a valuation can help you in a number of ways. So which type of business valuation should you choose?

A Basic Valuation Should Be Enough

According to Terri Krivosha, a strategic business attorney from Maslon, LLP, many sellers think they need more valuation than what's truly necessary.

Potential buyers will look at historical statements, five-year projections and your adjusted income statement. "With all the information provided from [these] reports, spending a fortune on a valuation is usually unnecessary," said Terri. "Anything more than an affordable, basic valuation is overkill."

The "basic valuation" she refers to is one of two types of valuations: The basic valuation (Calculation of Value) or an extensive one (Complete Summary Appraisal).

The basic valuation doesn't necessarily follow every uniform standard or provide the same level of detail as a more in-depth valuation, but it will give you a solid sense of your business's value — and it's much less expensive than an extensive one. It includes:

Financial analysis: This section identifies trends based on your historical financial performance, adjusted income statements, profitability and financial risk.

This helps the appraiser compare your business financially with its competition. It also determines your business's financial risk and cash flow, two of the key factors in measuring your company's worth.

Operational analysis: This segment assesses risk based on the operational factors of your business, including the kind of market you serve, your business's reliance on you (the owner), and your staff structure. Combined, the operational analysis and the financial analysis help determine the bulk of your business's total risk.

Market, industrial and economical analysis: This section focuses on economic and industrial trends relating to your business. When gathering this information, appraisers must rely solely on published sources, such as IBISWorld.com, Robert Morris & Associates, Federal Reserve, etc. Unfortunately, this data is limited and often dated.

Summary of valuation methods applied: This section simply summarizes the various methods used to conduct your valuation. This summary will be much more brief in a Calculation of Value than it would be in a more in-depth report.

The basic valuation is ideal for owners who are just beginning the sales process. It can give you a sense of the marketplace and your value in it, and then answer some of the key issues we raised at the beginning of the article.

A more in-depth valuation, one that follows the uniform standards of professional appraisal practices, is used more by owners of larger businesses (earns more than a million dollars per year), and for those engaging with multiple intended users, like a board or a partner.

Moving Forward: Selling Your Business

If your valuation reveals that it's the ideal time to sell, you can now move into the four stages of selling your business.

Before we get to the stages, know that one thing remains consistent in the selling world: Even if you know your company's value, you may underestimate what it takes to sell the business.

Selling your business is the biggest transaction of your life, and something of that magnitude doesn't happen overnight. It takes preparation, a team and a continued focus on operating your business to leverage a deal. Here's what you need to do.

Prepare Well in Advance

Preparing in advance is probably the single most important phase of selling your business — and it begins much earlier than you might guess.

Most businesses require at least two years to become sellable. Why wait that long? It's never too early to think about selling. In fact, the most successful businesses and deals are forged when owners make their business sales-ready from the get-go.

Most businesses require at least two years to become sellable.

Moreover, you never know what life will throw at you, forcing you away from your business. Health issues could arise, an acquisition offer could come out of nowhere — you just never know. But if you've been preparing ahead of time, you'll be able to sell your business much quicker should life unexpectedly steer you that way.

Besides ordering a business valuation, here are some other tips to ensure you're prepared:

- Keep your finances in order: Sloppy finances are the kryptonite of any deal. Buyers want hard evidence of current profits and growth potential, and would be hard-pressed to close a deal without it. If you wait until after 30 years of ownership to start organizing your financial papers, you're going to be in a world of hurt.

Collect your financial documents in an organized fashion from day one. Then, when you begin thinking more seriously about actually selling, get audited financial records from the past several years.

- **Protect your intellectual property:** All too often, a seller begins negotiating with a buyer only to discover their company has violated a trademark or copyright.

  That's why I recommend ensuring your intellectual property is protected early on. Have every employee sign a confidentiality and nondisclosure agreement. If you come across an incidental trademark infringement, be glad you uncovered it early in the process. Fixing your mistakes is always easier in the early stages.
- **Document your processes:** Buyers want to feel comfortable that they'll be able to run your business successfully after you've left. If there's interest in your business, you're probably doing something right. Show it off.

  Document in detail all those processes and procedures that make your operations tick. Installing a strong management team also shows prospective buyers that your business is in good hands.
- **Prepare emotionally:** It might seem counterintuitive, but one of the biggest hindrances from selling your business is actually you.

  For business owners, your company is more than just a profession. It's your pride and joy, and in many cases, even your personal identity. Saying goodbye can be extremely emotional.

  In fact, some business owners become so emotionally attached to their business that they'd rather die at their desk rather than retire. But is that really what you and your family want?

  There is more to life than your business. Retirement may seem scary, but it can be more fulfilling than you might think! Take up a new hobby, see the world and spend time with your family.

  If you shudder at the thought of retirement, consult with a transitional expert to help calm your nerves. They'll help you plan a meaningful retirement so you can look forward to the years ahead.

Increase Your Profitability

You have your valuation, but that doesn't mean your company's worth is set in stone. In fact, you may be overlooking some ways to boost profitability. Here's a real-life example: An industrial company had a sales mix of products, with about 70 percent of revenue coming from sales of systems and 30 percent derived from accessories sales.

When an outside consultant examined their margins, a critical opportunity was discovered. The company's majority sales of systems operated at 20 percent profitability, while their lesser product, accessories, operated at 40 percent profitability. Their sales efforts were focused on their less profitable products!

With this new knowledge, the company shifted its primary sales focus to accessories, pushing systems sales to the backburner.

You can also recognize some of the same opportunities within your own company. Conduct a SWOT analysis to help you capitalize on your profitability:

- **Strengths:** Assuming your strengths are profitable, how can you make them even more profitable?
- **Weaknesses:** Can the problems or people creating low-profit margins be outsourced or terminated?
- **Opportunities:** Are there new competitors or products you should try to beat out? Or, perhaps you should merge with them to enhance your most profitable products?
- **Threats:** What is the most immediate threat to your most profitable product or service?

Each of these considerations can turn a business around, and set it on a path towards heightened profitability and sellability.

Assemble a Dream Team of Experts

A valuation shows you how much your company is worth today. But only a team of experts can help you take the next step toward realizing your company's potential value.

I would have never sold my business without help from the experts. Attorneys, financial experts, estate planners and transitional experts should compose the core of your team of experts.

But they shouldn't just be any expert — they need to be the right expert.

Selling is a very specific and complex transaction. With so many nuances, you need to find experts who are familiar with the trade. Don't settle for advice from your Uncle Joey just because he's an attorney. Paying for quality guidance from an experienced expert is going to pay off much more than picking your relative's or friend's brain.

You might be the expert of your business, but selling involves a lot more than insight to your operations. Between legal issues, estate and tax planning (just to name a few considerations), virtually nobody can turn the wheels by themselves.

"But hiring a team of experts is so expensive!" It's an exclamation I often hear. Yet, few business owners really understand the return on investment from hiring top-notch advisors. When I began selling my business, my trusted team of experts helped me land a deal five times larger than the original offer.

Don't Take Your Eye Off Your Business

Your valuation shows what your business is worth today. But that number is not set in stone. In fact, what commonly happens is that an owner loses focus.

There are a lot of moving pieces to completing a deal. As you move into the later stages, it can be easy to get so sucked into the process that you lose focus on your company. Don't — your business will depreciate in value right as you're trying to sell it. That's a nightmare situation.

At the end of the day, even the best companies are going to have a tough time selling — at least for maximum gain — if you don't know the correct steps to take. It's a long process. Whether you decide to sell or not, knowing your company's valuation is absolutely critical. Numbers don't lie, and they can also provide you with the clarity you need to make the most important decisions for your business and your life.

A longtime member of the SGIA, Rock LaManna is the President and CEO of the LaManna Alliance. He is a Premier Business Broker and Business Advisor for the printing and print-related industries.

As the President and CEO of the LaManna Alliance, he helps business owners determine the value of their company, the market potential, and aligns you with a strategic or financial buyer. BBP has designated Rock as a certified industry expert in printing and signage, and he partners with Sunbelt Business Brokers around the globe.