Selling your business - WhatÃ Â¢Ã Â€Ã Â™s your business worth - Business valuation with Shannon Farr (S3E60)

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00:06 Autumn Witt Boyd (AWB): Welcome to the Legal Road Map® podcast, for online and ecommerce entrepreneurs. I'm your host, lawyer Autumn Witt Boyd. I'm an experienced copyright and trademark lawyer. With my team at the AWB Firm, I leverage, grow and protect multimillion dollar online businesses. My goal in every episode is to teach you about the sophisticated legal and business strategies to build your own seven or eight-figure business. If you're a new business owner, go back and listen to Episodes 1-12. You'll learn the basics to set up a strong legal foundation. The Legal Road Map® podcast is sponsored by the AWB Firm. You can find show notes for every episode and learn more about how we help our clients achieve their next level goals at awbfirm.com.

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00:52 A(: Hi, Legal Road Map® podcast listeners and Facebook Live friends. I have a very special treat for you today. This is our fourth installment in our series on selling a business or taking on a partner or an investor. And I've gotten lots of questions about how do you figure out what your business is even worth to figure out what would be a good asking price or if you're looking to invest in or buy someone else's business, what would be an appropriate dollar amount for you to spend on their business or to buy a portion of their business? So, I have invited on a local valuation expert, Shannon Farr. You can see her next to me over [chuckle] there. I met Shannon here in Chattanooga at a local event. We are both members of an organization called Chattanooga Women's Leadership Institute, which is what I consider the premier women's business networking organization in Chattanooga. It's a fantastic resource. If you're in Chattanooga and you don't know about it, definitely check it out. We call it CWLI for short.

01:50 A(: And Shannon and I both spoke at a workshop at CWLI put on for small business owners. And so I got to hear a little bit of what you'll hear today of her sharing some of her knowledge. Shannon is a CPA by background, but she started her own small business recently. Shannon, I'm so glad to have you here, thank you for coming on and I would love for you to tell our listeners a little bit about yourself.

02:11 Shannon Farr (SF): Okay, great, thank you so much Autumn. I'm so happy to be here. Just like you said, I've been a CPA for about 25 years and spent the first half of my career in more of the traditional areas of public accounting, which would be audit and accounting and also tax. And then when I moved here to Chattanooga in 2003, I started working for a fellow here in town that did business valuation and other special projects related to litigation. And at the time I had just had our second son and was expecting our third son, so it worked out really well for me to do more of a project-based, instead of committing to what people typically call tax season or busy season.

02:58 A(: Where you're just crazy for three or four months, right?

03:01 S(: Exactly, exactly. But what I found was that the work is really fascinating. Valuation is definitely a process and there are certain steps that we go through for each valuation but there's also intricacies that are specific to each company that we value, so it's a great field. From there, I decided that I wanted to concentrate full time in valuation. I pursued my accreditation through the AICPA, the American Institute of CPAs. There's a few different ways that you can go about being an accredited business valuator and so that...

03:38 A(: So you had to get some advanced training to do this? That's awesome.

03:40 S(: Yes. Oh, yes. I actually spent a week out in Texas at, they called it BV School, and it was a really intensive training in addition to some self-study. And there's really three prongs to getting the additional three letters after my name, which is actual valuation experience, the additional training and then passing an eight-hour exam, which was an experience when you're not used to taking exams to sit for 8 hours.

04:10 A(: You've been out of college for a little bit by that point.

04:12 S(: Yes, yes. So I was really proud to accomplish that. That was in 2008. So I've been doing business valuations ever since, so I'm really working with small businesses and their owners for the past 25 years, that's specifically in valuation here for the last 10 to 13 years or so.

04:31 A(: And can you talk about just briefly, and I know we could probably spend eight hours talking about those 'cause it is a complex subject, so I'm gonna get my standard disclaimer and I bet Shannon has one too, which is, I am a lawyer, I'm licensed to practice in Tennessee, but nothing we're talking about today is legal advice, nothing Shannon's gonna talk about is tax advice or financial advice. This is just information to get your gears turning and to let you know what questions you might need to ask your own tax advisor or lawyer if you find yourself in this situation.

05:00 S(: Absolutely. There are no hard and fast rules in valuation. Like I said, we do have processes but it seems like there's always an exception. There are three standard approaches to valuation. The first one...

05:14 A(: Before you dive into that, I'm gonna interrupt you and just ask, can you give us just a really high level overview of some of the different scenarios where someone might need a valuation so we can set the stage? 'Cause I know that can affect everything we're gonna talk about.

05:28 S(: Absolutely, yes. So what you're talking about is what we term the purpose of the valuation. So it's really important for us to know up front what the business owner or the person hiring us wants to do with the valuation, what to use it for. And like I said, I mentioned litigation before. Sometimes the need to value a business does arise in litigation, but what we were talking today is more about people that might wanna sell their business, invest in a business, they've started up a business but they're ready to take in additional owners or investors. Sometimes two companies will be merging and the different stockholders or members of each company need to figure out what their respective ownership in the merged company would be. So, there are a lot of different circumstances that could cause a business valuation need to arise.

06:19 A(: Now, I would love for you to go into some of your standard valuation methods, or how you start the process when you're looking at a business.

06:27 S(: Absolutely. We have three standard approaches that we always at least consider, but not all three are necessarily going to apply to each business. The first approach is generally called the asset approach and in that case, we typically start with the balance sheet and take a look at what are the assets that the company owns, and then minus what are the liabilities, what does the company owe, and that can be very effective in certain circumstances, but if a business has quite a bit of intangible value, then you're typically not going to be able to capture that intangible value through the asset approach. So, a good example...

07:09 A(: So, I was about to say, I would love... What does that mean?

07:13 S(: Yeah, so a great example would be if there's been a company set up to hold real estate or rental properties, that would be an example of where we might look at using the asset approach. Another possibility could be a company in the very early stages of development, because at that point we're looking at the cost to recreate a similar business.

07:35 A(: And a business with a lot of intangible assets might be something with a lot of intellectual property is their main value.

07:41 S(: Exactly. Exactly, yes. Either intellectual property or what we commonly refer to as good will, which is just kind of the secret sauce that's not necessarily protected by a patent, but that keeps the customers coming back to that company.

07:55 A(: Right. Your relationships with the client base.

08:00 S(: Exactly, exactly. And so to capture that, there's the two other approaches. The income approach is probably the most widely used for small businesses, but I'm gonna talk about the market approach because the limitations of the market approach are really what leads us back to the income approach. So, what the market approach, the basic idea behind it is, what would it cause to buy a substitute of this business? Well, because small businesses are so often unique, it's difficult to necessarily get the data to use the market approach, obviously, publicly held companies that is the market approach. You can look and see what the shares are trading at today, but we don't have the ability to do that with a small, closely held company.

08:48 A(: No, our books are not public. If we're as obvious as you can't tell it might look great from the outside, but you never know what the real revenue and profits and expenses look like.

08:57 S(: Absolutely, but there are some subscription databases that record private transactions. It all depends on whether the seller, or the buyer, or the broker that handled the deal has reported the transaction, but we at least check those databases to see. And sometimes you'll find in a specific industry if there's been a lot of consolidation. Dentistry comes to mind, we'll be able to find some transactions of similar companies that we'll use to come up with a value under the market approach. So, that leads us back to the income approach, which is virtually always we're able to apply that, looking at a company's revenues, cost of sales, the profits that they're generating. And then the other side of that equation is the risks. So what risk is involved in the company continuing to generate those kinds of profits, and also what are the growth prospects? In a nutshell it sounds simple, but it's a little more complicated than that, but those are the underlying principles.

10:02 A(: Okay, and for the income approach, are there businesses that are not a good fit for that approach? Or does that work pretty much across the board?

10:10 S(: Well, it does work in most cases. The exception might be in a development stage company that is starting to generate...

10:17 A(: Has no income. [chuckle]

10:18 S(: Yes, exactly. They're starting to generate revenues but haven't generated income yet. And that's when it gets really important to look at projected financial statements and assess the reasonability of the projections.

10:32 A(: That's a great point. I actually had a client deal with this recently where he had been offered stock in kind of a startup type business and that fell through and we're trying to figure out what would that stock be worth? But the company is pre-revenue. It has great prospects, we are certain that there is value there, but it felt to us we were pulling a number out of the clear blue sky.

10:55 S(: Right. And that's a great point, I didn't mention that when we were talking about why a company might need a valuation, but a lot of pre-revenue companies do issue some form of equity in exchange for either services or to employees and usually in these cases, we are looking at the potential risk but also what those prospects of future revenue might look like. And one thing I think that's probably the most important to understand there is what is the potential size of the market that could be captured, what's the likelihood that this is the company that could capture that market.

11:32 A(: Gotcha. So you're making some guesses but they're educated guesses, they're not...

[chuckle]

11:36 S(: Exactly. Yeah. [chuckle]

11:38 A(: That's great. So moving into when you start to dig in to a business, whether it's someone's business or if they're looking at buying someone else's business or investing, what kinds of documents or information do you need right at the beginning to get going and then maybe what might you need down the line after you get your hands a little dirty?

11:56 S(: Sure. Usually our starting point is the company's tax returns and then the underlying financial statements that would be used to create a tax return. And then from there...

12:09 A(: So that's gonna be... Can you just list those? Some of our listeners may not even know what some of those documents would be. So are we talking about things that you would pull out of QuickBooks?

12:19 S(: Yes, yes. Sometimes we just ask for an accountant's copy of QuickBooks and we're able to easily pull our own reports, but what we would be pulling would be the balance sheets, the profit and loss statements, we would be generally looking at those types of documents for three to five years, but then we would look at the most recent accounts receivable report, the accounts payable report, and then also we look at payroll because as you know, a lot of small businesses may have, of course, the owner and some of the owner's families. The whole idea is to get an idea of what the revenue and expenses would be after a sale to an unrelated buyer. Certainly it's not to the level of an audit, but we do take a look at certainly those items, we generally talk to the business owner and take a look at the most recent payroll tax returns just to be sure that there's not a payroll tax liability out there, and this also can go back to the purpose because if someone's purchasing stock, they might subject themselves to some of those liability.

13:37 A(: Right.

13:37 S(: Whereas, they were simply purchasing assets. They may not need to worry so much. And we try to work as a team with the transaction attorney to make sure that we focus on the areas that are the most value at. But in terms of documents, outside of QuickBooks we would also wanna look at any of the formation documents or incorporation documents, if there are. For an LLC we would look at the operating agreement, for corporation we would look at any shareholders agreements to get an idea of, are there restrictions on the equity that we're valuing? We also do a pretty extensive interview with the owner to find out if there are any environmental risk where obviously, that's more applicable to some businesses than others. Depending on the situation, there might be additional documents that we would ask for. For example, if the company's in an industry that require specific reports to be filed with the state or federal government authority, we would get a copy of those.

14:43 A(: Okay, that all makes a lot of sense. I didn't mention at the beginning, but this is the fourth episode in this series, so if you haven't listened to Episodes 57, 58, and 59 definitely go back. I talked about due diligence, I think it was in Episode 58 and we'll link to those in the show notes. So, what Shannon is talking about is that due diligence that we talked about, you're almost doing it internally before you turn things over to the other side, you're doing your own due diligence to see what's going on. Yeah. Now tell me how or if this would look different if you're trying to value someone else's business, so maybe you wanna make an offer to someone else. Are you just asking them for the same documents or how does that work?

15:23 S(: Yeah. Very often, we're working with the business owner and that's definitely the more efficient way because the business owner is going to be the one who has access to these documents and the information, but occasionally we do get engaged by the buyer. Generally, the buyer will come up with some kind of market-based range of pricing, and then do, for example, do some type of offer because the seller's unwilling to just give up all of the data without having... [chuckle]

15:57 A(: Without having an idea, yes.

16:00 S(: Yes, exactly. And so if they can agree on some of those preliminary terms, then we would come in. We've been in situations where we set up like a shared data room so that the buyer, the seller, we can all be looking at the same documents throughout the process.

16:17 A(: That makes a lot of sense. Are there some particular challenges when you are looking at someone else's business that just makes the process a little different?

16:24 S(: Well, I would say the only potential challenge is if the owner isn't as forthcoming or if they feel like we are somehow an adversarial position, which we are not. And that's one thing I should mention, as business valuators, we are unbiased and independent. So we are not trying to get to a value that either the seller wants or that the buyer wants. We're trying to come up with an independent estimate of value. Of course, we do have to listen to what both sides say, but we use that along with our professional judgment, which in my opinion, that's where my experience as a typical CPA can come in really handy because I've dealt with a lot of businesses and business owners over the years. So some things make, "Oh, that makes absolute sense, I see where they're coming from". Whereas, other things I'm like, "Hmm." You know?

17:19 A(: That's not standard.

[chuckle]

17:19 S(: Let me think about that one for a minute.

[laughter]

17:23 A(: That makes a lot of sense. Another question I wanted to ask you was about some of the other scenarios that might affect a business that maybe looks either really bad or really good on paper and then when you dig in, you find that the numbers are a little different. So I know a lot of small businesses will run a lot of things, maybe personal through the business because that can be legitimate and there can be some tax advantages to that. So I'd love for you to speak about some of those things a little bit.

17:50 S(: Sure, absolutely. I will say, I think that it enhances a business's value if they have run really clean financial records and if they are running the business similar to the way they would if they had other investors already, that's gonna go over a little more to the buyer. But there are...

18:15 A(: It's gonna be more attractive.

18:17 S(: It is, but I do think that the buyers realize in general that there are gonna be some add backs and some of that can end up being somewhat of a negotiation. The owner or seller will typically tell us these are the things that he or she believes need to be added back, whether they're personal expenses or sometimes it's just things that happened. For example, if they had some type of issue with their data and had to spend a lot of money on consultants two years ago, and they don't expect to have to do that again, they'll fill us in on that. The sellers, they can accept that or reject it. Any adjustments that we make to the financial statements during the valuation process are clearly spelled out so the seller would be able to look at that and say, "No, we're not gonna allow the add back," or "Yes, we would."

19:13 A(: Right. But something like if say you had a vehicle that the business owned that maybe the business could have or not have to operate, some things like that.

19:23 S(: Yes. The, "Oh those". [chuckle] I could give a lot of examples, some of which are a little crazier than others, but we've had folks that had... Their kids were employees so that's...

19:34 A(: Right, right. No, I definitely have some clients that... [chuckle]

19:37 S(: That's a great way to get some money as a mom of teenagers. [chuckle] I think that that would be great if I could say that they were my employees when I give them their weekly allowance.

19:48 A(: Right.

19:49 S(: And obviously, it would save on taxes. But I would just go back too and say, it's going to be much more palatable to interested investors if you've been running your business as if you already had outside investors. Otherwise, it's gonna be up to you selling the business to point out and show, "These are the things that I was doing that...

[overlapping conversation]

20:12 A(: Maybe a third party wouldn't do. Right. That all makes a lot of sense. So that leads into the next thing I wanted to talk about, which is a lot of my clients or listeners may not be ready to sell their business today or take on an investor today, but they're in the foundational period where they're building something that they may wanna do that in a couple years. So what are some points... You talked about running a really clean business, what are some other things, either systems or processes or things to keep in mind now if you're looking to sell maybe in the near or distant future?

20:44 S(: That could be a myriad of things. What I would suggest is, the first step would be to do what we call a SWOT analysis, which stands for Strengths, Weaknesses, Opportunities, and Threats. I've seen businesses do this on the back of a cocktail napkin, up to a 50-slide PowerPoint presentation. So whatever fits a business's style I think is what works best. But it is so important to take a step back. I think a lot of business owners, and I'm certainly guilty of this myself, owning my own small business. We are so busy working, and especially if you're growing your business, that it's hard to step back. I've heard it said, working in the business instead of working on the business. So getting back to the SWOT analysis, really taking a hard look at, "Okay, what are our company's strengths compared to our competitors?" And take a minute and think about who are the competitors? Most businesses these days have some traditional competitors and then some new competitors that they might not have had five years ago. And then what are our weaknesses, and that may be where if the business has grown organically, there may be some systems and processes that have organically been derived but nobody has sat down and really documented. This is the way we do X, Y, Z, which can be really important, especially for someone who hasn't been in that industry who might be an interested buyer...

[overlapping conversation]

22:23 A(: Yeah, to be able to hand over a manual or standard operating procedures, that would be really valuable.

22:28 S(: Definitely.

22:29 A(: My assistant and I, we're working on that right now for our law firm, and so we joke about, "We really need to get these done so that if she gets hit by a bus, we can still keep running," which is worst case scenario but it's good to think about it in the event of an exit as well, that if you can hand over a business in a box, that may get you a higher asking price than if somebody's gonna have to come in and figure it all out on their own.

22:53 S(: Yes, absolutely. And really that strong reliance on what we have typically called a key man where essentially...

23:02 A(: Or lady.

23:03 S(: Yes, or a lady. If that person were to get hit by a bus that the business couldn't go on, that's going to be a risk that decreases the business value. And so, there are ways to mitigate that too, that I won't fully go into. But then the opportunities, that's a huge part because valuation, even though we're asking clients, we need to see five years of your income statements. It's really a forward-looking process.

23:30 A(: Mm-hmm. You look back and forward.

23:34 S(: The company that I like to use as an example of that is BlackBerry. I'm not sure how many years ago we all had BlackBerry phones, and if you had looked at the past five years of the company that made BlackBerrys, it would have looked great, but once the iPhone came out and really caught on, BlackBerry stock went into the toilet. So those opportunities, it's looking at the future and both identifying ways that the business can grow, and then the opposite side of that are threats. For example, if some type of disruptor is starting to come into the industry, what are those? I think we all have a tendency to not wanna think about the threats. But that can sometimes be... I promise you that the potential buyers or investors are in sync with the threats.

24:23 A(: Are thinking about those things, yes. Yes.

24:27 S(: So, it's good to identify them and then do what you can to offset any related risk.

24:32 A(: Yeah, I was just talking with a client earlier this morning. And a lot of our clients use a lot of social media marketing to build their business and to bring in leads and potential clients and new customers. So I was talking with this client this morning and she said that they have started making a plan for what if Facebook shuts down because their business is run off of Facebook ads, what is gonna be their next step? And so thinking through some of those things, especially if you're heavily reliant on a partner or a vendor or someone else, what happens if they go under? Same thing, if you have one really significant customer or client.

25:07 S(: Yes.

25:08 A(: That can definitely be a big risk. And I know that that can sometimes affect valuation as well.

25:12 S(: Absolutely. One potential threat that's getting a lot of news these days is cyber security as well, especially for businesses that have personal... Especially if they have credit card numbers or bank account numbers, they really need to make sure that that information is protected because as you've seen, when these companies get hacked, it can really destroy some of that goodwill that we were talking about, that they worked really hard to create. Another thing that I would recommend for business owners who are thinking they might sell is to really take a look at their intellectual property, especially if it's what some people call a proprietary process but that hasn't been patented and can they get a patent for that? Because obviously, that's more protected than someone... Yes, you can have non-compete agreements with your employees, but that doesn't... Well, you're the lawyer so you probably know that.

26:13 A(: That's a different level of protection for sure.

26:15 S(: Yes, yes.

26:17 A(: Yeah. And same thing for trademarks and copyrights. I talk about this with my clients all the time. If something is valuable to your business, locking it down with a registration makes it more valuable because now, you're basically buying an easier way for you to enforce those rights and for people to take you more seriously that you've gone through those steps to actually lock them down and protect them.

26:38 S(: Right. And so, if we're looking at two companies that were otherwise very similar and one company has gone through that process, we're gonna see that as more value because the other company would be easier for someone else to duplicate or essentially end up competing more easily than they could without those competitive enhancements.

27:00 A(: Yeah, and I'll give another plug here for a free resource that I have for this. If you haven't already downloaded it, it's on the podcast page, so it's awbfirm.com/podcast, it's a five-minute IP Audit Worksheet. So it lets you look through your business, what intellectual property do you have that maybe you should be thinking about protecting and helps you figure out what's really valuable and maybe what's not so valuable, and you don't need to spend the time and money and energy to protect it. And I think doing an inventory like that, not just of your hard assets, but also of your intellectual property is really important. Talk to me about as far as financials or bookkeeping, that kind of thing. What are maybe some systems or things that you would recommend starting sooner rather than later? Since you are gonna have a couple years of a look back to make sure that those records are what they need to be when you get to that point.

27:48 S(: Yeah. I would recommend that small business owners... I do not have any issues with QuickBooks, but like any other system, it's only going to be as good as the information that you put into it. Some people I've seen, they try to get through their monthly bookkeeping faster than others, and so that QuickBooks is not capturing the level of detail that it's designed to capture. And really, I would recommend sitting down with your tax CPA and having a frank conversation about what you're expecting them to do and what level of service you need from them, versus what they're providing. Because if they're only doing your tax return, they're not going to tell you a lot about, "This is what we see when we look at your QuickBooks," because that's not part of what they are required to do.

28:41 A(: Right. Or, "These are some things you're doing wrong and you maybe need to work on this."

28:46 S(: Yes, absolutely. And so, most tax CPAs offer some type of bookkeeping service, and that may be valuable to look into whether it's on a monthly or at least a quarterly basis to have someone who, that is their job, they do books all the time. So when it comes to the quarterly payroll tax returns or the year-end, the forms that have to be filed with the IRS, you have someone that's an expert.

29:12 A(: 1099s, all of those things. Yes.

29:15 S(: Yes, exactly, exactly. 'Cause you don't wanna be selling your business and find out, "Oh, you should have been filing 1099s for the past five years, and you haven't done that. [chuckle]

29:28 A(: We wanna start working things the right way now.

29:31 S(: Yes, exactly. As a small business your expertise is in what your business is. So it very well may be worth paying... That may seem a little expensive on the front end when you're growing, but to have someone that that's their focus and that's their expertise. I've worked with people like that over the years, and they have these deadlines hanging on their wall so they're constantly [chuckle] making sure that their client comply.

29:58 A(: We just had a big one two days ago. October 15, yes. Yeah, I interviewed my own bookkeeper, Heather Pranitis, and I'll drop the episode number in the show notes for that. I think it's super helpful. And Heather and I talked about this for a small business owner to do their own books for a little bit or to maybe hire someone to help them set them up the right way and learn the categories so they can just run through and do them quickly. But as your business grows, and especially as you're reaching six-figures moving to seven figures, your time is just not best spent [chuckle] working on going through hundreds of transactions every month and trying to figure out, was that a restaurant or was that an online purchase or what was that. But making sure that you get it done the right way, I think, is 100% worthwhile.

30:42 S(: Yes, and it's probably worth thinking about what are those milestones that might mean I need to bring someone in and probably, once you have employees might be the time to get someone else involved. And QuickBooks does have a payroll function as well that... I don't know, I've seen people have really good luck using bookkeepers. And they only spend a few hours on your specific business on a quarterly basis, so it's not like you're making a huge financial commitment, but to me, the peace of mind is probably worth it.

31:18 A(: Yeah, absolutely. What about some other kinds of parts of the business that you look at that maybe could be set up in advance? Do you look at insurance and some of those issues? How well protected is a business?

31:30 S(: Well, we definitely do. That's one of the considerations. The way I like to think about it is, if you think about a business school and the different aspects whether you're majoring in marketing or accounting or finance, valuation takes into account all of those disciplines. So, we're gonna want to know what is your marketing plan? What are you currently doing to market your product?

31:53 A(: Oh, that's really great.

31:56 S(: And it's really great when a business owner is keyed in to, "We have X percent of the market, and these are the things we're gonna do. If we do these things, we think we can be at Y percent of the market." Definitely we look at the base of customers, just like you mentioned, are they dependent on one large customer or numerous small customers? We also take a look at the product next, are they offering one product or multiple different products?

32:23 A(: So you're really not just looking at the books, you're digging into the whole business. That's really interesting.

32:28 S(: Right, right. Yeah, and so when you ask about documents... Businesses vary widely, and some businesses, they could shoot out a lot of reports on the things that I just mentioned, but not necessarily with small businesses. So a lot of times, we really like to go and meet the owner face to face or if that's not feasible, we'll do a telephone interview or a Skype and talk through these things, because we don't want people to have to go through a lot of tedious work.

33:00 A(: Right, or try and create reports for you to look at. Right.

33:01 S(: Yes, exactly, exactly. But if the business is producing these types of reports, we would love to have them. But on the finance side, we'll look and see, how has the business grown in the past, are they highly leveraged to the point where they can't borrow anymore, or have they paid off all of their debt and could grow by taking on some additional debt? If it's a business that involves hard assets, like you mentioned, we'll take a look, you can usually tell how old the equipment is from the depreciation schedule and talk to the business owner or check outside sources, "Is this stock gonna last another five years? Or are we looking at a big investment coming up to replace a lot of this equipment?

33:48 A(: Yeah.

33:49 S(: So it really touches on all of these areas, but like I said, as much as we can, we're gonna do that through the interview process. But the depreciation schedule, that's gonna be something that is typically a document that we would get and take a look at.

34:04 A(: And that's something that's gonna be maintained by your CPA as they're doing your taxes every year?

34:08 S(: Yeah, exactly.

34:10 A(: Well, is there any question that I didn't ask or any topic that you would really like a small business owner to know before they get into looking at business valuation?

34:19 S(: I think the one thing I would say is, don't be put off by, "Oh my gosh, I'm not gonna pay for valuation, it's too expensive, it won't be worth it." And the reason that I say that is for most small business owners, their business is their largest assets. And just like you or I wouldn't sell our house without paying an appraiser to get an idea, or at least consulting with a real estate agent to know what range, I would suggest that business owners do the same and at least call one of us for a consultation, and if it turns out that doing the full valuation is not affordable, but often if you look at a business that's worth a million dollars or so, it's just a small percentage of that potential selling price to know that you're making the right decision.

35:10 A(: Yeah.

35:10 S(: And the other thing that is important to know for small business owners is who that pool of potential buyers might be because how you position yourself, if it's a, what we call a financial buyer, a lot of times, don't wanna buy the business that have the business owners stay on as an employee and run the company. Whereas, a strategic buyer might be more interested in letting the owner exit and running the business themselves. So, that bridges into a state planning and succession planning. And is that person ready to retire or do they want to stay involved in some way? So a lot of those conversations can be had three to five years before any sell actually takes place, and I think it's much more successful to do it that way than to be in a position because of health reasons or something, where all of a sudden you have to sell your business.

36:09 A(: Right. Well, it sounds like you having this much experience of having done this for 10 years and then your background in public accounting as well, you know the right questions to ask, which I think is two-thirds of the battle a lot of the times in something like this. You know what people are gonna be looking at or what is gonna be important, so that's incredible. If someone wanted to look at doing a business valuation and wanted to get in touch with you and your company, Scenic City Consulting, which I will put the link in the show notes and in our chat, tell me how they get in touch with you or what it would look like to work with you.

36:39 S(: Oh, sure. I've tried to be accessible on several different outlets. I have a Facebook page, Scenic City Consulting, and my website is www.sceniccityconsulting.com. You can find me on Twitter @chatforensics.

36:57 A(: Oh, great.

36:58 S(: Or just give me a cal, 423-240-3643.

37:02 A(: Perfect. Well, thank you so much, Shannon. This was really, really helpful. I know I learned a lot and I'm sure my listeners have a lot of things to think about now if they're wanting to maybe step back or take on an investor or get out of their business altogether. So thank you.

37:15 S(: Sure. It was fun. Thanks for having me, Autumn.

37:16 A(: Yes, absolutely. And just a pitch for next week's episode, we are going to be talking, it's gonna be our fifth and final, we have an extra Monday, we have five Mondays this month so we are gonna be talking about prepping your team for an exit. So, what Shannon just said, about whether you wanna maybe stay on or take a reduced role or leave altogether, that is going to definitely affect how you can sell your business and what kind of support team you need to have in place, or team of professionals to help smooth that transition. So that's what we'll be talking about next week. Definitely tune in. And show notes for this episode and every episode are on the website at awbfirm.com/podcast. Thanks again, Shannon.

37:56 S(: Yes, thank you.

[music]

38:02 A(: Did you know that you could be making more money from your copyrights and trademarks? Intellectual property is probably the most valuable asset in your creative business, but most entrepreneurs don't know how to identify it, and you can't monetize what you can't find. Download my free of five-minute IP Audit Worksheet at awbfirm.com/podcast. You'll find out what parts of your brand, logo, images, website, courses, digital downloads, or other content could be protected by intellectual property laws. And you'll create an inventory of your most valuable trademarks, copyrights, patents, or trade secrets so you'll know what's worth protecting as you build a more profitable and sustainable business. Get your five-minute IP Audit Worksheet now at awbfirm.com/podcast.

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