# How do I know how much my business is really worth?

Business owners are often so invested in their business they lose sight of what the value of their business really is. If you put your heart and soul, and sweat and tears into the business you expect it will be worth the effort.

If you own a publicly listed company or an interest in one, you know what the market says your interest in that business is worth on any day of the year. A private business is very different. For most businesses, like yours, there is no ready or automatic market that will tell you what the business is worth.

So, how do you know if your perception of the value of your business is fair, below what it should be, or totally unrealistic? Knowing what your business is worth should be a fundamental of being in business not just for sale or succession. Proving the value of your business is critical if you are looking to borrow, to understand where you are growing the business, for assessing business performance and the adequacy of your profits, or if you are looking to complete a restructure.

The value of your business is a key benchmark. If you don't know what it is worth then you have no real frame of reference against which to measure your performance and this could cost you a lifetime of under-performance. But this you know.

Not all businesses are measured in the same way. One reason why many business owners misunderstand the value of their business is because they compare it to another business which may be fundamentally quite different. There are a number of different generally accepted valuation methods for small and medium businesses. At a high level, the majority of businesses will be valued on their earnings, their cash flow, or their assets. Different approaches will produce different results. The right answer is not the one that produces the best result but rather the one that is in line with the fundamentals of the business. For example, a business that has a limited life with a defined income stream will be valued on the cash stream it will produce. Whereas a mature business, like a wholesale business being valued as a going concern (that is, as an ongoing business), is likely to be valued on a multiple of its earnings. A business, like a farm, is more likely to be valued on its tangible assets.

Risk also influences business value. The higher the risk, in most cases, the lower the relative value. Risk impacts the ability of the business to maintain its earnings, the stability of the cash flow or the reliability of the assets. Irrespective of the valuation method employed, variations in risk will influence value. Risk is measured at an economic, industry, business and ownership level. If you want to enhance business value, then look at areas where you can 'de-risk' the business without impacting on earnings.

Ideally, your business should generate and grow its earnings, its free cash flow, and its asset base. These factors, and a positive growth trend, are indicators of real value and a business that is likely to be growing in value. The absence of these factors may bring into question the value that really exists.

If you are basing commercial or tax decisions on your business value, have a business valuation completed. At least then you have a third party opinion of what your business is really worth.