DB&B

Dermody, Burke & Brown, CPAs, LLC

Business Owner's *Perspectives*

Trends and Strategies for Owners
of Closely Held and Family Businesses

Spring 2021

Management Topics

Determining Your Company's Value

Every business owner has a number in mind for when it's time to sell the business. The aim is typically a large enough windfall to fund a dreamy retirement, a philanthropic legacy, and a financially secure family.

The problem is that this number may not be grounded in reality. It might be too high, based on a passing conversation with a friend about what she was offered for her company. Or maybe it's too low, based on a long-ago, outdated offer. Or perhaps it doesn't reflect the impact the pandemic has had on your industry.

Where to Start

It's smart to get a reasonable idea of your company's value to help you make decisions about the future. Here are some things to keep in mind:

It's not personal. If you've spent a lifetime building your company, you're probably biased about its value. While your business may mean everything to you, a potential buyer is simply looking for return.

Buyers want earnings and cash flow, low risk, and high reward. Getting a handle on the hard numbers will better prepare you for strategic next steps.

Who's buying? The idea that "beauty is in the eye of the beholder" is true for businesses, too. Your company's value depends on the buyer.

For example, a "strategic" buyer—one who would get specific synergies from your company, such as an expanded market footprint, complementary technology, or economies of scale—would pay more than a buyer with less at stake.

What are you selling? In addition to cash flow, every business has value drivers that point to the health of the company, reduce or increase risk, and make it more or less valuable. These drivers include a diverse customer base, a strong management team, and a reliable supply chain. In addition, your company's reputation and culture can affect potential customer relationships.

Setting your company apart makes your business more appealing to buyers.

Valuation or calculation? The type of valuation service you need depends on the purpose of the assessment. Court cases and tax filings require full valuations. For example, owners often get valuations for litigation, including divorce or shareholder disputes; tax-related issues, including bankruptcy or gift and estate planning; or preparation for sale of the company.

However, a less rigorous and less expensive service—a calculation—is useful in other circumstances.

In a calculation, the analyst and the client agree on the valuation methods and approaches to be used and the extent of the procedures. A

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Word to the Wise

Make the Most of Your CPA Relationship

After years of working closely with business owners in different industries, your CPA has heard and seen it all, from family issues to financial concerns, both good and bad.

As a trusted advisor, your CPA has your best interests in mind. He or she has no judgment about your decisions and is committed to helping you make the best ones for your business and family.

Here are some ideas to help you work best with your CPA.

Discuss the big stuff. If you are considering an expansion, sale, or merger or acquisition, or buying or selling a significant asset, ask your CPA for input before you act. He or she can offer advice on how to structure or time your purchase or sale to maximize your tax benefit. Your CPA might also be able to offer helpful input regarding financing alternatives and additional resources to guide the process.

If your family faces change—divorce, marriage, illness, children being born or adopted, or hiring or firing relatives—or you are considering new philanthropic endeavors, let your CPA know. There are nuances to these events that your CPA can help you manage in the most financially prudent ways.

Discuss the small stuff. Because your CPA serves clients in many industries and circumstances, he or she is aware of expertise in a variety of disciplines, from cybersecurity to technology to human resources and marketing.

Reach out to your CPA about new projects, annoying business problems, or whatever keeps you up at night. Your CPA might not have the precise answer you're looking for, but chances are that he or she, or someone in the firm, can put you in touch with the right experts.

Ask about taxes, regulations, and new laws. Don't try to decipher complicated tax laws or regulations on your own; your CPA is your best

resource for updates on these ever-changing rules and their impact on your business. Meet regularly with your financial and business advisors to take advantage of new opportunities afforded by tax law changes, as well as to mitigate negative impact.

Vet your documents. Have your CPA review important documents before you sign them. This includes corporate bylaws, insurance policies, non-compete, compensation, employee, shareholder, and prenuptial agreements. He or she can help you structure agreements to avoid costly mistakes and gain the most benefits possible.

Be open. Everyone makes decisions they regret or has secrets they'd prefer to keep private. But when it comes to your CPA, share what you might consider to be poor decisions, difficult circumstances, or even "silly" questions.

For example, tell your CPA if you've acquired unwanted debt, made a bad business deal, or created a tangled family situation, or if you or a family member has an addiction that affects your business or estate. He or she will listen carefully and can provide insight about how to effectively manage these issues now and in the future.

Ask early. As always, get your CPA's input early so that he or she can help guide your decision making. Talk with your CPA about what's on your mind regarding your business, family, or finances. Working together is the best way to protect your assets.

We're eager to help. Let's set up a time to talk.

High-Performance Strategies

How Your Accounting Department Can Maximize Value

It might not be obvious to consider your accounting department a value driver. But accounting is more than "overhead." Successful companies use every opportunity to drive value, and your accounting function is full of potential.

What's the Opportunity?

A fine-tuned accounting department is the backbone of any organization. It gives the company structure and support, provides connections between functions, and enhances flexibility.

Conversely, a dysfunctional accounting department stands in the way of information flow and progress. If your accounting department is delivering late or inaccurate financials, delaying reports, or experiencing excessive expenses or turnover, it needs improvement. In addition, if your accounting department can't make decisions, collect receivables, or pay bills on time, it's costing you money.

As with many corporate challenges, it comes down to three areas: people, process, and technology. Here are a few considerations to strengthen your accounting department's contribution to your company's value:

People and Skills

There are three skill levels in the accounting department: accounting staff and bookkeeper, controller, and chief financial officer (CFO).

Most companies start with a bookkeeper or accounting staffer who maintains the books, produces a balance sheet, and creates a profit-and-loss statement. They then hire a controller as accounting demands and complexities increase. A CFO is a more strategic addition.

Do you have the right people in the right spots? Does your team have the skills to provide accurate budgeting, forecasting, and cash management? Can they offer the necessary input to take advantage of tax planning and credit opportunities? Review your team's skills and talents to be sure you're using them to their fullest potential.

Key Processes

In terms of accounting processes, the goal should be to maximize profit and cash flow. Among processes to consider are cash and risk management, billing and accounts receivable, inventory and purchasing, expense review and approval, and payroll. Financial reporting and analysis should be calibrated so that they meet the needs of not only the executive team but also sales, operations, human resources, and IT.

Your accounting processes should be based on best practices and be efficient, predictable, consistent, accurate, accountable, and timely. In addition, processes must include fraud protection and detection.

Technology

You can't expect the best from any team if you don't give them the proper tools. Accounting is no exception. If your accounting department is struggling with outdated technology, manual or redundant data entry and reporting capabilities, or too many software systems, you're not getting the information you need in the most efficient manner.

Use technology to automate processes in a way that saves time and money, improves consistency and quality, provides accountability, and improves visibility. Consider technology that improves your purchasing and expense approval processing, banking transactions, payroll, bank account and credit card reconciliations, and reporting.

Adding value to your business is everyone's job. Remember that every dollar your accounting team generates or saves goes straight to your bottom line.

We can help you assess and fine-tune your accounting department's performance. Contact us today to discuss next steps.

Know Your Worth

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calculation engagement results in a "calculation of value," whereas a full valuation results in a "conclusion of value."

You can use a calculation if you are considering retirement or sale, if you want to vet an unsolicited offer for the company, or if you need a periodic review for your buy-sell agreement.

Note that all valuation-related engagements should be performed by experienced, credentialed valuation analysts.

Next Steps

If you are interested in a valuation or calculation, contact your CPA to discuss which service best suits your company's needs. Your CPA will discuss with you the scope of the engagement, schedule, and timing.

A valuation or calculation can be an excellent point of reference for owners looking to build value. The information you gain will help you position your company for the future.

Our valuation team can help you determine what your company is worth. Call us today.

We use our expertise to help our clients grow and prosper.

Dermody, Burke & Brown, CPAs, LLC

Our mission is to help our clients and our people "live well" by providing valued advice and being providers of solutions in an atmosphere that is professional, enjoyable and community-minded.

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Generation to Generation: Teach Your Children Well

Family business owners often expect their children or grandchildren to take over the business but haven't fully thought out how and when to make this transition. In fact, the younger generation is often oblivious to the plans their elders have for their future.

Rather than assuming that the kids are willing and able, be straightforward and open about your expectations. Start talking about the business and transition early to give the next generation time to prepare for what's next.

Make your expectations clear. If you are planning on turning over leadership to your children, say so, and be specific about timing. This is not only fair to the next generation (are you sure they want to take over?), it will give you and your executive team a timetable for transition.

Tell them what it takes. Many family members don't know how the company operates. Explain how the business is run and your philosophy about it. Open the books. Share your stories about successes, failures, and mistakes. Let them learn from your years of experience.

Educate them about money. If your family's younger generations have grown up with wealth, they may be unaware of how to properly budget, invest, or save. Put them in touch with financial advisors who can give them an overview of their financial picture and how to preserve their wealth.

Keep them humble. Family businesses often have preconditions for hiring relatives. For example, your company might require them to receive a specific degree or training. Employment might depend on community participation and volunteering. In terms of work experience, some family businesses encourage three to five years of experience elsewhere so that relatives understand the value of hard work.

You have a lot to teach your children and grandchildren. Be deliberate about sharing your knowledge.