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## Why Your Business May Not Be Worth What You Hope It Is

### Ten reasons it may be worth less

**Dependency on owner**-too many businesses suffer from the all-controlling owner who not only knows how to do everything but also insists on being part of everything. Don't let yourself be the bottleneck. A buyer may pass or offer a lower amount when they see how big the shoes they have to fill are.

**Customer concentration**-no buyer wants there to be a small number of key customers doing a disproportionate share of your volume. Diversify your customer base and realize if you have a highly concentrated customer (or industry) base you may be asked to include an erosion clause that lowers the price if a top customer leaves.

**Financial statements and tax returns differ**-there isn't much to say about this. Have good accounting systems and safeguards and accurate statements. Don't rely on too many adjustments for the tax return or an overwhelming amount of 'add-backs' (to profit).

**Dependency on a key employee**-a company recently had severe problems when their top salesperson left and took most of their accounts. This problem could manifest itself with a technical expert, machine operator or office manager (who knows how everything in the firm works; see dependency on the owner above).

**Poor lease or no lease available**-you may think a month-to-month arrangement is great as it offers flexibility. Buyers and banks think about how expensive it is to move. In fact, for other than a professional type business (like consulting, accounting, etc.) your buyer won't get a bank for longer than the term of the lease including options. Too short of a lease means too short of a seller and/or bank loan and too high of payments to make the deal feasible.

**Behind the curve on technology**-while some people will think this is an advantage to a buyer to do things more efficiently in reality there is a cost to hardware, software and implementation. Use your experience of your business to get technology up-to-speed, show increased efficiencies (and profits) and sell for a higher price.

**Skimming cash**-there isn't a CPA around who will let a buyer be convinced to pay a price based on unreported cash. First, you are cheating the IRS. Second, is it worse that you're skimming or worse that you say you are but really aren't?

**Too small**-a business doing \$2,000,000 in sales will not get the same multiple of profits as a similar business doing \$20,000,000. There's just more risk factors the smaller the business is. An issue that is a major disruption to a small firm is a minor hiccup to a larger firm.

**You are blending too many personal expenses into the business**-yes; there are advantages to paying for things with pre-tax dollars instead of after-tax dollars like employees have to. Carry it too far and it's almost as bad as skimming. Bottom line, buyers and banks like to see profits. Show a lot of profit, pay some tax and it will come back to you in multiples when you sell (and make it easier to sell and finance the business).

**You have to work too hard in the business**-buyers look for businesses they can work on not work in. They may not have your passion for your product or service; instead they have business skills to leverage what you've done. Get out of the business of doing things an employee could do.

### About John Martinka

Over the last 15 years Mr. Martinka has written over 200 articles, authored a workbook and spoken to thousands of people on the subjects of buying, selling or growing small to mid-sized businesses. Some of his related articles and speeches include:

- How to Sell Your Business for What you Thought When Other People Can't
- How to Exit Your Business with Style, Grace and More Money
- For Sale: The Next Step-Planning for Your Future
- Double the Value of Your Business in One Year
- An ACTION™ Plan to Sell Your Business

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