

Legal Services

Don't shy away from determining how much your business is worth

Every owner needs an honest handle on the business's financial state

BY KEITH REGAN
SPECIAL TO THE JOURNAL

Since 1986, **George Cloutier**, the founder and president of **American Management Services, Inc.** of Waltham, has helped thousands of business owners value their operations in an effort to boost profitability.

Rare is the small to midsize business, Cloutier says, that has a good handle on how well it's really doing.

"A lot of times, small-business owners don't want to know how much money they're making or losing," says Cloutier. "I can honestly say I've

never seen anybody who's making more money than they thought they were. They just don't want to look at the bad news."

Cloutier, whose business uses a survey of a firm's operations to being looking at how profitability can be increased, says getting an honest handle on the financial state of a business is where every business owner should start. One of the best ways to do that is to compare a business with others in the same industry or field. Cloutier's company has a massive database of how privately held companies perform; similar data is available from providers such as **Dun &**

Bradstreet.

"If you're a lumber yard and you know how other lumber yards perform, you can see where you stand and there's a lot less excuses for not measuring up," he adds.

Like Cloutier, **Donna Mullen Good**, the CEO of the **Center for Women & Enterprise** in Boston, has seen thousands of small businesses, most of which have come to the center for advice on how to progress to the next level.

Good says it's inherently difficult for a small-business owner to know how their firm measures up. "By their very definition, entrepreneurs are isolated people, she says. "They don't have a peer group they can ask for help.

A critical first step to valuating is creating benchmarks, and it should all begin with a business plan. Good says

she is continually amazed at the number of businesses that are about to push forward to get a product to market or to land venture capital but still don't have a real business plan drafted.

"The plan has to be realistic," Good adds. Many business owners underestimate the time it will take to take an idea all the way to market, she adds. Often, startup business owners are brilliant scientist or technologists, but they have little or no experience in dealing with business matters. "They can talk about their product and their market, but ask them about

cash flow and they say," What's that?"

While there are standard measures for how well a business is doing, especially in established industries, each business

owner needs to figure out what they want out of their business before they can value whether it's providing it, from how much income it will provide to the type of work-life balance it can offer.

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WILLIAM F. RUCCI
Partner
Rucci, Bardaro & Barrett, PC

William F. Rucci, a principal with Malden-based CPA firm **Rucci, Bardaro & Barrett**, believes that any good business valuation

starts with an honest look through a "financial lens."

He advises such forward-looking questions as: What will the market for our product or service be like in six months or a year? Who will our competitors be? How much will it take to keep our doors open? Should we use cash to pay off debt service or make capital improvements? Whom should we hire, and when?

"To say that you can't foresee what lies ahead is a crippling attitude," says Rucci.

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Several software makers offer products to help businesses establish those financial frameworks, using past performance and company goals to create a road map to achieving the financial performance a business wants to achieve.

Often, an objective, outside view is the most effective way to get a handle on how a business is doing. Accounting firms can help with that, and those that specialize in a certain industry may be able to provide some perspective as well. Industry associations can often offer assistance as well. Cloutier says that valuation can lead to dramatic improvements with the right level of commitment. His philosophy takes a holistic approach, looking at an entire business to understand costs and cash flow rather than trying to ferret savings or boost sales in any given area.

"Some business owners come looking for help but are just giving lip service to it," he says. "But most really want their businesses to be the strongest they can be."

