

BUSINESS VALUATION FOR ELECTRICAL CONTRACTORS

STRATEGIC PLANNING

5 STEPS TO USING A BUSINESS VALUATION REPORT TO CREATE VALUE

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It is so easy, at the best of times, for electrical contracting business owners to become distracted from the strategic development of their company by the daily fire-fighting. In today's treacherous economic environment, whether you are ready to start planning your exit strategy or just trying to prioritize which opportunity or threat to deal with first, it is just as important to know where you are as it is to know where you are going.

A professional business valuation report for strategic planning purposes is a wonderful tool for creating the best road map to **enhance the future value of your business**. Using the data and analysis of a well-crafted report will help you maximize the benefit you receive from all your hard work and investment. After all, better information leads to better decisions

1. – READ THE MAP

The value from your business valuation comes from the structure and content of the report. The accredited professional appraiser produces a report which should be **a credible, transparent, complete and intellectually honest assessment of your business**, past, present and future.

- ❖ *Industry and Economic background.* Although not everyone chooses to read economic reports and forecasts, seeing the drivers of your industry, the trends, opportunities and threats presented differently by an impartial observer can act as a spark of inspiration or make you heed the warning bell ringing in the back of your mind.
- ❖ *Company History and Plans.* How does the impartial objective observer see your business history in the context of the industry and past economy? How does your current business mix and plans stack up against what is expected in the future? Have you targeted a type of work which is growing in your region, or will you be fighting for market share? If you have particular expertise in, for example, retro-fitting elementary schools, the population projections would be a key point of interest. A credible business valuation is prepared from a position of non-advocacy. Seeing your business through the eyes of someone without an axe to grind may bring forth some interesting observations.
- ❖ *Financial Comparisons and Projections.* Even if our interest the technical side of jobs and you see your CPA-prepared financials as just a necessary evil on the way to another evil – tax returns – few small and medium businesses will not get tremendous benefit from seeing rigorous analysis of historical financials compared over multiple years, with trend analysis, and against industry peers. The same analysis is performed on the projections. Profitability analysis of your jobs by size, by public or private customers or split by new/retrofit/service categories will probably be broadly intuitive to you but are the margins static or slipping. Are you making enough on, for example, the big jobs? Do your competitors make more or less than you on each job? Professionally projected income statements, balance sheets and cash flows can reveal interesting questions. For example, will your business be able to undertake the level of debt projected? Do you want it to? Information should be presented in detail but in such a way that the report reader, you, can see the pertinent facts.
- ❖ *Valuation Process.* This may be new to you, to some even esoteric in the detail, but the valuation metrics and the key drivers of value and risk should be clear and useful. Whatever your exit strategy is, or will be, it is likely that it will involve someone else coming along and telling you what they think your business is worth. Wouldn't you rather it be **you** who has the better of idea of how it should be valued?

2. – SET DESTINATION

Now it is time to set or **reassess your objectives**. What you have read so far may have confirmed your views and plans or, in some way, have challenged them. Owners should define objectives that include the post-sale benefits that are desired, the benefits that are needed and how those benefits are to be paid and how soon.

- ❖ *With the grain?* Are you trying to develop your business with or against the grain? How your business model looks similar or different from other electrical contractors affects the risk of execution and the implications for your exit strategy is important. You may have a wonderfully unique business, but if your exit strategy is to sell to another contractor to fund your retirement and you should know whether you do or don't fit the industry model. Eventually selling to your employees may be the better option.
- ❖ *Practicality:* how practical are your plans? If you are planning to grow 25% per year and already employ a third of the electricians in your area, have you planned for the fact that recruitment will be taking all your resources.
- ❖ *Realistic:* Do your plans look realistic relative to the economic forecasts in your economic trade zone? Are you growing with the area, faster than the area, or do you need to capture market share? Does your strategy factor in the offense and defense required?
- ❖ *Resources:* If you favor growth by acquisition rather than organic growth, do you have the resources to integrate an acquisition. Does the number and size of your competitors indicate that suitable targets are available?
- ❖ *Add Value?* How would successful execution of your strategy mesh with the valuation drivers? Is sourcing more ultra-competitive bid work going to help or hinder your prospects?
- ❖ *Really?* Do you like your destination?

3. – PACK THE TRUNK

Now that you know where you are going, plan for the resources. The projections in your business valuation report will give you a great sense of the labor, capital, materials and management skills needed. A business valuation views your business from the perspective of a hypothetical well-informed buyer. Use the report to **make sure that you have access to the appropriate resources as you need them.**

- ❖ *When and How:* Look at the detail; go beyond if you need to. If you have 70 electricians and are growing by 15% per annum for the next 4 years, factor in the management time needed to hire at that rate. If you start with 4 estimators and are growing at 15% per annum, are you ready and when should you bring on the next “whole” estimator?
- ❖ *Where to turn:* Prioritize the opportunities and structure the project plan of execution. That will help measure the resources you need and help plan for bringing in the resources, when you need them.
- ❖ *Feedback:* What are the checkpoints and milestones along the way? How do you get feedback and how does it arrive? Will you be able to adjust your execution as you get the feedback. If not, how do you manage the risk? Consider the appraisal analysis and how the risk affects the value of what you are about to create.
- ❖ *Ready, Set....* Refine your plan again. Comfortable? Let's go.

4. – ON THE ROAD

As you implement your plan, **use the feedback and objective analysis in your business valuation to develop the best implementation practices.**

- ❖ *Signals:* As you reach check points, monitor the drivers outlined in your valuation report. Early signals of opportunity or danger are equally as useful. You may already get monthly updates on residential and commercial construction, but monitoring the appraisers drivers on, for example, Middle Market M&A will give you early warning signals. Often, windows of opportunity are open for a while before it is common knowledge, and closed before enough people can pass through.
- ❖ *Implement best practices.* The analysis in your report will show what features drive value. If the appraisal highlights quality of financial information as a driver of value, are you really saving money in the long run by using the backs of envelopes? If your exit strategy is long-term, remember your appraisal reviewed your history for a while back. 3 weeks before attempting a transaction which requires five years of audited records or filings is too late to start.
- ❖ *Landscape:* Review the valuation drivers and metrics. Has the landscape changed? Should your valuation be updated?

5. – DESTINATION

Are we nearly there yet? Although the idea of a fixed destination may seem fanciful, having used your business valuation to help plot the course and drive your implementation in the best way possible, your options are broader and

choices are easier to execute. Lowering risk raises value and makes life simpler in the long run. Whether you expect to move on to the next phase of development, pass on the business to your employees through an ESOP, sell to an accumulator or pass your business to the next generation, you will have added value and made life easier by using your business appraisal to its best effect. Enjoy!

All Business owners should consider having a Business Valuation done for their company. An objective, credible unbiased third-party analysis and evaluation is a perfect place to start the plan to take you from where you are now to where you want to be

Contact Consultants 2 Business LLC to get your professional business valuation for strategic planning today.

Paul Croft is a business valuation and advisory professional based in Napa, California. He has a strong track record of business management and strategy developed at a top global investment bank over 17 years and 8 years of business valuation, consulting and transaction management.

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