

Optimise the value of your assets

Frequently, our clients at RA Valuation Services ask what feature of their business has the greatest influence on goodwill valuation. Contrary to a widely held view, it is not turnover.

Whilst important, turnover unsupported by strong and growing profits is of limited value. Profit, or 'trading profit' as it is sometimes known, is the biggest single factor to influence a business valuation. In this context, trading profit is the 'surplus' left over in the business when all normal expenses or overheads – including allowances for reasonable levels of remuneration for the owners – have been met. Nonetheless, other features can be influential in a goodwill valuation.

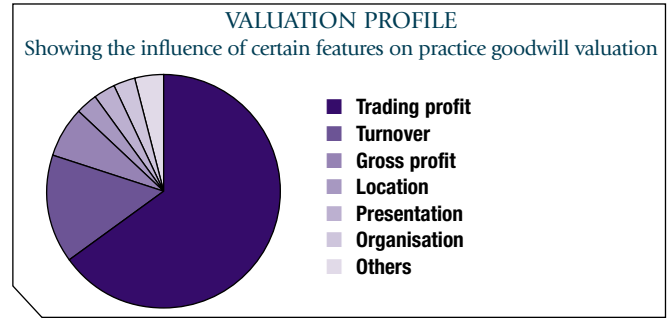
Turnover (or sales)

Despite what is said above, a good and steadily rising level of turnover is the foundation for profitability in any business.

Without it, profits are unlikely. Anything that can be done to increase turnover, such as researching the local market to determine its needs and promoting the business, should be done – but only if it is profitable.

Gross profit

The difference between the sales value and the cost of the item or service sold is known as gross profit. It, too, is vitally important and can be a significant influence on a valuation. Gross profit is mainly a function of pricing policy and buying success. Price right and buy right will result in a good gross profit. This should, provided overheads are well controlled,



Whilst an exact comparison is not possible, this chart gives an indication of the relative importance and influence on goodwill valuation of the main features of a practice. This is based upon an analysis of a sample of typical practice valuations and is strictly for illustrative purposes only

lead to good trading profit.

Location

As with property, good location is hugely influential for any business. High visibility in a busy catchment area without too many competitive pressures will produce high turnover and, hopefully, good profits. Good location with a growing catchment can enhance the 'saleability' of a business. Whilst this may not necessarily increase the valuation, it will increase the desirability of the business and make selling an easier task.

Presentation

The beneficial effect of a good location can, however, be destroyed with poor presentation. Patients expect an interesting window display, clean and welcoming display areas and examination rooms together with helpful and friendly staff. Equipment should be up to date and the stock current and saleable. Practices need to be 'well packaged' to ensure they are noticed and to encourage return visits.

Management and organisation

A well-managed business with good organisation is likely to be a more successful, and appealing, business and, therefore, more valuable. All too frequently, the

business /owner manager of a smaller practice is unable to find the time to 'get organised', install new systems, contact patients, train staff and promote the business. Inevitably, this will ultimately impact on the success and, therefore, profits, of the business.

Prospects

There are other features that may have a bearing on business value, or desirability. Of these, the 'prospects' of the business are often brought to our attention. Typically, an owner may point out that his business could make more profits in the future if only a new owner spends more money on promotion or makes changes in the practice, perhaps going for a new market sector. Sadly, such prospects do little or nothing to the value of a business. They are unproven and consequently valueless.

Trading profit

This is easily the most important factor in a practice goodwill valuation. Without profits, it could be argued there is no goodwill or, at best, a nominal value only. Remember, goodwill value rises in proportion to increased profits by a multiple. In other words, for every £1 of extra profit, goodwill could increase by several times that.

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