

Virginia

Regulatory Hot Tip 2011 – 1

Professional Insurance Agents Association of Virginia and DC, Inc.

KNOWING THE VALUE OF YOUR BUSINESS: PART 1

If someone were to ask you right this minute—could you accurately place a value on your business? For publically traded corporations with issued and outstanding stock, the answer is probably easier. But maybe not. For most smaller, privately-held businesses, including sub-chapter S corporations, partnerships, sole proprietorship or LLC's, and probably including your agency the answer is almost certainly – no.

Perhaps a large percentage, if not most, of the value of your agency is not reflected in its stock price or even in your financial records. For example: Is the true value of your book of business reflected in your stock price or anywhere in your records? How about the value of all the marketing and “sweat equity” that helped to build your agency? How about your personal contacts and long-time relationships? Your stature in the local community? All of these factors can and likely should go into the calculation of the value of your business and it is likely none of

them show up accurately or completely on your financial statements. If you are thinking of

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buying or selling are you transferring just assets or liabilities? All assets and liabilities? Or just some assets and liabilities? Are your future services included in the deal? And how about the value of your intellectual property?

Valuation is essential when buying or selling a business. The key to a successful deal is knowing each of the elements you are transferring and what each element is worth. The “Tip” in this Hot Tip is regardless of whether you are thinking of selling your business or buying a competitor: *Don't do it alone*. Your opinions no matter how analytically based are biased. It is all too easy to leave a valuable element out or not fully recognize a business asset.

There are many professional business valuation experts available and many are knowledgeable about the insurance industry. Seek their advice as well as that of your accountant and attorney. There are too many pitfalls in the purchase or sale of a business to trust your own judgment. We study many of the terrible resulting from such efforts in law school. Don't be one of the future examples!

One of the things previously mentioned impacting the value of your business is your intellectual property. Almost certainly you have some intellectual property as part of your overall business value. In the next Hot Tip, we'll discuss intellectual property in more detail. Until then,

We hope 2011 is off to a great start and continues on!