

How to Select the Right Business Valuation Professional No 'One-Size-Fits-All' Approach

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For most business owners, their business constitutes more than half their personal net worth. So, the value of the business is of critical importance in planning for operational growth or such personal concerns as estate planning and preparing for business succession.

A business valuation performed by a qualified professional who understands your business and your industry can help lay the foundation for the future of your business. If timed correctly, it can also reveal weaknesses in your business that can be addressed over several years, significantly adding to the value of the business when you are ready to exit or sell.

If you are considering a business valuation, the first and perhaps most vital decision you will make is selecting a qualified professional to perform the analysis.

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One Size Does Not Fit All

Performing a business valuation is both art and science. Each valuation provides its own unique circumstances, intricacies, and potential pitfalls. And while each valuation will have a similar set of prescribed procedures or best-practices that will be performed, a “one-size fits all” approach may miss the mark on arriving at a reasonable conclusion of value. In addition to standard procedures and practices, a valuation professional must exercise a good measure of judgement based on experience and understanding of the industry in which the business operates.

The process of choosing a business valuation expert is like that of selecting any professional. Experience, training, education, credentials, independence, references, and reputation all should be evaluated. Pertinent questions to ask a business valuation professional should include:

- Do you perform appraisals on a full-time basis? How long have you been performing valuations?
- How many valuations do you perform annually? What industries do you have experience in?
- What type of credentials do you maintain?
- How many times have your valuations been challenged, either in court, by the IRS, or by any other regulatory agency? If they have been challenged, were your conclusions upheld or determined as reasonable?
- Will you provide a list of references from past valuation engagements?

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Reasons for Business Valuation

Consider the reasons you are seeking a business valuation when selecting a professional. If you are involved in a regulatory investigation such as an IRS tax audit, or a legal dispute such as a shareholder lawsuit, a valuation professional who specializes in those types of situations may bring the perspective you need.

Moreover, the right valuation professional will determine the best methodology for performing your business valuation, based on your company's circumstances, the industry in which you operate and the reasons for the valuation.

One of the most important areas a person should be focusing in on for a potential appraiser is their professional credentials or designations. Under IRS guidelines, a qualified appraiser is an individual who either has earned an appraisal designation from a recognized professional appraisal organization for demonstrated competency or who has met certain minimum education requirements.

Credentials to Look For

Valuation professionals may have one of several valuation credentials available from recognized organizations, including:

- ✓ Accredited Senior Appraiser (ASA) offered by the American Society of Appraisers, or
- ✓ Accredited in Business Valuation (ABV) offered by the American Institute of Certified Public Accountants, or
- ✓ Chartered Financial Analyst (CFA) offered by the Chartered Financial Institute.

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These and other professional credentials help demonstrate that an individual understands the critical concepts and methodologies utilized in performing valuations, and they can assimilate all relevant facts and circumstances of each unique engagement and apply their knowledge, experience, and judgment in arriving at a reasonable conclusion.

Additionally, most appraisal credentials require that the holder receives a minimum number of hours of continuing education related to the valuation industry, so they stay up to date on any industry developments, best practices, or other information.

If you are ready for a business valuation, contact your Barnes Wendling advisor for a discussion with our business valuation team.