

vendors. The more the A/P swells, the lower the book value. Taking advantage of cash discounts and discounts for early payment will not only help bolster the book value of your company, but it will also add profits to your bottom line.

The unearned service revenue liability is another important aspect. Any time you invoice a service contract for a term longer than a month, there is a liability for the future undelivered service.

Whether this liability is recognized on your balance sheet or not, it exists. Some dealers have unknowingly created significant drains on their book values by taking multiple years of service payments from leasing companies up front. When they wrote five-year leases, they would have their leasing companies pay them for the full five years of maintenance with the machine funding. At the time of these transactions, book values were not affected, as the cash they received offset the liability.

However, if the money is spent (and it most often is) before the service contract term expires, these dealerships are left with only the liability and significantly reduced book values. Moving toward monthly contract payments and being sure that there is enough cash on hand to cover the costs for servicing future contract obligations will help keep your book value strong.

Debt also reduces your overall book value. If you have taken lines of credit, used floor planning for inventory or have any other debt, your book value is reduced. Paying down these debts will improve the book value of your business and will increase the total dollars realized at the time of the business's sale. And, as with taking cash discounts, you will improve your bottom-line profit by reducing or eliminating interest costs.

When looking at goodwill, the strategies can be more difficult to hone in on. The common thread in all situations is that goodwill is increased by creating a business that is more appealing to buyers. There are countless ways to accomplish this, but I will touch on a few of the more successful strategies.

First, build a sales presence with a history of revenue growth. When you have a successful sales team and a track record of consistent growth, your business is far more appealing. Since building a sales team is one of the most difficult tasks a dealership owner faces, many buyers will pay more for a business with a strong sales team. This increase in the purchase price is the financial manifestation of additional goodwill.

Goodwill is also built by reducing the business's reliance on you as the owner. If you are the focal point of everything

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in your business — all decisions must run through you, much of the sales revenue comes from your personal sales and the service team waits for you to give direction — the value in the eyes of a buyer is reduced. Goodwill is built by having others in the business who can handle the decisions and successfully run the business without you. Though this can be hard to achieve, working toward it will add value and goodwill

each step of the way.

Another drain on goodwill is reliance on a small handful of customers for a significant portion of your revenue. It should be easy to see how this leaves a business vulnerable. If the loss of one or two large customers would have a material effect on your business, buyers will be leery. When buyers are leery, it can be reflected in a significant reduction in offers made for your business. Having a diverse portfolio of customers (with not just one or two making up 10 percent or more of your total revenue) will increase the value and goodwill of your dealership.

One area buyers often struggle with is forecasting future business. This is especially true when it comes to equipment and software revenue. As mentioned above, having a strong sales team helps. Another thing that will add to the value and goodwill of the business is a strong lease portfolio. Reviewing your lease portfolio provides a lot of insight; you can see exactly when leases come due, you can see what the current payments are and you can dissect the profitability of each lease. Focusing on building a healthy lease portfolio can have a significant impact on the value and goodwill of your dealership.

Whether you are an accounting expert or a complete novice, the goodwill in your business is crucial to your long-term success. Too many dealership owners get caught up in the day-to-day problems and issues they face and do not spend the time they could building book value and the related goodwill. Employing these strategies can and will improve the value of your business and, when done properly, it will result in increased profitability as you go. Talk about a win-win! If you need any help outlining or executing your plans, do not hesitate to reach out. ■

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