# Three Important Factors in Selecting a Business Valuation Firm

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Determining the value of a privately-held business is necessary for a variety of purposes, such as:

* A potential sale of a company
* Estate or succession planning
* A departing shareholder
* Litigation
* The creation of an employee stock ownership plan (“ESOP”) or a buy-sell agreement

However, placing a value on a privately owned company can be a technical and complex process, particularly for smaller companies in niche industries.

If you need to know the market value of [your business](http://www.allbusiness.com/company-activities-management/company-structures/14199482-1.html), or an interest in it, we would recommended that you hire an accredited and experienced business valuation firm to perform an independent valuation. Here’s why...

## Business valuation services are not commodities.

Various factors, such as integrity, reputation, knowledge, experience, expertise, and service should be considered when selecting which business valuation firm best meets your specific business valuation needs.

No matter what the purpose for getting a business valuation, selecting the business valuation firm that is right for you can make a world of difference in achieving your goals efficiently and cost effectively.

Regardless of with whom you work, these are three important factors to consider when engaging a business valuation firm:

### Accreditation/Credentials

All business valuation credentials are not equal.

Accrediting organizations have different requirements for certification and, although credentials cannot guarantee performance, they do indicate a level of professionalism for having achieved and maintained them.

Each organization’s requirements for accreditation differ slightly, but all require training, experience, and examination in business valuation practices and techniques.

Accreditations can be crucial when it comes to credibility and acceptance by the IRS, courts, shareholders and all intended users of the valuation as well as withstanding potential scrutiny by an opposing expert in litigated matters. An accredited professional can more easily demonstrate having the specialized experience, skill and knowledge needed to produce quality and competent business valuations.

With business valuation issues continually evolving in complexity, accredited professionals are more likely to stay current on the most recent valuation issues and case law.

By selecting a business valuation firm with accredited professionals, you can also be confident that the accrediting organization’s codes of ethics are followed. These codes require a high standard of behavior and performance. When opposing parties are involved, it can be critical that the valuation be trusted completely by all involved, with no accusations of bias or favoritism.

Accredited valuation practitioners must remain neutral when valuing a business, helping to ensure objectivity and independence. All credentialed valuation professionals are well aware of the professional standards required to produce a quality and comprehensive business valuation report.

**Clients and their professionals should insist upon working with a firm with accredited business appraisers.**

### Experience

Experience counts.

Business appraisal firm whose primary service is business valuation will bring to bear experience from performing business valuations for a wide variety of purposes covering a wide range of industries. Each business and appraisal is unique and significant valuation experience is vital in preparing a reasonable valuation. The experience working with a diversified client/industry base gives the business valuation firm the ability to understand the clients’ specific industry and valuation needs.

Another benefit of engaging an experienced business valuation firm is its access to all the requisite resources, databases and tools needed to conduct the appropriate research for each valuation analysis, including identifying guideline public companies and relevant guideline transactions.

The experienced business valuation firm will also have access to the relevant economic and industry data, and information to support valuation discounts if applicable. The more resources to which an experienced business valuation firm has access, the better the support and substantiation of the value conclusions resulting in more thorough and credible appraisals.

**It is crucial that the business valuation firm selected is qualified to value your company.**

### Cost

Business valuation fees can vary significantly and depend on the size of the company, the scope of the valuation, the purpose and the complexity of the subject company’s operations. Be aware, however, that the lowest cost provider may not provide the best value.

The type of report (deliverable) required also impacts the fee as does the qualifications, experience, and level of service. When comparing fee quotes, don’t forget to compare the level of reporting provided, the experience of the attending professionals, as well as the service accompanying the assignment.

Business valuation services are offered on a flat fee or hourly basis. It is important that the client has a clear and concise understanding of scope of the assignment and the fee when committing to an engagement. The experienced business valuation professional can provide a reasonable estimate of expected fees prior to execution of an engagement letter.

Typically, a retainer is required at the onset with the balance invoiced monthly (hourly engagements) or upon completion and issuance of a draft valuation report.

**In many cases, the total fees for valuation services can be dwarfed by the amount of money at risk.**

### Summary

While there are numerous factors to be considered when selecting a business valuation firm, the three most critical are: accreditations, experience and cost.

It is important to perform due diligence before choosing a business valuation firm. Familiarizing yourself with each valuation firm’s process and ensuring they have a clear understanding of your company and the purpose at hand will result in high quality service that produces a reasonable and supportable business valuation. Referrals from a trusted legal advisor, accountant or financial advisor can help make for a smoother selection process.

**And just in case you’re wondering:**

**VMI**’s analysts’ designations include Accredited Senior Appraiser (ASAs), Certified Financial Analysts (CFAs) and MBAs.

**VMI** adheres to the Uniform Standards of Professional Appraisal Practice (USPAP), as promulgated by The Appraisal Foundation, further ensuring the quality and independence of the valuation.

We’ve got **accreditation.**

Collectively, the professional team at **VMI** has performed over 6,000 valuations.

We’ve got **experience.**

...and if you want to talk about **cost**, give us a call.