

# Changing the Owner's Mindset

## Business Valuation for the Real World



The most challenging part of Rick Berning's job as a valuation expert isn't determining what price tag to put on the businesses he and his team

assess. The most difficult task is altering the mindset of business owners.

"One of the toughest things we have to convince them of is that their company is worth more when they are worth less to the company," Berning, president of Berning & Heidebrecht, Ltd., explained. "Buyers want a business they can transition. If you, as the current owner, are the sole producer or are the sole salesperson or if you have all the contacts, then your company is not going to be worth as much because it is tough to transition. You have to be less important to the firm so that the value of the firm can increase."

This simple fact can be a truly tough sell but it's one Berning must make in order to help clients sell their companies. He has to get the selling client to understand that the buying client is looking at two things: cash flow and the risk associated with that cash flow. That means Berning has to learn the ins and outs of a great variety of businesses in order to arrive at both cash flow and related risks.

"We deal with many different industries. We don't specialize in any particular industry. Rather, we specialize in conducting business valuations. So we are doing valuations for literally any type of company you can think of, from law and accounting firms to manufacturing companies to chicken processing plants. The most challenging thing really is learning how the business operates

— because every business is going to be different — and then learning how operations impacts the value of the business."

In today's marketplace, still recovering from the economic meltdown starting in 2007 and continuing through 2011, it is Berning's opinion that one of the most significant problems throughout has been the ability of a business to obtain working capital and debt financing. Given the number of businesses that went under during that time period, Berning noted how it is only a natural consequence that obtaining capital became more difficult. It's a bit of double-edged sword, however. "It is even tougher when times are tough," he said. "When the economy is bad, there just is not much margin for error." That is the major reason Berning advises anyone seeking a business valuation to use a professional specializing in his line of work. "A lot of people advertising that they do valuations also do auditing and taxes — and in reality only do some business valuation," Berning explained.

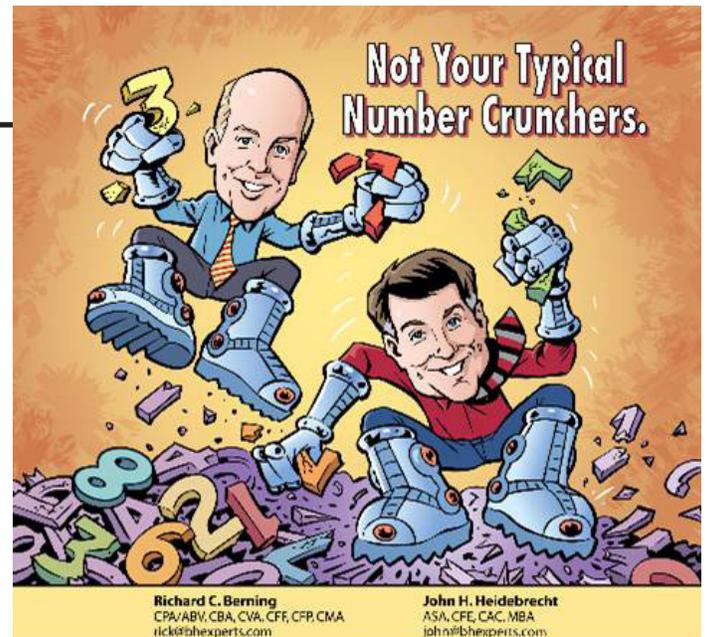


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"I encourage people to make sure that they are dealing with an expert who does business valuation work on a full-time basis."

While Berning is a full-time business valuation professional, he is also expanding his own experience, giving to others by teaching a macroeconomics course at the University of Northwestern in the heart of the Twin Cities. Berning extremely optimistic about his new endeavor. "It has been fantastic," he said. "I am very excited about it."