

3 Non-Financial Factors That Could Impact Your Business' Value

Opinions expressed by Entrepreneur contributors are their own.

Determining a business' value is not all about adding up revenue and subtracting expenses. While an important piece, these hard numbers are only half the equation for computing what a company is worth. To come up with the true value, we also look at factors like the level of owner involvement, company goals and growth opportunities. When we use the complete equation, we get a comprehensive picture of a business and can better understand the story of its past, present and future.

Calculations may vary depending on the company, but in a healthy one, there is about a 50/50 split between the quantitative (financial) and qualitative (non-financial) sides of performance. If the business isn't profitable, it's more important to focus on the quantitative side and fix the numbers first. Many owners don't want to hear that, but if they're not hitting their numbers, it may mean the business is not working. They must fix the quantitative issues before moving to the qualitative side.

Related: [What Is a Balance Sheet and Why Does Your Business Need One?](#)

For healthy companies that want to maximize their value, the qualitative indicators can be bundled into three main categories.

Evaluating quality

1. The owner's goals

We've found significant research showing that if an owner has defined goals and plans for the future that are in line with market expectations for their company's value, they're going to have a much stronger exit. What is the owner's defined goal for exiting the business – to get the most money, to take care of their employees and to ensure a legacy? You must then get to the “why” behind the goals and devise a plan of action. It almost doesn't matter what the answers to the questions are; having achievable goals and a strategy for reaching them can increase the company's value because it keeps the owner focused on improving the other areas of the business.

2. The owner's role

The extent of the owner's involvement is a critical indicator, but perhaps not for the reason you think. The more involved the owner is in day-to-day operations, the more central they are to the business, the less the business will be worth down the road. If the owner is the linchpin that holds everything together, what will happen to the company when they leave? Evaluating operations is more about the system and the structure of the team. Look at the organizational chart and who's on it – are they good employees or bad employees? Examine the company's processes and procedures and how new team members are trained and onboarded. The owner sets the vision, but it's the team that increases company value by carrying out the vision.

3. Growth opportunities

Nobody wants to buy a business and keep it exactly as it is. They want to see potential for growth in the future,

especially the potential for return on their investment as a buyer. Whether it's a simple price increase or new locations, whoever buys the business is going to ask about growth opportunities. Indicators like product or service diversification in both the company and the industry it's in give a good sense of whether the company is moving forward or standing still (and at risk of going backward). The more potential you can show, the more upside there will be for the next owner – adding up to greater value.

Related: 8 Factors That Determine the Financial Health of a Business

Cycle of success

When the qualitative side of the equation is working, it all ties together. The owner knows the goals, which are aligned with where the company is going, and is leading the organization but working themselves out of the day-to-day operations; the business grows and creates more growth opportunities for the next owner. Paired with profitable numbers, it's a cycle that builds a high-quality business.

For the best owners, it takes a minimum of three to five years to get that cycle working for you and have reliable indicators of your value. Making it part of a 10-year strategy is even better.

At Exit Factor, we have 62 different qualitative indicators that we use for determining company worth. We don't use them all, or even close to that, for every business; it's usually a matter of tweaking three to five of the 62 indicators. Figure out which of those 62 are essential for your company, and you'll have a truly forward-looking strategy for profitable growth.

<https://www.entrepreneur.com/growing-a-business/look-beyond-the-balance-sheet-non-financial-factors/473185>