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CHECKLIST

Uncover Strategic Value

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Strategic value is not the same as fair market value, where a “hypothetical” buyer and seller have access to all relevant data. Strategic value includes synergies and special features, usually hidden, that give the buyer a quicker, less costly and lower risk way to achieve goals. Look for the following opportunities to help clients capture as much strategic value as possible:

✓ **Entering a new market.** CPAs with a good understanding of the client’s business and product line can analyze the market for competitors who could beneficially expand by acquiring the client. A Midwestern company looking to expand to the East Coast could buy a competitor already established there; or a company hoping to expand its sales of machine parts to a new set of customers could acquire a company that sells an unrelated part to the same customers.

✓ **Patent or secret process.** Clients are usually so mired in the daily operations of their business that they overlook the value, or particular benefits, of unique qualities of their processes. A CPA appraiser can help the client see the bigger picture and identify possible buyers who could better exploit those processes.

✓ **Competition.** Help clients determine their effect on the competition’s bottom line through a sales/gross profit analysis by types of products and customers. For example, a secondary line accounting for a small percentage of the client’s sales might account for their competitor’s disproportionate attention to these items. Alternatively, a new product market might not be large enough for two companies.

✓ **One-stop source.** Combining two or more companies can create a major niche player. A CPA’s trained questioning along with an examination of the customer base by industry and product line or business referred away can lead to an “aha” moment. Example: A tax preparation company can acquire a seller of annuity and mutual funds.

✓ **Buying a vendor.** Some company requirements limit new vendors, such as a retail chain that only wants 10 suppliers of a product category. Your client is a supplier that sells to the retailer. A larger company wants to buy your client’s company in order to sell to the retailer. Guide the client by calculating the value of the retailer to the potential buyer.

✓ **Reputation.** Acquiring a small but long-existing company with an established reputation can enhance opportunities for a newer business. Calculate “strategic” value in terms of potential added profits or value enhancement to the targeted buyer.

✓ **Source of supply.** Your client is the sole source for a critical part for one of its customers. To ensure continued supply, the customer proposes buying your client. To determine the strategic value, the CPA appraiser can model the possible negative effects of a loss of the supplier as well as the costs of adding a second supplier.

✓ **Human capital.** It is normal for a company to buy another company to gain access to skilled and experienced staff. The cost of acquisition can be less than finding, hiring and training the appropriate staff. CPAs can project the “investment” in the personnel employed by their client, establishing a parameter of strategic value.

✓ **Ego value.** A business could have intangible bragging rights and “association with” value. A successful local attorney or insurance agent might get ego value from owning an unprofitable local minor league team because of the added business they will get through the ownership, making the investment worthwhile. The CPA can calculate the benefits of the potential value to the right owner, therefore, setting the strategic value.

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