



# Building the Value of Your Business

## Five of Five - *Lack of Controls and the Right Software*

**BUILDING VALUE:**  
*It is what we have been  
doing for over 40 years*

*Whether you want to build value for a future acquisition, build value to pass on to the next generation, or build value for your personal benefit, the JBL Specialists will use their years of experience and knowledge of best practices to help you reach your goal.*

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## ***Investing In the Right Software***

You probably never thought that the software you use could impact the value of your business. But it does.

Using a generic, off-the-shelf accounting software product could cost you a lot of money – both now and in the future. You may have chosen your software because it was popular and inexpensive. Maybe you did not think you needed industry specific software. Maybe purchasing an off-the-shelf package was the path of least resistance. Regardless of your reasoning, installing one of the off-the-shelf accounting software programs could be one of the most expensive decisions you will make.

As a business owner, you want to increase the value of your business whether for your benefit or the next generation you will hand the business off to. Do you have a clear picture of what your company is worth? Are you making decisions and monitoring key performance indicators that will increase the value of your business? Unfortunately, many small business owners think their business is worth more (sometimes substantially more) than what a potential buyer will offer. Many times, that is due to the lack of accurate data being tracked and lack of controls built into the system.

## ***The Valuation***

Companies (Merger & Acquisition specialist, Potential Buyer representatives, etc.) whose job it is to place value on a business will tell you one of the first things they look for is the type of accounting system the owner has installed and what internal controls are in place to assure accurate data is being produced. Why?

Because many of the off-the-shelf software products have severe shortcomings when it comes to tracking the key data that is important

to the valuation of your business. These shortcomings translate to risk. And risk impacts value.

Let's take one example, cylinders. Cylinders are a significant part of the valuation of a compressed gas distributor. So, the first question would be: How many cylinders do you have?

With off-the-shelf generic software products that do not offer cylinder tracking, this would be very difficult to answer. Maybe you are using a spreadsheet to keep track of cylinders shipped and returned. Spreadsheets are very labor intensive, error prone and lack error checking which impacts accuracy.

In interviews with hundreds of compressed gas distributors we have asked the simple question: How many cylinders do you have? The typical response is not a number but a range. And the range in almost every interview is substantial, 1500 to 2000, or 3000 to 4000. So, when you or anyone else attempts to determine the value of your business, which number of cylinders do you use? Being off by even a few hundred cylinders can have a significant negative impact on the value of your business. The inaccuracy of the data means risk for everyone involved in the valuation process.

When we asked the individuals responsible for determining a valuation of distributors how much risk they would place on generic off-the-shelf packages, the response was "It can be as high as 25%".

In simple terms, this means for every \$1,000,000 of value, you think your business has, you could lose as much as \$250,000 in potential valuation due to the risks of using a software product that does not accurately provide the key data needed for valuation and does not provide adequate audit controls.

## What Are the Risks and Red Flags?

### Risk - Inaccurate Cylinder Balances

Not having accurate cylinder balances creates questions. Questions often equate to risk. Is the actual number of cylinders higher or lower than the estimate? Since cylinders are not sitting on the shelf like inventory there is no way to take a physical inventory. There is no way to justify the number of cylinders other than a spreadsheet or paper log of ships and returns. A software product with a proven cylinder tracking system will provide an audit trail of all ships and returns dramatically reducing the risk factor.

Even better than traditional cylinder tracking is tracking by serial number. This type of tracking is the best at reducing the risk factor because it tracks every movement of the cylinder from the day you purchased it. You know at all times where every cylinder is and how many you have.

### Risk - Inaccurate/Inconsistent Cylinder Rental Billing

How are you calculating cylinder rent? Generic, off-the-shelf software packages that do not offer cylinder tracking won't offer cylinder rental billing. The risk questions are:

- Are all customers being billed rental properly? If your cylinder balances are not correct your rental income will not be billed properly.
- Are you not maximizing cylinder rental income because you are doing it manually? In other words, are you not charging Daily Rent since it is difficult to calculate manually?



### Red Flag #1 – Inaccurate Data

A big red flag for those experienced in establishing valuations for companies is when software products allow data to be changed AFTER it is processed. Below are a few examples:

- **Changing the price or cost on an invoice after it is completed.** Product cost changes should not be allowed, especially after an invoice is completed. Changing prices or costs impacts gross profit, which impacts financial statements. Corrections and changes to tickets should always be made with a clear audit trail and before the invoice is completed.
- **Changing or deleting sales taxes after an order/invoice is complete.** As with prices, sales tax changes should be allowed when processing the invoice, not after.
- **Changing inventory balances without a clear audit trail.** It is tempting to just change the inventory quantity balance on an item when needed, but this is considered risky when there is no clear audit trail. The proper way to change quantities is to make the changes through a physical count process or other approved methods. Allowing anyone to make changes to an inventory balance brings into question the accuracy of the balances and the process in general. You, nor the value of your business is protected when inventory balances are changed without proper audit trails.
- **Changing the name or amount on checks after they are written.** Some

systems allow you to change who a check was written to after the check has been updated. You may not allow this, but many generic packages do. If you are using a generic software product that allows you to do this, you can be sure it will impact the value of your business.

- **Changing a deposit amount.** Some software packages allow you to change the amount deposited. Internal bank reconciliation reports should match your bank statements and if they do not, the value of your business will be affected, and you will be at risk.



## Red Flag #2 - Lack of Controls

Many off-the-shelf accounting software packages treat all users the same when it comes to security and permissions. Allowing anyone to change data puts you at risk and will lead to a lower valuation of your business because a purchaser will not be able to trust the numbers you produce. Your software should be able to restrict, by user, the following types of activities:

- Change or void/delete an invoice.
- Change or void/delete a credit memo.
- Change or void/delete a debit memo.
- Change or void/delete cash, check, or credit card sales.
- Change product prices.
- Change product costs.
- Change sales tax amounts.
- And many more.

There are many more activities that could be listed, and we are not saying you should not be able to do these things. But what the experts

say is that your software must be able to restrict WHO can perform these activities.

## Closing Thoughts

Most distributors do not think of the software they are using as having an impact on their business valuation. But it does. If you are running a \$2,000,000 business, using an off-the-shelf software product could potentially impact your business by up to \$500,000 for all the reasons detailed above.

The team at JBL Solutions has 40+ years of experience working with compressed gas distributors just like you. Our software can help you:

- Maximize the value of your business by providing the types of control the valuation experts look for.
- Maximize cylinder rental income based on proven software and experience with hundreds of compressed gas distributors.

Plus, our software support team can provide invaluable best practice experiences that will help your business operate more efficiently and profitably.

For more information on how JBL Solutions (DataWeld) can help you increase the value of your business call 800-334-1987 or email to [sales@jbl-solutions.com](mailto:sales@jbl-solutions.com).