METHODS

For Valuing Your Rep Firm

Two methods to help rep firm owners determine their agency's value in today's marketplace.

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MAFSI
Manufacturers' Agents Association for the Foodservice Industry

TWO WAYS TO VALUE YOUR SALES AGENCY

Gross Commissions Multiplier or the Net Profit Multiplier

METHOD

1

Valuing Your Rep Firm Using the Gross Commissions Multiplier Method (GCM)

The method is based on computing, then adding together two values:

> **Value 1**. The multiplier of a year's gross commissions. This values the "intangibles" of the agency.
>
> **Value 2.** The net value of the business assets.

The formula is simple: The value of the intangible ***plus*** the value of the tangibles ***equals*** the total value of the agency. *See* **Figure 1** *for a typical valuation example using the Gross Commission Multiplier Method.*

Figure 1:

Valuing ACME Sales Agency, Inc.

Gross Commissions Method	
Value 1: Intangible assets gross commission (FY)	$610,758
Multiplier (see figure 2)	x 1.25
Indicated value of intangible assets	$763,448
Plus	
Commissions due (not yet collected)	+$22,065
Commissions received (not yet earned)	+$10,000
Plus	
Value 2: Adjusted market value of tangible assets	
Current	+$179,766
Fixed	+$105,000
Total gross business value	$1,080,279
Minus liabilities	-$79,834
Net value of business	***$1,000,445***

Note:

*To determine **Value 1**, it is critically important to set the multiplier. It also requires some adjustment for earned and unearned commissions.*

*To determine **Value 2**, the value of the assets must be adjusted to current market.*

Establishing the Multiplier

Establishing the correct multiplier is important because it can cause a big swing in the valuation. In this method, the valuer looks at the main principals (and lumps the smaller ones together) to estimate if each is excellent, fair or weak in terms of how well they will continue to perform after a sale, for example.

Or what are they worth to a new owner? Obviously, a top principal who is certain to stay with a new agency owner ranks high. In **Figure 2** below, an agency owner rates his principals.

How did the rep firm arrive at the individual manufacturer multipliers in Figure 2? That's explained as being based on the three main factors, plus smaller ones suitable to the situations. The primary factors are (1) transferability, (2) manufacturer and product characteristics and (3) revenue mix.

Transferability

In the purchase of manufacturers' sales agencies, it is general practice for the owner or key employee or agent with the selling company to stay with the new agency for a period of time. Failure of the seller to assist in the transition will, in all likelihood, affect future revenues due to probable attrition of manufacturer accounts. If the seller is not available, it is important to review the percent of the revenues attributed to the staff which will be retained to help ease the transition period and increase manufacturer retention. This factor tends to be particularly significant when the buyer is not a seasoned member of the agency staff.

Manufacturer and Product Characteristics

Characteristics of the manufacturers and their longevity with the agency are significant variables in developing a multiplier. Quality assessment factors relating to manufacturers which should be reviewed included: industry classification; geographic distribution; maturity of the company; number of lines carried; record of payment for commissions; other services rendered; growth potential; and relationship with staff and principals of the agency.

Note:
The manufacturers were assigned multipliers based on their value to the sales agency. Multipliers range from 1.0 to 1.5 which is, in fact, a broad range. It is suggested that this is about the full range for most rep agencies' valuations.

Figure 2: Percentage of Gross Commissions Method

	Manufacturer				
	1	2	3	Others	Total
% of Total Commissions	35%	20%	25%	20%	100%
Estimated Gross Commissions Multiplier	1.0	1.5	1.5	1.0	-
Weighted	.35	.30	.375	.2	1.225 *rounded to 1.25*

The quality and marketability of the product lines should also be assessed. Is the market expanding or decreasing? How innovative is the manufacturer in regard to product development? An agency representing quality manufacturers with highly marketable product lines would tend to receive a multiplier in the higher end of the range.

Revenue Mix

The actual number of manufacturers represented and commission dispersion among them may be an indicator of potential ease of transferability. Most agencies have between one and three manufacturers that comprise over 50% of their business. The loss of one major manufacturer may reduce revenues by 20 to 60 percent. One suggested method of developing a gross commission's multiplier to each manufacturer based upon probable retention levels. A sample of this method was shown earlier.

Valuing Your Rep Firm Using the Net Profit Multiplier Method (NPM)

In the method above, we showed that Acme Sales, Inc. was "worth" $1,000,445 when valued by the Gross Commission method. Here we'll summarize a second method, the Net Profit Multiplier method approach to value.

This technique begins with the recent net profit figure. In the case of Acme Sales, that number was $148,285. **Figure 3** to the right shows how the calculation works out.

The value at the right of $949,488 came out very close to the figure computed by the Gross Commissions method: a difference of only about five percent ($50,597). It is not always this close. A key point is the size of the multiplier which is to a degree a judgment call. It is suggested to use a range of two to five.

A factor in deciding the multiplier is a rating of the value and the transferability of principals which was explained under the Gross Commission method. Agency business growth, specific industry and general economic forecast, plus other factors explained in the GCM are figured as well.

METHOD

2

Figure 3:

Valuing ACME Sales Agency, Inc.

Net Profit Method	
Net profit (FY)	$148,185
Plus	
Owner's salary	+$100,000
Adjusted net profit	+$248,185
Times annual multiplier	x 3
Indicated valued of intangible assets	$744,555
Plus	
Adjusted market value of tangible assets	
Current	+ $179,767
Fixed	+ $105,000
Total gross business value	$1,029,322
Minus liabilities	- $79,834
Net value of business	***$949,488***

Source: *National Association of Independent Publishers Representatives*