

University of Mississippi

eGrove

Guides, Handbooks and Manuals

American Institute of Certified Public
Accountants (AICPA) Historical Collection

2012

Business valuation practice management toolkit

American Institute of Certified Public Accountants. Forensic and Valuation Services Section

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_guides



Part of the [Accounting Commons](#)

BUSINESS VALUATION

PRACTICE MANAGEMENT TOOLKIT



PPM1208P

AICPA American Institute of CPAs®

aicpa.org | cpa2biz.com

AICPA® Forensic and Valuation
Services Section

BUSINESS VALUATION

PRACTICE

MANAGEMENT

TOOLKIT

12003-256

Notice to Readers

Business Valuation Practice Management Toolkit does not represent an official position of the American Institute of Certified Public Accountants, and it is distributed with the understanding that the author and publisher are not rendering legal, accounting, or other professional services in the publication. If legal advice or other expert assistance is required, the services of a competent professional should be sought.

Copyright © 2012 by
American Institute of Certified Public Accountants, Inc.
New York, NY 10036-8775

All rights reserved. For information about the procedure for requesting permission to make copies of any part of this work, please email copyright@aicpa.org with your request. Otherwise, requests should be written and mailed to the Permission Department, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110.

ISBN 978-1-93735-069-7

Table of Contents

| | |
|--|------------|
| Foreword | vii |
| Acknowledgments | ix |
| Chapter 1: The Product of Business Valuation | 1 |
| Introduction..... | 1 |
| Engagement Letters and Client Representations | 1 |
| Other Caveats | 2 |
| Planning and Supervision | 2 |
| Working Papers | 3 |
| The Work Product | 3 |
| Financial and Economic Analysis..... | 4 |
| Report Writing..... | 5 |
| Reviewing the Work Product..... | 5 |
| Summary | 6 |
| Chapter 2: Financial Aspects of a Business Valuation Practice | 7 |
| Introduction..... | 7 |
| Fee Structure | 7 |
| Billing and Collection..... | 8 |
| Practice Costs | 9 |
| Core Costs..... | 9 |
| Job Costs | 9 |
| Summary | 9 |
| Chapter 3: Practice Management | 11 |
| Introduction..... | 11 |
| When to Add Staff | 11 |
| Where and How to Find Staff..... | 12 |
| Where Do I Find the Talent to Help Me? | 12 |
| What If I Cannot Find the Talent Needed Internally? | 12 |
| How Do I Start Looking? | 13 |
| Assessing Talent | 14 |
| Is There Anything Different About Hiring BV Talent? | 14 |
| What Should I Expect to Pay for BV Talent?..... | 16 |
| Execution, Maintenance, and Development | 16 |
| Should I Negotiate an Employment Contract? | 16 |
| How Do I Motivate or Retain Employees? | 17 |
| Employee Evaluations | 17 |

| | |
|--|-----------|
| Approaches to Professional Employee Development | 17 |
| Summary | 19 |
| Chapter 4: Quality Control for Business Valuation | 21 |
| Introduction..... | 21 |
| Leadership Responsibilities For Quality Within The Firm (The Tone At The Top)..... | 23 |
| Relevant Ethical Requirements—Independence, Integrity, and Objectivity | 23 |
| Acceptance and Continuance of Engagements | 25 |
| Human Resources (Personnel Management) | 26 |
| Engagement Performance..... | 27 |
| Who Is the Client? | 27 |
| What Is Being Valued?..... | 27 |
| What Are the Standards of Value and Premise of Value? | 27 |
| What Is the Effective Date of the Valuation? | 27 |
| Templates and Software..... | 28 |
| Statement on Standards for Valuation | |
| Services No. 1 | 28 |
| Monitoring..... | 28 |
| Summary | 29 |
| Chapter 5: Marketing a Business Valuation Practice | 31 |
| Introduction..... | 31 |
| Developing An Effective Marketing Plan | 31 |
| Who Pulls the Trigger? | 32 |
| What Kind of Service Can You Offer?..... | 32 |
| What Is Your Competitive Edge?..... | 32 |
| What Is Your Desired Outcome? | 33 |
| Segmentation Within Business Valuation | 33 |
| Estate and Gift Tax..... | 33 |
| Marital Dissolution | 33 |
| Mergers and Acquisitions | 34 |
| Financial Reporting..... | 35 |
| Litigation and Shareholder Disputes | 35 |
| Employee Stock Ownership Plans..... | 35 |
| Other | 36 |
| Methods of Marketing..... | 36 |
| Newsletters..... | 36 |
| Advertising | 37 |
| Presentations and Receptions..... | 37 |
| Networking..... | 37 |
| Collateral Material | 38 |

| | |
|---|-----------|
| Public Relations | 38 |
| Teaching and Writing..... | 38 |
| CPA Marketing Toolkit | 39 |
| Quality Work Product..... | 39 |
| Credentials..... | 39 |
| Initial Certification | 39 |
| Recertification Requirements (3 year cycle)..... | 40 |
| Summary | 40 |
| Chapter 6: Sources of Information and Research | 41 |
| Introduction..... | 41 |
| Resources | 41 |
| AICPA Forensic and Valuation Services Section..... | 41 |
| General Texts | 42 |
| General Periodicals | 42 |
| Categorized Information Sources..... | 43 |
| Cost of Capital..... | 43 |
| Economic Data and Analysis..... | 44 |
| National and Regional | 44 |
| State and Local | 44 |
| Industry Information and Analysis | 44 |
| Benchmarking Data | 45 |
| Discounts and Premiums..... | 45 |
| Market Approach | 45 |
| Salary and Compensation Information | 46 |
| Business Valuation Software | 46 |
| Ancillary Services..... | 47 |

Foreword

Over the last few years, specifically since the demise of Arthur Andersen, LLP and the enactment of the Sarbanes-Oxley Act of 2002, the business valuation (BV) industry has grown rapidly as smaller CPA firms have entered the field. These new entrants have been increasing their BV offerings with the notion that this type of work is more lucrative than traditional accounting. At the same time, although the larger firms are concentrating the bulk of their efforts on attestation and tax engagements, they are still heavily involved in valuation for financial reporting purposes for their nonattest clients. The result is a much more dynamic BV marketplace. However, with competition growing, you will need to be skillful at marketing yourself, your skill sets, and your firm to make meaningful headway as a stand-alone business or as a specialized discipline within a firm. Additionally, you will need to have sufficient processes in place to ensure the quality of your work product.

BV combines an art and a science. If you are a BV practitioner of some sort today, this has already become apparent to you. The same holds true for the marketing of BV services because no precise or absolute way to promote your capabilities and services exists. Various channels exist that give professionals the opportunity to showcase their BV services, depending on the focus of their specialties and the scope of services offered. The art, however, lies in the effectiveness of professionals utilizing these available channels to market their services.

This toolkit provides general guidance on the many issues to be considered in operating a successful practice. The Forensic and Valuation Services section of the AICPA is committed to the success of its members. The issuance of Statement on Standards for Valuation Services No.1, *Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset (AICPA, Professional Standards, VS sec. 100)*, in June 2007 provides authoritative guidance to the CPA valuation practitioner. Information on this important standard is provided in chapter 4 of this toolkit but is not a substitute for actually reading the standard. References to additional resources are also provided in the following chapters.

Acknowledgments

Original Contributors:

Christine L. Baker, CPA/ABV
John Borrowman, CPA/ABV, CVA
Christopher W. David, CPA/ABV, ASA, MBA
Don M. Drysdale, CPA/ABV
John Gilbert, CPA/ABV, ASA, CVA
Sheri Schultz, CPA/ABV/CFE
Timothy W. York, CPA/ABV

Additional Contributors:

Bradley H. Minor, CPA/ABV, ASA, CVA, CMEA, CFE
Anthony F. Antoun, CPA/ABV
Darrell Dorrell, CPA/ABV, MBA, ASA, CVA, CMA, DABFA
Robert Gray, CPA/ABV/CFE, CFE
Lindon Greene, CPA/ABV, ASA
Gregory J. Libertiny, CPA/ABV/CFE, MBA, CVA
Elizabeth Schrupp, CPA/ABV/CFE
Robin E. Taylor, CPA/ABV, CFE, CVA, CBA
Eva Lang, CPA/ABV, ASA
Michael Morhaus, CPA/ABV/CFE, ASA, CVA
Roseanne Aumiller, CPA/ABV, ASA
Robbie Mundy, CPA/ABV, CVA
Jim Lloyd, CPA/ABV, ASA, CFE
Carol Carden, CPA/ABV, ASA, CFE

The Product of Business Valuation

Introduction

The use of engagement letters, although not required, is recommended to protect the practitioner and reduce the potential for misunderstandings with the client. Managing client expectations about what, when, and how services will be provided is not always an easy task. A clearly written engagement letter communicates the expectations of all parties concerned and minimizes the risk of misunderstanding the scope and number of misunderstandings.

Engagement Letters and Client Representations

It is important to recognize from the outset that an engagement letter is a contract. As such, a practitioner should seek the advice of an independent attorney or risk management advisor when drafting such a document and, of course, before executing such a document. This risk management consultation does not necessarily need to be done on every assignment, but engagement letters should be updated on a regular basis.

The primary purpose of the engagement letter is to document the understanding of the parties with respect to the following:

- Who has entered into the agreement
- Purpose of the valuation assignment
- Valuation standard(s) expected to be applied
- Effective date of the valuation
- Description of the asset or liability to be valued (for example, business, business ownership interest, security, intangible asset)
- Target timeline for the services to be performed
- Services the practitioner will and will not be performing (for example, “We will not audit or review...”)

- Form of work product expected to be produced¹
- Materials, actions, responsibilities, and so on, expected from the client
- Fee arrangements (for example, retainer, drawdown methodology, differentiated rates, flat fee)
- Assumptions and limiting conditions that affect the valuation analysis
- Dispute resolution terms that would apply to the client and valuation analyst

Other Caveats

The practitioner must be aware of independence concerns if the practitioner, or his or her firm, performs attest (for example, audit or review) related services. The practitioner must document, in writing, the client's agreement to perform certain functions in connection with the valuation project. These client functions include the following:

- Make all management decisions and perform all management functions
- Designate an individual possessing suitable skill, knowledge, and experience, preferably within senior management, to oversee the services
- Evaluate the adequacy and results of the services performed
- Accept responsibility for the results of the services
- Establish and maintain internal controls, including the monitoring of ongoing activities

Planning and Supervision

Rule 201, *General Standards* (AICPA, *Professional Standards*, ET sec. 201 par. .01), requires the CPA to adequately plan and supervise the performance of professional services, including valuation engagements. A simple spreadsheet or checklist² is highly recommended to plan the procedures to be followed in each engagement and to estimate the amount of time allowed for completing each procedure. Such a tool is invaluable from an overall project management point of view. It also provides for the delegation of tasks to less experienced professionals, time budgeting, follow-up upon completion of the project, client billing, and working within the prescribed budget.

Be sure to build in time for review and for the iterative process of gathering, updating, and analyzing the information that is common to a valuation engagement. Although the review

¹ At times, the work product ultimately produced is affected by changes in circumstances, particularly when the valuation project is in connection with a litigation matter. The practitioner should consider contingencies that may prevent the performance of his or her obligations and establish alternatives if such conditions occur. Sample engagement letters can be found on the Forensic and Valuation Services (FVS) website. Sample engagement letters can also be found in the Valuation Standard and Implementation Toolkit located on the FVS website (www.aicpa.org/fvs; click on the Resources link to the left and find it under the Resources heading).

² See the checklist in the AICPA Statement on Standards for Valuation Services No. 1 Nonauthoritative Implementation Guidance Toolkit, Implementation Guide No. IV at http://fvs.aicpa.org/NR/rdonlyres/9FF6811D-083B-446A-8D69-4EE1C37DD8AF/0/Exhibit_4_final.doc.

time can vary, 10 percent of the active engagement time would not be unreasonable as a baseline.

Working Papers

Regardless of the purpose of your engagement and the form of your final report, valuation standards require the analyst to follow accepted valuation procedures. The working paper file is your record of having followed appropriate procedures and standards. Just as would an audit or a tax file, a consistent, structured, and orderly working paper file provides numerous benefits, such as the following:

- Documents can be located quickly.
- An orderly file facilitates delegating and reviewing the work given to other professionals.
- The client file is always readily available for review or update.
- The integrity of the record of the valuation process is supported and enhanced.
- If you are subpoenaed, an orderly file enhances your professional credibility.

If your conclusion is communicated as an oral report, the orderliness and completeness of your working paper files become even more critical because no other record of your analytical and evidentiary processes exists. Such working papers could be imperative to defend your compliance with Ethics Rule 201. Additionally, the analyst should follow the requirements of paragraphs 44–45 of Statement on Standards for Valuation Services (SSVS) No. 1, *Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset* (AICPA, *Professional Standards*, VS sec. 100), which address documentation in a valuation engagement. (See more information on SSVS No. 1 in chapter 4, “Quality Control for Business Valuation.”)

It is not unusual for an engagement file to lie dormant for months, sometimes years, before it becomes active again. In this instance, a reference system within the file provides an easily accessed summary of the valuation procedures that were completed, the underlying reasoning, and the sources of data input. An organized working paper system provides for cross-referencing (1) the completed report to the inputs used with (2) the conclusions reached during the course of the valuation analysis.

The Work Product

Completion of a valuation project generally involves the following two primary undertakings:

1. The actual development of the valuation analysis. SSVS No. 1, paragraph 21 addresses this issue and describes the two types of engagements that an analyst can undertake: a valuation engagement or a calculation engagement.
2. The written communication (whether it is submitted to the client or included in the working paper file). SSVS No. 1 addresses this issue in paragraphs 47–79 and describes

the types of reports, which include a detailed report, a summary report, a calculation report, and an oral report.

Efficient engagement performance will often include the use of standardized tools to prepare this work product.

Financial and Economic Analysis

Your financial analysis tools may come in the form of purchased software or internally developed templates. The following factors may be considered in acquiring or developing these tools:

- Do you understand how the underlying computations work?
- How much of the valuation body of knowledge is incorporated into the toolkit?
- Can the tool be modified for changes in the valuation body of knowledge in order to account for new data sources or techniques?
- Can you use the toolkit to train and develop less experienced staff or to teach valuation theory to others?
- Does the toolkit allow you to control the quality of your work product?
- Does it comply with SSVS No. 1?

If used properly, purchased valuation software and report writing packages may be good options for the beginning practitioner. See chapter 6, “Sources of Information and Research,” for a partial list of resources.

Caveat emptor—Software is not a substitute for expertise!

Serious questions may arise in the valuation profession as they do in other disciplines. Is it better to thoroughly understand one valuation method and create your own applicable model? Or, is it better to use a preexisting tool that generates several standardized methods that are less specific to the engagement? No simple answer exists. Keep in mind that using a tool from another source—whether a purchased package or a template provided by another practitioner—has the potential to generate substantial, incremental work or cause errors in the final valuation product.

More seasoned practitioners and valuation analysts may choose to create their own valuation models. Internally developed tools allow the practitioner to experiment with advances in financial analysis techniques, build in new sources of data, take advantage of developed expertise, and add a working paper or two. Such internally developed tools are particularly useful if the analyst finds himself or herself repeatedly making calculations that are not built into an older or off-the-shelf tool. In your time budget, allow for a thorough math check of your computations by a suitably experienced colleague or peer. Sources are also available for

assisting in the development of an economic analysis at the industry, regional, and national levels.

Report Writing

Creating a valuation report that is easy to read, theoretically sound, and efficiently generated is a challenge. As noted previously, using a tool from another source may be a good option for a beginner practitioner. The ideal tool will have multifaceted benefits, including the following:

- Compliance with valuation reporting standards³
- Quality control
- Efficient production
- Uniformity throughout a firm that has several valuation analysts

No universally prescribed format for a valuation report exists. The AICPA standard indicates a number of topics to be addressed, depending on the type of report being prepared. The details of what should be included in the various types of reports can be found in paragraphs 51–79 of SSVS No. 1.

If you use purchased report writer software, consider how often the tool is upgraded and what the changes are. Is it upgraded each time a change is made to professional standards? Is it upgraded to encompass changes in the business valuation body of knowledge? If modifications are made by your firm to the software template, will these changes be overwritten when an upgrade to the software is provided? The answers to these and similar questions are important to ensure the best quality product is produced.

Once answered, the practitioner may conclude that his or her valuation product can be better managed through different means. Practitioners should be aware that no shortcut exists to generating a theoretically sound valuation report, but tools do exist or can be created to aid in streamlining the process.

Reviewing the Work Product

Before the final valuation conclusion is communicated to your client, it is wise to have your work reviewed. It is important to the quality of the work to obtain a thorough technical and editorial review.

In a technical review, have the reviewer confirm that all appropriate procedures have been completed. Confirm that the arithmetic is accurate. Confirm that the underlying theory is appropriate to the circumstances of the engagement. If your firm does not yet have another valuation analyst on staff, do not hesitate to request a technical review from a colleague in another firm. This procedure is important regardless of whether you have used purchased software or an internally developed model. If a third party specialist is utilized, be sure to

³ See Statement on Standards for Valuation Services (SSVS) No. 1, *Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset* (AICPA, *Professional Standards*, VS sec. 100).

follow all ethics rules with regard to informing the client and maintaining confidential information.⁴

In an editorial review, have the reviewer confirm that the conclusion has been presented in a logical and sequential manner so that the reader can clearly understand the procedures that were completed and why. Confirm that the language used is appropriate for the audience. Confirm that grammar and spelling are correct and that nothing has been included in the report that is superfluous, irrelevant, or inaccurate. This procedure is especially important when using purchased report writer software or when “rolling over” a report from a previous engagement to use for the current matter.

When in doubt, the best tool to use for these reviews is another experienced practitioner.

Summary

As previously noted, engagement letters are the foundation for documenting (1) the relationship between the practitioner and the client and, (2) the roles to be fulfilled during an engagement. Also, many tools exist that can be used to better ensure an efficient process and a quality work product. Whether you choose to buy tools or build your own is a decision that should be made based on the practitioner’s (or firm’s) preferences and level of experience and expertise. Regardless of the alternatives chosen, tools do not eliminate the need for a thorough review of the working papers, the level of analysis, and the final report.

⁴ The AICPA Code of Professional Conduct, including conduct relating to confidential client information, can be found at www.aicpa.org/research (click on the Standards link to the left of the screen then locate it on the Standards page).

Financial Aspects of a Business Valuation Practice

Introduction

Business valuation (BV) services and litigation services (LS) are different than most typical accounting services, and the financial considerations are different as well. Although engagement pricing is market driven, BV and LS professionals can generally command higher billing rates compared with practitioners who provide typical accounting services. The higher rates are reflective of the specialized knowledge and experience required to adequately provide BV and LS services. However, the operating costs of a BV and LS practice can also be significantly higher.

The following paragraphs identify some of the financial issues that a practitioner will most likely face in running a BV/LS practice.

Fee Structure

LS engagements are typically billed on an hourly basis, whereas many BV engagements are quoted as a flat fee. This is generally because the time requirements for LS projects are much more difficult to predict compared to nonlitigation-related BV engagements. Although many LS engagements are billed on an hourly basis, this generally does not mean that the fees are totally open-ended. Most clients or their attorneys, or both, will request detailed billing statements and time budgets for various segments of the LS assignment.

Although many BV engagements (that is, estate and gift tax valuations) can be clearly defined and priced accordingly, those that involve (or are likely to involve) litigation should be priced based on hourly rates.

Like many assurance services, a significant portion of the BV engagement can be performed by staff or senior level analysts as long as they are properly supervised. Engagement tasks, such as industry and economic research, financial statement analysis, and even initial drafts of certain sections of the report, are well suited for lower and mid-level analysts. Leveraging work down to lower level staff members has benefits, such as (1) minimizing fees, which can be a competitive advantage, and (2) developing an experienced team, which will

help the practice grow. Leveraging work down in LS engagements is often more difficult due to the higher level of expertise generally required and the necessity for the testifying expert to be more hands on.

When building a BV practice, you should expect a substantial learning curve. Significant amounts of time will generally be required to not only learn the technical aspects of valuing a business but also to acquire the skills needed to perform research efficiently and prepare well-written reports. As with most types of engagements, proficiency will improve with experience.

Billing and Collection

Requiring an engagement retainer from your clients is the recommended approach and fairly routine for the industry. A CPA does not want to be unable to collect fees because a client changes his or her mind after work has been done. A retainer, ranging from a low of 15 percent and up to 50 percent of the estimated total cost of the engagement, is normal and reasonable. For the less clearly defined and open-ended engagements (such as LS), retainer fees should be set according to the scope of the work and the potential magnitude of the engagement.

Although no set length for BV engagements exists (each being unique in its own right), they often take anywhere from one to three months to complete and, occasionally, longer. The key determinant is the size and complexity of the subject company and the availability of information. In addition, many times, clients may take weeks or even months to sign off on a draft of the report. As would be the case for an audit engagement, sending progress bills to the client for time incurred on the project is routine and recommended. Also, as regularly noted in the engagement letter, hourly time spent to date and out-of-pocket expenses should be billed as incurred. Out-of-pocket costs might include travel-related expenses for a site visit and the costs of research and industry-specific data.

LS-related work is different than BV work in that it is normally charged on an hourly basis. An engagement letter for an LS assignment may outline the billing rates for each staff level. It is a good idea to list the hourly rates in levels, as follows:

| | |
|-------------------|-------------|
| Partner | \$200–\$285 |
| Manager | \$155–\$195 |
| Senior Accountant | \$115–\$150 |

Note: The rates indicated previously are examples only. Different markets, specialties, and skill levels could require significantly higher or lower rates.

The emotional reactions of clients to certain types of work (for example, divorce, litigation, and estates) can affect your ability to collect your fees for these services. This, and related factors of the engagement, make it advisable and, in some jurisdictions, mandatory to collect on prior billings before testifying. Also, your retainer should be applied on the back end of a billing, meaning the retainer balance should remain at its original level until the final billing, at which time, it is applied to the amount due and any excess returned to the client.

Practice Costs

Core Costs

Starting a BV practice will entail some initial costs. The AICPA provides training classes throughout the year that address the necessary skills to become accredited in business valuation (ABV) (see www.aicpa.org/fvs and click on the Events tab). Annual ABV dues cover both the credential and section membership (see www.aicpa.org/abv for more information). Training classes and associated travel costs should be considered part of maintaining one's practice. Ongoing training is necessary to maintain the ABV credential, as well as to stay abreast of current developments in the field. The establishment of a sufficient reference library is the last major component, for which various resources are described in chapter 6, "Sources of Information and Research." Subscriptions to various databases and discount studies are an integral and vital component of any BV practice. A number of manuals and reference guides are updated annually, and some are staples to a valuation analyst's library. Industry-specific publications needed for a specific engagement can be billed to the client. What remains is for the practitioner to market his or her services and obtain clients.

Job Costs

Professional standards require the valuation analyst to visit the subject company and interview management. Travel costs associated with a routine site visit are normally billed to the client.

Summary

As with almost any business, beginning a BV practice entails start-up costs, including rudimentary training, such as obtaining and maintaining your credential(s), establishing and maintaining a library, and developing your client base. Good planning, budgeting, and networking will help you through all these steps.

Practice Management

Introduction

This chapter focuses on the issues associated with when and how to add staff to your practice. Included are a number of tips on where to find staff and how to evaluate candidates before making offers.

When to Add Staff

One of the questions business valuation (BV) practitioners face as they commence or grow their practices is when to add staff. Part of the problem lies in the perceived irregularity of your revenue stream. One month you will feel like you are drowning in assignments, and the next month you will be wondering where all the clients went. These ups and downs make it difficult to plan for staffing. Be comforted in the knowledge that, as your practice grows, such fluctuations will smooth out in the mix of business.

The following are two critical factors to consider when you are evaluating whether to add staff:

1. Has the volume of research or lower level analysis grown to the point of impinging on your own productivity? Although this is a subjective judgment, it is one you will need to make.
2. Will handing off some portion of an engagement to a lower-cost producer enable you to reduce your project costs in the interest of being more competitive or more profitable, or both?

A reasonable benchmark to consider is whether you are producing 800 or more hours of work that could be handed to someone at the staff level; if so, it is time to give serious consideration to adding someone to your practice. Those hours are probably starting to bog you down and undermine your ability to generate even more revenue. By freeing yourself of that burden, you will have more time to invest in business development. This, in turn, will result in more chargeable hours for your staff person and open up premium billing hours for your specific services.

Where and How to Find Staff

Where Do I Find the Talent to Help Me?

A valuation professional once asked a large firm senior manager where he looked for the “worker bees” he needed for his practice. He told him that sometimes he went to an audit partner and asked whether there were any auditors who were “just a little too creative for their own good.” Although his comment brings a smile, the substance of his approach rings true. A slight change in assignments can give incentive to a good employee that the firm might otherwise lose.

As you think about whom among your staff to approach, remember your own excitement when you discovered the challenge of BV. Look for someone who shares that excitement. Develop a basic test or skills assessment involving financial statements and balance sheets to get an idea of the strength of your staffer’s skills. This idea is discussed further in the “Assessing Talent” section that follows. Analytical skills, rather than mechanical skills, are needed. Practitioner experience has shown that staff holding undergraduate or graduate degrees in finance, banking, or economics may have shorter learning curves than traditional accounting personnel. This information may prove helpful in targeting your selections.

You may gain important advantages by moving talent that you already have into BV. It could prove to be cost-effective to use a few hours of employee time for BV while continuing to charge the remaining hours to some other aspect of your practice and, yet, increase employee retention by offering new, different, and challenging work. Another advantage is that existing staff are a “known quantity.” Keep in mind that gaining these advantages is contingent on the availability of valuation-related training and oversight.

What If I Cannot Find the Talent Needed Internally?

If you are convinced that you cannot generate enough chargeable hours to keep someone busy full-time in BV and need a two-position player, you face a particularly tough challenge. Staff-level employees who can operate with one foot in BV and the other in audit or tax are difficult to identify, much less coax into a split position. Because staying current technically in just one discipline (for example, auditing) is daunting, the prospect of remaining current in multiple disciplines is even more challenging. Moreover, even if staff is excited at being introduced to BV, they may have doubts about making a job change that does not include the prospect of becoming a full-time employee. Luring a current employee into the role of a two-position player can be your best bet and deserves your very best efforts, but it will have some accompanying challenges.

Alternatively, if your practice is full-time BV only, you don’t have the option of transitioning staff from the traditional side of a CPA practice. You may find that in order to grow your BV practice, you need individuals dedicated to BV on a full-time basis. You may also decide to focus on a particular specialty, such as the following:

- Fair value for financial reporting
- Estate and gift
- Litigation services
- Employee stock ownership plans
- Shareholder agreements
- Health care

If your goal is to add talent that will be focused full-time on your BV practice, a number of options are available to you. One option is to seek out someone with existing BV experience. The advantage is that you get someone who understands the technical BV requirements and will hit the ground running by generating revenues from the outset. For example, a former business broker might have BV experience but lacks the technical discipline to meet rigorous technical requirements of research, analysis, critical thinking, and writing. The disadvantage is that given the limited supply of experienced talent, you can easily lose time—and money—while waiting for that person to come up to speed.

Consider seeking talent with related experience, such as a credit analyst in a bank whose work history includes analyzing financial statements from privately held companies. Likewise, someone from the trust department of a bank may have done similar work on a wide variety of assets. A recent graduate with a master of business administration degree or real estate analyst should also be considered. You may also think about hiring individuals such as these on an internship basis. Local college career placement services are an additional resource for both interns and recent graduates. Think about the range of skills and experience that you want and consider what other professions require similar skills or experience.

How Do I Start Looking?

Many practitioners begin with a word-of-mouth effort, asking others whether they have recently been contacted by interested and qualified candidates. Although this requires the least amount of effort and expense, it generally produces the least return. It is difficult to spread the word sufficiently about your needs. A subset of the word-of-mouth approach is the employee referral methodology. By getting your own employees involved and offering a referral bonus, you can improve the odds of finding candidates.

Social media, such as LinkedIn, Twitter, and Facebook, plays an ever-increasing role in recruiting professionals. It is important to build your network on whichever social media site you use to make it effective. This can be a cost-effective way to reach a large audience; you will just need to craft your message in such a way to generate interest in your position.

Advertising can expand the number of potential candidates. Online listings aimed specifically at the BV talent you want to attract reduce the cost of newspaper classified ads and run for longer periods of time. You should look at the online job postings to see what other firms, if any, are looking as well. This can be done periodically, not just when you are looking for talent. It is good to keep current on market activity if you have the time. Similarly, it is a good idea to keep your eyes open for potential staff or even higher level BV personnel even

when you don't have an opening. Always looking for opportunities will enable you to attract and retain top talent when it is available.

The talent you attract with targeted advertising may not be local, which may be a reason to include a relocation package as part of the hiring process. State societies, as well as the AICPA and other similar organizations, may provide additional career posting resources.

Recruiters are another option and can help put you in contact with talent that may be otherwise inaccessible. Good recruiters, in spite of their fees, can save you time by providing candidates who meet the experience requirements and who know enough about the opportunity to be interested in your practice.

Assessing Talent

Is There Anything Different About Hiring BV Talent?

In addition to whatever hiring procedures you normally follow, obtaining good BV talent requires extra effort. More and more practitioners are using testing to assess the level of candidate understanding. Such testing need not be overly complex; you can develop a test by using a fictional scenario and posing questions aimed at evaluating both reason and logic. Create questions whose answers will show you that the candidate is either functional or slightly beyond the level of performance that you will expect from the employee at the time of hire.

This kind of test is difficult for candidates to prepare for and offers a valuable apples-to-apples comparison between prospects. Nevertheless, as a rule of thumb, do not attempt to use any form of testing for more than 50 percent of your hiring decision. You will still need to conduct personal interviews for a firsthand assessment of interviewees.

Characteristics to look for include the following:

- Suitable educational background and grade point average
- Excel and Word abilities
- Internet research ability
- Ability to properly draft an engagement letter
- Confidence level
- Ability to articulate
- Professionalism
- Ability to proofread accurately (even a simple document or spreadsheet, so that it is error-free)
- Appropriate office attire
- Ability to think on his or her feet (that is, the ability to quickly size up a situation and determine what is important)
- Resourcefulness
- Relevant work experience

- Length of previous employment (that is, was the individual a job hopper, or can logical reasons be provided for leaving past positions)

If you are searching for higher level talent, you may want to ask for writing samples or have candidates draft a short report that demonstrates persuasive writing capabilities. This can also be a good indicator of capability and other critical skills.

The demand for good BV talent means that qualified candidates sometimes attract multiple offers. The following are some tips to increase your chances of success:

- Money should not be discussed until the end; it should be the last piece of the puzzle you put into place. For example, if you don't already have a succinct description of your employee benefits, create one. Provide a copy to each person before his or her second interview, adding that you will answer any remaining questions at that time.
- Most candidates appreciate the opportunity to talk to their peers. Arrange for that to happen, making sure to allow privacy for a frank discussion. Your employees' feedback can provide valuable perspective, too.
- Start every interview by explaining what will happen and with whom the candidate will be meeting. It is advised that interviewers provide a formal agenda to interview candidates to provide clear expectations of the interview process. It is also recommended to provide internal interviewers with a standard questionnaire to use in assessing a candidate's capabilities. Comparing the responses to a standard questionnaire will give you a better assessment of candidates' strengths and weaknesses on key topics.
- Conduct due diligence before you are ready to make an offer. Make sure you contact and document at least three references provided by the candidate. Check with your human resources personnel or outside counsel for the nature of the questions that you can ask, including conducting a background or a credit check, or both.
- Ask for confirmation of prior compensation.
- Give the candidate one final opportunity to ask any remaining questions before you are ready to move to the offer stage.

If you are ready to make an offer, inform the candidate of the offer or your intent to make an offer, and ask that you be given an answer by a specific date (rarely more than a week). Be direct, and let them know that you expect to receive an answer by the prescribed date. Generally, only two reasons exist why the candidate will not agree to get back to you by the date specified:

Reason 1: Questions remain ("Well, I'm not sure about..."), and you need to clear up those issues before reiterating that you want a commitment to the response date.

Reason 2: The candidate has another job offer waiting in the wings, which is all the more reason for you not to make a salary offer without a commitment for a response. Patience rarely works in your favor.

If you have done your homework by putting information in the candidate's hands and answering the candidate's questions, his or her acceptance or rejection of the offer is a simple process. The longer you allow consideration beyond your time limit, the greater your risk of losing the candidate.

What Should I Expect to Pay for BV Talent?

As with all hiring of skilled professionals (for example, tax, audit, BV), compensation is tied to the quality of the individual. Acquiring experienced BV talent involves paying a premium over what it normally takes to hire audit and tax staff because of the specialized skills and experience that BV people possess. Robert Half, a specialized professional recruitment service, produces an annual accounting salary survey, which should be helpful in benchmarking salaries in your region. Also, numerous salary and compensation benchmarking companies exist that can provide a salary range for a fee.

Another variable that complicates putting an accurate price tag on a BV individual is that functional assignments can vary so much from practice to practice. Someone with two years in Practice A might actually be functioning at a level equivalent to someone with three years of experience at Practice B.

Once you have concluded that you do want to hire a specific candidate, it is important to clearly communicate how and why you came up with the offer. You have undoubtedly used metrics to arrive at the offer amount (for example, chargeable hours, billing rates), and this should be communicated to the candidate. If you get pressure to increase that amount, invite the candidate to suggest how you underestimated those factors and his or her expected contribution.

Execution, Maintenance, and Development

Should I Negotiate an Employment Contract?

If you practice within a CPA firm that has a standard employment agreement, any BV staff that you hire should also be expected to sign such an agreement. If you do not have a standard employment agreement in place, consider what it is you might want to protect by creating one. Are your templates and models sufficiently proprietary that they must be protected? Should you protect your client list via a noncompete or nonsolicitation agreement? If you have further questions, consult your legal advisor.

How Do I Motivate or Retain Employees?

Most of the time, the answers can be found simply by asking your employees what makes them stay. Asking has positive side effects. The person you ask will feel that his or her importance is recognized and that he or she is valued. Many times, that leads to stronger loyalty and commitment to you and the organization. In other words, just asking the question is a retention strategy.

The following are some specific questions that you can use:

- Why do you work here?
- What makes you want to stay here?
- What is most energizing or rewarding about your work?
- Are we fully utilizing your talents?
- What things might make you look for another position elsewhere?
- Do you feel there are any impediments to your success here?
- What can I do differently to best assist you in achieving your career goals?

If you have never asked your employees these kinds of questions before, they may need time to answer. When they do, make sure you truly listen and partner with them to help them achieve what they want and need.

Innumerable books exist on the subject of employee motivation and retention. For more ideas on this subject, check out *Love 'Em or Lose 'Em* by Beverly Kaye and Sharon Jordan-Evans; *Keeping Good People* by Roger E. Herman; or *Handle With CARE: Motivating and Retaining Employees* by Barbara Glanz.

Employee Evaluations

Provide a 90-day evaluation of employee performance, and perhaps make permanent employment contingent on a successful evaluation. In other words, a trial period for 90 days can be part of the hiring process so that both employer and employee can be assured of a good match. You can provide a blank copy of the evaluation in advance so that the employee will know what criteria will be evaluated.

Annual evaluations should be provided as well. The employee should have a chance to expand on open-ended questions in addition to an evaluation that ranks on a scale of, say, 1–5, qualities such as personal, professional, technical, and business development. Upward feedback, which utilizes an evaluation checklist to rate certain characteristics of positions up the chain of command, is another tool that could provide management with input.

Approaches to Professional Employee Development

Experience shows that no one best method exists to ensure that your employees get the professional development they need. Education, training, and easy access to a resource library, online databases, and other similar resources are all components of development and con-

tribute to the formal and informal processes of professional growth and enhanced enterprise value in spite of their expense. A list of basic valuation books should be provided with the expectation that they are to be read and understood. Additionally, technical newsletters can be routed throughout the office, or each staff member may receive his or her copy via e-mail. Regular meetings to discuss technical topics are also a good idea.

The most effective informal training occurs with each and every engagement. Make sure you take time for a postmortem at the end of an engagement to review how well (or not) your employees did. This should be in addition to whatever supervisory and review activities take place during the engagement. Make sure to point out areas of strength, improvements since the last engagement, and categories that could use some augmentation. Do not hesitate to point out small concerns because in BV, small details matter, particularly if litigation is involved. Also, use the opportunity to get feedback from the employee about the engagement, the proper level of expertise demonstrated during the engagement, and the level of interaction and supervision for improvements going forwards.

Evaluations should be used as an interactive tool. This review process is time-consuming at first but becomes easier and more efficient as it is incorporated into the routine, and it will enable the employee to advance more quickly. BV is a business of judgment. Exercising and reviewing that judgment regularly strengthens it.

Formal training opportunities are available through numerous credentialing organizations, such as the AICPA, American Society of Appraisers (ASA), state CPA societies, National Association of Certified Valuation Analysts (NACVA), and industry conferences. AICPA training opportunities can be found at www.aicpa.org/fvs by clicking on the CPE & Events link located to the left. Please consult the other organizations for their training programs. Members of the AICPA Forensic and Valuation Services section receive significant discounts to AICPA valuation and forensic education and resources.

Peers can be a good source of guidance in deciding which conferences are best matched to your training needs and who from your firm should attend. Whenever possible, attendees should follow up by sharing conference materials and what they learned with other staff members. By carefully choosing conference content and deciding who should attend, you can broaden your firm's perspective.

In addition to conferences and continuing education, volunteering to serve on AICPA committees, performing speaking engagements, and attending local professional association chapter meetings are not only good for training but for networking with peers and, perhaps, developing business as well.

BV staff should be encouraged to handle all parts of an engagement, including industry research, setting up the financial model, data entry, drafting a report, meeting with the client, performing the analysis, and file maintenance. The more technical competence he or she develops, the more you can delegate and, in turn, grow your practice.

Summary

It may seem that hiring, training, and motivating employees is almost more effort than it is worth. You need to keep in mind that by choosing well, you will provide yourself with an employee who is every bit as enthusiastic about BV as you are. It is that spark that will lighten your load and contribute to making your practice successful. The AICPA's Private Companies Practice Section (PCPS) can be a great resource to help you with your practice management needs. The PCPS Human Capital Center is content rich with learning, tools, and resources to help firms with recruiting, performance management, orientation, generational, and work life issues, to name a few. Visit www.aicpa.org/pcps/hcc to learn more.

Quality Control for Business Valuation

Introduction

The AICPA Auditing Standards Board (ASB), under Statement on Quality Control Standards No. 7, *A Firm's System of Quality Control* (AICPA, *Professional Standards*, QC sec. 10), has defined seven elements of quality control, of which we will focus on the following six elements:

- Leadership responsibilities for quality within the firm (the tone at the top)
- Relevant ethical requirements
- Acceptance and continuance of clients and specific engagements
- Human resources
- Engagement performance
- Monitoring

Although these elements pertain to an accounting and auditing practice, they provide an excellent framework for quality control in the effective operation of a business valuation (BV) practice as well. The ASB elements were constructed based upon certain given concepts that may not have application in BV. CPAs are understood to possess certain essential commonalities in education, training, experience, skill, and knowledge in accounting and auditing, but this may not be present for BV services.

The following table highlights some key distinctions between audit and BV:

| | Audit | Business Valuation |
|------------------|---|--|
| Education | BS in accounting (or equivalent) with about 30 semester hours of accounting required. | Although growing in numbers, few colleges or universities offer a concentration in business valuation (BV). However, most BV professionals have an accounting degree. Education is offered by numerous organizations, including the AICPA. |

| | Audit | Business Valuation |
|---|--|--|
| Training | The annual continuing professional education requirements are focused on, for example, auditing, taxation, and accounting. | No formal requirement exists unless one holds a BV credential (for example, Accredited in Business Valuation). |
| Experience | Experience is gained from entry level through partner, with continuous oversight by more experienced personnel during each phase of progression. | The necessary experience level is a function of the complexity of the engagement. In smaller firms, oversight and supervision on valuation assignments may not always be present. |
| Skill | Skill and experience is acquired with the completion of each project. | Varying degrees of experience are needed; each new engagement has variable learning curves. |
| Knowledge | Deep and broad knowledge is needed; the auditor knows where to research to obtain technical answers and has access to other, more experienced professionals for additional guidance. | Knowledge of where to research technical problems may be more prevalent within BV because it is such a specialized industry. |
| Subject Area Regulated by States | Passing the uniform CPA examination is required to issue attest reports. | No license is required at this time, but Statement on Standards for Valuation Services No. 1, <i>Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset</i> (AICPA, <i>Professional Standards</i> , VS sec. 100) has been adopted by most state societies or accountancy boards, so it applies to most CPAs performing valuation services. The IRS requires valuations to be performed in accordance with accepted valuation standards. |

In addition, Statement on Standards for Valuation Services (SSVS) No. 1, *Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset* (AICPA, *Professional Standards*, VS sec. 100), issued in June 2007, provides guidance for all CPAs when considering whether to accept a valuation engagement. SSVS No. 1 applies to all AICPA members (not just members who hold the Accredited in Business Valuation ABV credential) and is effective for engagements accepted on or after January 1, 2008. SSVS No. 1 was developed to improve the consistency and quality of practice when performing business valuations.

The most practical way for CPAs to achieve significant BV expertise is by performing BV engagements. To supplement that expertise, practitioners can obtain one of the various credentials offered within the BV community. Although several BV credentials are offered in the marketplace, the ABV credential is a logical extension for CPAs striving for excellence in BV.

Leadership Responsibilities For Quality Within The Firm (The Tone At The Top)

BV practices should promote an internal culture based on the recognition that quality is essential in performing valuation engagements and should establish policies and procedures to support that culture. Setting an appropriate tone from the top is critical. This involves clear, consistent, and frequent actions and messages from all levels within your firm that work is to comply with both professional and regulatory standards and that reports are issued that are appropriate in the circumstances.

Relevant Ethical Requirements— Independence, Integrity, and Objectivity

The Sarbanes-Oxley Act of 2002 (SOX) poses some recent changes to independence as it applies to business valuation analysts. Section 201 of SOX, “Services Outside the Scope of Practice of Auditors: Prohibited Activities,” states that it is unlawful for a registered public accounting firm “to provide to that issuer, contemporaneously with the audit, any non-audit service, including... appraisal or valuation services, fairness opinions, or contribution-in-kind reports....” Appraisal and valuation services under SOX include any process of valuing assets, both tangible and intangible, or liabilities.

Interpretation No. 101-3, “Performance of nonattest services,” under Rule 101, *Independence* (AICPA, *Professional Standards*, ET sec. 101 par. .05), provides guidance for CPAs who seek to perform nonattest services for an attest client. In order to perform the nonattest service (for example, a BV), Interpretation No. 101-3 states the following:

The client must agree to perform the following functions in connection with the engagement to perform nonattest services:

- a. Make all management decisions and perform all management functions;
- b. Designate an individual who possesses suitable skill, knowledge, and/or experience, preferably within senior management, to oversee the services;
- c. Evaluate the adequacy and results of the services performed; and
- d. Accept responsibility for the results of the services.

The member should be satisfied that the client will be able to meet all of these criteria and make an informed judgment on the results of the member’s nonattest services. In assessing whether the designated individual possesses suitable skill, knowledge, and/or experience, the member should be satisfied that such individual understands the services to be performed sufficiently to oversee them.

However, the individual is not required to possess the expertise to perform or re-perform the services.

In cases where the client is unable or unwilling to assume these responsibilities (for example, the client does not have an individual with suitable skill, knowledge, and/or experience to oversee the nonattest services provided, or is unwilling to perform such functions due to lack of time or desire), the member's provision of these services would impair independence.

In addition to these general requirements, some specific requirements for valuations exist in Interpretation 101-3:

Appraisal, Valuation, and Actuarial Services

Independence would be impaired if a member performs an appraisal, valuation, or actuarial service for an attest client where the results of the service, individually or in the aggregate, would be material to the financial statements and the appraisal, valuation, or actuarial service involves a significant degree of subjectivity.

Valuations performed in connection with, for example, employee stock ownership plans, business combinations, or appraisals of assets or liabilities generally involve a significant degree of subjectivity. Accordingly, if these services produce results that are material to the financial statements, independence would be impaired.

An actuarial valuation of a client's pension or postemployment benefit liabilities generally produces reasonably consistent results because the valuation does not require a significant degree of subjectivity. Therefore, such services would not impair independence. In addition, appraisal, valuation, and actuarial services performed for nonfinancial statement purposes would not impair independence.¹ However, in performing such services, all other requirements of this interpretation should be met, including that all significant assumptions and matters of judgment are determined or approved by the client and the client is in a position to have an informed judgment on, and accepts responsibility for, the results of the service.

Other situations may arise that do not violate the AICPA Code of Professional Conduct but could still leave you, the valuation analyst, in an uncomfortable position or subject to some intense criticism. Consider a divorce valuation performed for the major shareholder

¹ Examples of such services may include appraisal, valuation, and actuarial services performed for tax planning or tax compliance, estate and gift taxation, and divorce proceedings. [Footnote added, effective December 31, 2003, by the Professional Ethics Executive Committee. Footnote renumbered by the Professional Ethics Executive Committee, July 2004. Footnote subsequently renumbered by the revision of Interpretation 101-1, April 2006. Footnote subsequently renumbered by the revision of Interpretation 101-1, February 2007. Footnote subsequently renumbered by the Professional Ethics Executive Committee, July 2007. Footnote subsequently renumbered by the revision of Interpretation No. 101-1, March 2010.]

of a large nonattest client. If you, as the CPA, represent the “out-spouse” and appraise the company, it may result in the loss of the client. If you represent the “in-spouse,” you may be faced with some tough cross-examination about independence and objectivity. Some attorneys also claim that all the CPA’s files may be available in discovery, not just those related to the divorce valuation.

Consider the case of preparing both the corporate tax return and a BV for the same client. The CPA may face some difficult choices in making reasonable compensation adjustments in a valuation that result in lower wages than were deducted on the corporate income tax return. If one of the key risks of the company is ineffective management, can the company CPA discuss this honestly in the valuation report? Again, no inherent violations of the AICPA Code of Professional Conduct exist, but the situation that arises could be quite uncomfortable. The valuation analyst must be aware of the possibly unfavorable consequences of providing valuation services to existing clients. As part of the engagement letter, the CPA should make sure existing clients understand and accept that there may be such consequences if their own CPA does the valuation. Most valuations done by small CPA firms are for existing clients and are performed with no adverse consequences. However, you should go into the engagement with particular care to ensure your objectivity is not compromised when providing BV services to existing clients.

Establishing a fair fee is another aspect of maintaining objectivity. Fees can be either fixed or based on an hourly rate, which are often at a premium for valuation services. Withholding delivery of the final report until the fee is paid in full is also common. Fixed fees are common, and a good inclusion in any engagement letter is that any meeting not called by the valuation analyst will be billed separately. This, of course, would include depositions, court testimony, and preparation. Testimony is premium work, and some valuation analysts charge a higher hourly fee for this type of work than for regular valuation work (see chapter 2, “Financial Aspects of a Business Valuation Practice”).

Acceptance and Continuance of Engagements

The importance of deciding on whether to accept a valuation assignment cannot be overstated. Turning down work probably goes against your nature—it would for most of us but it is sometimes the best decision. Considerations include the following questions:

- Should you be associated with the prospective client?
- Why does the prospective client need or want the engagement?
- What kind of reputation does the prospective client or referral source have?
- Can the prospective client afford to pay your fee?
- Are there other issues (discussed as the Auditing Standards Board elements of independence, integrity, and objectivity) that should cause us to decline the engagement?

At the same time you are considering whether the client and engagement are acceptable, you must determine whether you have the skill, knowledge, training, education, and experience to perform the engagement in a professional manner. If you are lacking in skill, knowledge, training, education, or experience, is there a way to overcome the problem? Being a CPA does not automatically assure the necessary valuation skills for BV. Even having a valuation certification does not guarantee the capability to carry out a particular assignment. Experienced business valuation analysts are almost always willing to help out other valuation analysts.

Part A, “Professional Competence,” of Rule 201, *General Standards* (AICPA, *Professional Standards*, ET sec. 201 par. .01), of the AICPA Code of Professional Conduct states that a member shall “[u]ndertake only those professional services that the member or the member’s firm can reasonably expect to be completed with professional competence.”

SSVS No. 1 also states that performing a valuation or calculation engagement with professional competence involves special knowledge and skill. Accordingly, the valuation analyst should be able to competently identify, gather, and analyze all required data. He or she should also be familiar with accepted valuation approaches and methods and use competent professional judgment in developing the conclusion of value or calculated value.

SSVS No. 1 provides items to consider in determining whether a valuation analyst can reasonably expect to complete an engagement with professional competence. The following, at a minimum, are items to consider:

- Subject entity and its industry
- Subject interest
- Valuation date
- Scope of the valuation engagement
 - Purpose of the valuation engagement
 - Assumptions and limiting conditions (see SSVS No. 1, paragraph 18)
 - Applicable standard of value (for example, fair value or fair market value) and the applicable premise of value (for example, going concern)
 - Type of valuation report to be issued (for example, detailed report or summary report for a valuation engagement or calculation report for a calculation engagement)
- Governmental regulations or other professional standards that apply to the subject interest or to the engagement

Human Resources (Personnel Management)

Personnel issues are covered in chapter 3, “Practice Management.” Quality control starts at the top, is executed from the bottom up, and is a mindset that must pervade the firm.

Engagement Performance

The first step in the engagement should be to establish an understanding with the client about the purpose of the engagement. As part of this process, it is important to ascertain who the client is, what is being valued, what the standard of value is, and the effective date of the valuation. These form the foundation for all subsequent work and, surprisingly, are often the source of problems. A written engagement letter is the preferred method of doing this, and the content of this letter is discussed in chapter 1, “The Product of Business Valuation.”

Who Is the Client?

Often, a law firm will want to be the client so that they can maintain the attorney/client privilege. Such an engagement will often only entail an oral report, and a separate authorization will have to be obtained before a written report is prepared. This approach is rather common if an adversarial relationship is involved (for example, in a divorce), and nothing of a nefarious nature should be construed or implied.

What Is Being Valued?

The valuation analyst has to understand exactly what is being valued. Is it a share of stock on a nonmarketable or noncontrol basis, the entire company, or a share of stock on a control basis? Clients often do not recognize the differences that exist and must be educated before the engagement commences. This is particularly true if a minority interest holder assumes that his or her interest is proportional to the enterprise value.

What Are the Standards of Value and Premise of Value?

As a valuation professional, you should know the difference between fair value and fair market value. The definition of *fair market value* differs among estate and gift, litigation, and marital dissolution valuation services in some states. Moreover, is the value to be determined on a going-concern basis? As part of quality control, make sure these distinctions are understood by the client at the outset.

What Is the Effective Date of the Valuation?

Clients often do not think about the effective date of the valuation. This can be important and can be disputed in litigation, particularly in shareholder disputes or marital dissolutions. Is the date of the valuation the most recent date possible before the trial or the date of separation in a marital dispute? Also, information that could be deemed *known* or *knowable* and material to the valuation results must be considered. Dissenter’s rights usually arise from changes or developments in valuation that occurred immediately before the trial or separation dates.

One of the new requirements for an audit is a brainstorming session at the beginning of the engagement between members of the engagement team. This is an excellent step to take

in a valuation engagement as well. If you are the only valuator in the firm, talk to other firm members who have real world experience in advising small businesses. If this is not possible, try to find other valuers who will participate in the process. The discussion should include the risks of the engagement and what the value drivers are, such as the following:

- Which valuation approaches will be relevant
- What the data sources might be
- Special industry issues
- Other resources that might be needed

Often, experienced valuers may have a good idea of value early in the process, and this can be part of the brainstorming. At the end of the valuation, this early, intuitive guess can be compared to the final answer. Make sure you can reconcile your early estimate with your final value.

Templates and Software

Efficient engagement performance will often include the use of templates in the form of sections lifted from prior reports or a standard spreadsheet template that is used for financial analysis and calculations. Such templates are a major cause of errors in the final valuation product. Spreadsheets can often “morph” and produce a result that is not what was intended by the original writer. Even commercial valuation software has been known to have serious errors. The best advice is to check all calculations, even those that look like simple arithmetic. Simple errors are embarrassing and detract from the overall product.

Statement on Standards for Valuation Services No. 1

As mentioned in the foreword, in June 2007, the AICPA issued SSVS No. 1. The statement applies to any CPA who performs an engagement to estimate the value of a business, business ownership interest, security, or intangible asset. This statement is effective for all engagements to estimate value accepted by the valuation analyst after January 1, 2008. A member who performs an engagement to estimate value is referred to in SSVS No. 1 as a *valuation analyst*.

Monitoring

Monitoring includes overseeing employees who perform part of the engagement and review the final product. All assistants' work should be reviewed in a process similar to that for a typical audit or tax assignment. All work you do yourself should be reviewed as well. As discussed previously, in a small firm, a strategic relationship with other valuation analysts may be required for the small practitioner to monitor his or her own work. Chapter 3, “Practice Management,” addresses issues with employees in greater detail.

The best advice is to proofread for detail while also making time to perform a reasonableness test to ensure that your final result makes sense. BV engagements are complex, and it is easy for typographical errors, which are embarrassing, but rarely fatal, to creep in. On the other hand, providing an unreliable or questionable valuation can seriously undermine your credibility.

Summary

Many factors go into a BV and running a BV practice. Quality control should be the hallmark of a CPA's valuation practice.

In addition to the contents of this toolkit, all CPAs should have a clear understanding of the possible implications of SSVS No. 1, Interpretation No. 101-3, Section 201 of SOX, and the AICPA Code of Professional Conduct.

Marketing a Business Valuation Practice

Introduction

Business valuation (BV) engagements are necessary for several purposes, including the following:

- Estate and gift taxation
- Mergers and acquisitions
- Litigation and shareholder disputes
- Divorce
- Employee stock ownership plans (ESOPs)
- Financial leveraging

The first steps for getting involved in the BV arena are to (1) identify your practice's skill set, and (2) determine the areas of BV in which to become involved. If you properly scope and establish your direction, then you can market your particular area of competency through the appropriate channels. The next step is to identify the decision makers who hire experts in the type of BVs that you have chosen to participate. This chapter will address the organizations that depend on BV, the people in those organizations who are involved in BV, and the range of services needed.

Whereas the preceding chapters of the toolkit discuss operating a BV practice, this chapter focuses on the marketing of a practice. Developing marketing momentum is essential to the growth of a practice. In order to begin this momentum, a firm must develop an effective marketing plan through identifying with, and becoming visible to, their target market.

Developing An Effective Marketing Plan

In developing an effective marketing plan, some basic questions must be addressed to ensure success. Some of these questions are as follows:

- Who pulls the trigger?
- What kind of service can you offer?

- What is your competitive edge?
- What is your desired outcome?

Who Pulls the Trigger?

After you have decided what sector of BV is appropriate for you, it is very important to identify the people who hire the experts in your area—that is, who “pulls the trigger” for an engagement. In most valuation engagements, the client is loosely associated with the hiring process and relies on the judgment of trusted advisers (for example, attorneys, accountants or CPAs, investment bankers). Once you identify the source groups that pull the trigger for your service area, your marketing efforts can be focused toward them or their firms. Often, the decision makers in the larger firms rely on the judgment or recommendation of one of their associates or junior staff. Therefore, position titles alone may not be a reliable indicator of the value of client sources. You may also need a working knowledge of their organizations in order to access the person most influential in hiring a BV expert.

What Kind of Service Can You Offer?

Once the target (decision maker) has been identified, you should scope out the kind of service he or she is looking for and whether it matches what you can offer. This is very important for a number of reasons. If the person pulling the trigger needs a valuation expert for ESOPs but your skill and focus is on matrimonial litigation services, marketing to this prospect would waste your effort and his or her time. It cannot be overemphasized that to efficiently and successfully market your services, it is necessary to target the individuals or organizations with whom you are functionally aligned.

In order to market directly to clients and their advisers efficiently, you may need to educate them regarding the following matters:

- What is a BV?
- Why is BV necessary?
- What is involved in performing a BV engagement?
- What are your abilities, experience, and level of expertise to provide these services?

What Is Your Competitive Edge?

Often, it is necessary to analyze your own skills and experience to determine what you can do that many others cannot. Having a competitive edge over your peers (for example, credentials, years and breadth of practical experience, experience testifying in court, articles published, industry knowledge, communication skills) could put you in the spotlight for a particular service type and will result in more referrals.

What Is Your Desired Outcome?

Your focus should not only be on obtaining an engagement but on developing relationships to the point that you are the first person an organization calls as the BV expert. A number of the people and firms who pull the trigger in hiring a BV expert are discussed in the following paragraphs.

Segmentation Within Business Valuation

BV is a discipline with subsets of concentration. Most demand falls within estate and gift taxation, marital dissolution, mergers and acquisitions (M&A), financial reporting, litigation, and ESOPs. A brief description of each of these areas is discussed in the following sections.

Estate and Gift Tax

The three most important objectives of estate planning for owners of closely held businesses are as follows:¹

- Providing liquidity, either for themselves, their heirs, or both
- Minimizing federal gift and estate taxes and state inheritance taxes
- Ensuring business continuity

Referral sources for engagements related to this type of BV service are mainly through CPAs involved with filing IRS Forms 706 or 709 for estate or gift tax planning purposes, respectively. Attorneys specializing in estates, insurance advisers, investment advisers, and trust officers are also involved in this type of service. It is important that you focus on as many of the specialists in these areas as possible because the business owners are usually close to or seek the counsel of their advisers and may not otherwise be familiar with your services.

Marital Dissolution

Marital dissolution, a broad term for what is more commonly known as *divorce*, can be the source of a lengthy and emotional engagement. The valuation expert is usually hired by divorce attorneys subsequent to separation or divorce filings by one of their clients. Generally, each party in the divorce hires his or her own valuation expert. However, it is not uncommon for parties to reach a mutual agreement to hire a neutral valuation expert, particularly in collaborative divorces. Hiring a neutral expert is usually more efficient and is considered desirable if both parties want to minimize the amount spent on fees. Additionally, the flow of information should be smoother in a joint engagement.

Nevertheless, if the parties are not inclined to be cooperative, and each hires his or her own expert, the result can be lengthy, emotional engagements. Resolving valuation issues under

¹ Shannon P. Pratt, Robert E. Reilly, and Robert P. Schweihs, *Valuing a Business*, 4th ed., (New York: McGraw-Hill, 2000), 582.

these circumstances can be extremely challenging. The valuation expert needs to be considerate and understanding of the nature of these engagements and the sensitive issues that can ensue. Valuers should also recognize that the information provided in these circumstances is typically limited. The expert needs to be efficient and astute enough to derive quality results by making the best use of the obtainable information. Additionally, the expert must be innovative and creative in uncovering pertinent information.

The main business referral sources for these types of BV engagements are divorce attorneys, divorce mediators, and judges. The valuation expert should be well-trained and qualified to testify as an expert. The referral sources usually look for a valuation expert who is experienced in the field, is known for consistently delivering a quality and objective work product, and is experienced in giving court testimony.

Mergers and Acquisitions

M&A activities include business sales and purchases. The valuation expert would be brought into this kind of engagement if the client has received a purchase offer for his or her business or if the client is targeting a company for acquisition. Engagements in this field are time sensitive and, typically, a lot of work needs to be completed in a short period of time. It is a specialized field, and the expert should be well-qualified to efficiently perform the valuation within the prescribed time frame. M&A engagements may result in the hiring of an expert to value some of the following:

- Property, plant, and equipment
- Intangibles, that is, goodwill and patents
- Real estate
- Contracts
- Postemployment benefits
- Trademarks and trade names
- Contingencies
- Research and development

The valuation expert should be aware of the recent rulings related to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 805, Business Combinations, and 350, Intangibles—Goodwill and Other.

The leading referral sources for these transactions are business brokers, transactional attorneys, CPAs, and the business owners themselves. As with other subdisciplines of BV, these engagements require specialized skills. It is not uncommon for valuation experts to refer this type of work to more experienced peers or collaborate as a group to gather the best resources. This would make it prudent for an expert to market his or her expertise to peers at association meetings.

Financial Reporting

The need for valuation for financial reporting purposes increased dramatically with the issuance of FASB ASC 805, 350, and 820, *Fair Value Measurements and Disclosures*. These valuations involve the allocation of a purchase price related to a business combination to tangible and intangible assets and are performed under a fair value standard, as defined by FASB ASC 820. These engagements tend to be very complex and are subject to a review by the external auditor under AU section 336, *Using the Work of a Specialist* (AICPA, *Professional Standards*). As such, a BV expert must familiarize himself or herself with these standards and the various nuances of valuation under the fair value standard. With the issuance of FASB ASC 825-10, the allowed utilization of fair value for financial reporting has been expanded. This is reflective of the move toward convergence of United States generally accepted accounting principles with the International Financial Reporting Standards issued by the International Accounting Standards Board. Guidance in this area continues to evolve.

Primary referral sources for these engagements are CFOs or chief accounting officers of the purchasing company. In some cases, these engagements can also come from other CPA firms.

Litigation and Shareholder Disputes

Litigation and shareholder disputes encompass the preparation of business damages calculations and the valuation of a shareholder's business interest. These engagements resemble matrimonial litigation in that they can be lengthy and emotional. The ability to obtain necessary information depends largely on the cooperation of both parties and the expertise of the attorneys. Clients will seek out a valuation expert who is qualified, experienced, and can readily articulate the results of his or her analysis in layman's terms to a judge and jury.

Traditional referral sources for these types of engagements are litigating attorneys, judges, and CPAs acting on behalf of their clients.

Employee Stock Ownership Plans

ESOPs, allowed by the Internal Revenue Code, are retirement plans to which the company contributes its stock for the benefit of the company's employees. It is estimated that approximately 11,500 ESOPs exist in the United States according to 2008 statistics published by the ESOP Association,² and they must be valued at least annually. As with other areas of BV, a valuation expert hired to conduct this kind of engagement must be knowledgeable in various subdisciplines to competently complete his or her work. These areas include valuation theory, legal and regulatory rulings related to ESOPs, qualified plan administration, general finance, and fiduciary concerns. In addition to fulfilling the annual requirement, ESOP valuations are performed for other reasons, including shareholder liquidity, estate planning, management succession planning, employee motivation, privatization, and acquisitions.

² The Employee Stock Ownership Plan Association's statistics can be found at www.esopassociation.org/media/media_statistics.asp.

Referral sources in this field are commonly obtained through other CPAs and their firms, largely because the valuation of an ESOP must be done independently of the accounting firm that performs its audit. It is important to recognize that when performing a valuation for ESOP formation or administration purposes, the valuation professional works for the ESOP trustee, not the selling shareholder. In this regard, networking with peers is an excellent way to market your capabilities. Also, another valuation specialist might refer work to a peer if he or she does not feel comfortable with this type of engagement. Becoming an active member of the ESOP Association is another great way to network within this segment.

Other

Several additional valuations are performed by BV specialists for tax and financial planning purposes. It is very important that practitioners keep their eyes and ears open when networking to seek out opportunities and effectively market their services.

Advisors may not only be the referral sources but can also be the client. You should focus your marketing efforts on advisors who give their clients tax, financial, and legal advice. Other CPAs can be a very large referral source if they do not have experience in performing valuation services or if they have a conflict of interest, for example, the CPA firm who performs audits for their clients.

Establish trust with the client's CPA, and make it clear that you are not seeking to take their clients.

Methods of Marketing

Now that you have identified your skill set and your target audience, you can begin marketing your services to your target audience. The most effective way to market your services is to build relationships with your potential clients. The first step in building these relationships is to increase your visibility within your target market. A potential client cannot hire you unless he or she knows of your existence. A number of vehicles, outlined in the following paragraphs, are at your disposal to help increase your visibility and grow your practice. Each has its own approach and execution that requires varying degrees of effort, time, and financial resources.

Newsletters

Newsletters can be distributed through direct mailing or via e-mail and are effective in educating and informing the market about you. Also, newsletters can be used to deliver breaking news or new developments related to the BV discipline to your target audience. Consistency pays off. If you choose this method, make sure that the artwork is top-notch, and that the content is meaningful. Firms can be hired to write content in addition to customizing the newsletter with your company's specific information. Two companies that provide such services are Practice Development Institute, Inc. and BV Resources (see chapter 6, "Sources of Information and Research," to access these resources).

Advertising

Advertise your services in the publications that your referral sources read most often. These include state and local bar association journals as well as state and national industry journals for legal and accounting professionals. In the BV community, a number of discipline-specific publications should also be considered (see chapter 6, “Sources of Information and Research”).

Presentations and Receptions

Conducting seminars for referral sources is helpful in educating your contacts and making yourself more visible. The following is a list of different groups and events to consider for these purposes:

- Chambers of commerce
- Bar associations
- Financial planners
- State CPA society meetings
- Estate planning councils
- Insurance agents
- Law firms
- Continuing professional education conferences

Invite referrals (for example, attorneys) or other target audience groups to breakfast meetings or cocktail events. It is very important to always follow up with the contacts after the meeting to continue developing a relationship.

Networking

The purpose of networking and communicating regularly with professional contacts about your service is to increase your circle of prospective clients and referral sources. You need to find the right type of organizations and venues to effectively network. These venues may include the following:

- Industry trade groups
- Estate planning councils
- Local chapters of your state CPA society
- Roundtables from local banks and trust companies
- Valuation organizations
- Professional advisory committees from various charitable organizations
- Chambers of commerce
- Boards of various charities
- Advisory boards for schools that your children attend
- Local alumni chapters of your college or university

Visibility within a qualified organization is essential. Your interest will be contagious, so make sure that you have genuine enthusiasm for the group.

Collateral Material

Collateral material represents your business long after you have left someone's office and should project an image that establishes and communicates your identity. Some examples of collateral material are as follows:

- Handouts and brochures
- Stationery
- Proposals
- Business cards

It is said often, but needs to be restated and heeded, nonetheless, that you only get one opportunity to make a first impression. Perceptions matter, and the materials listed previously will help brand you and your business. The image you project needs to be consistent with the identity you want for your business and the message you wish to convey to your market.

Public Relations

The overall goal of public relations is to build goodwill and credibility and increase awareness of your business. Maintaining good public relations cultivates long-term client relationships. Public relations activities are an indirect form of marketing your business. If you have the resources, hiring a public relations firm is a good option; however, it is not always necessary. The following are some things you can do on your own:

- Send out press releases
- Communicate frequently with the local media to build awareness
- Send out monthly newsletters highlighting seminars or speaking engagements in which you will be involved
- Issue organization or achievement award updates about you and your firm
- Actively participate in volunteer organizations

It is important to keep your good name in the media. Your referral sources will see you mentioned or quoted and think of you first when making referrals.

Teaching and Writing

Visibility is important for you at all levels—locally, nationally, and internationally. Teaching BV fundamentals and technical courses, giving lectures and seminars, and writing (for example, articles, course materials, and textbooks) expands your professional presence and increases your likelihood of establishing long-lasting and valuable contacts. This all leads to increased exposure in your profession as well as other interfaced organizations.

CPA Marketing Toolkit

The AICPA, as well as the Forensic and Valuation Services (FVS) section of the AICPA, has created a marketing toolkit that has material you can use in marketing your practice. The link to the AICPA marketing toolkit is available at www.aicpa.org/career/marketing/pages/cpamarketinghomepage.aspx, and the *ABV Marketing Toolkit* is located at www.aicpa.org/fvs (click on Resources/Practice Management).

Quality Work Product

The importance of delivering a quality work product in a timely manner that meets a client's needs cannot be overstated. Setting deadlines that are both realistic and attainable and then delivering on those promises will enhance your reputation and increase your role as a trusted adviser. After delivering a quality and timely work product to a client, do not hesitate to ask them for more referrals. You will be surprised at how quickly your name and reputation can travel and develop marketing momentum. A recurring client is a great asset to a practice, and the quality of your work product and relationship-building skills will determine how well this asset is developed.

Credentials

With increased competition, it is becoming more important to differentiate by being qualified. Provided that you meet the specific requirements of each, many credentials are available to the BV practitioner, and you should consider which one(s) are most valuable to you. There are other various valuation credentials in the market other than the ABV, and each credential has different virtues. Obtaining one or, for the stout-hearted, all of them, differentiates the BV practitioner who is serious about the discipline and has spent the time necessary to acquire and demonstrate competency in the field. For an ABV, the professional requirements are as follows:

Initial Certification

As a supplement to the following certification requirements, please see a copy of the ABV Credential Application Kit located at www.aicpa.org/fvs (click on Membership/Learn More About the ABV Credential). However, the FVS website will identify the most recent requirements to obtain the ABV credential and should be the first point of reference.

| Membership | AICPA |
|---------------------------------------|---|
| Experience in business valuation (BV) | Attest to a minimum of performance of 6 business valuation (BV) engagements or projects (or 150 hour experience equivalent) demonstrating substantial experience and competence |
| Other credentials required | CPA |

(continued on next page)

(continued from previous page)

| Membership | AICPA |
|-------------------------------|--|
| Work experience—other than BV | Experience required for the CPA certificate |
| References required | No |
| Training requirement | Minimum of 45 hours of lifelong learning related to the BV body of knowledge |
| Proctored exam | Yes |
| Length of proctored exam | 6 hours |
| Case study | No |
| Time to complete case | N/A |
| Submission of client report | No |

Recertification Requirements (3 year cycle)

| | |
|--|----------|
| Required hours of continuing professional education within recertification period | 60 hours |
| Quality enhancement, quality review, or peer review | No |

Summary

The greatest resources for potential new clients are your professional relationships, both existing and new. It is your job to fully inform these resources that you offer BV services. Remember that the client’s adviser is usually the person who will be hiring the BV professional, so you need to establish a solid working relationship with these individuals by educating, informing, and nurturing them.

Sources of Information and Research

Introduction

The foundation of a well-documented business valuation (BV) report is thorough and complete research. Many key valuation assumptions are dependent on verifiable external information, such as industry growth rates and conditions, publicly traded company multiples, and comparable transactions. This chapter is a guide on where to find information and provides suggestions about which publications have proven most helpful over time. Resources, especially those available on the Internet (such as those found on the Forensic and Valuation Services [FVS] website), change frequently. The listing here is not comprehensive, and you should check for updated versions of the resources listed before starting research on your own engagement.

Resources

AICPA Forensic and Valuation Services Section

The AICPA FVS section offers a wide variety of resources to support the practice management efforts and expertise of a valuation professional and the financial community overall. Their resources consist of the following:

- Practice management tools, such as marketing toolkits, the Web resource guide, and the most recent FVS top issues survey
- Technical practice aids, special reports, and white papers
- Standards, such as SSVS No. 1, Statement on Standards for Consulting Services No. 1, *Consulting Services: Definitions and Standards* (AICPA, *Professional Standards*) along with accompanying guidance in the form of the Valuation Standard and Implementation Resources Toolkit (FVS section membership required for access)

- Continuing education in the form of live conferences, Web seminars, self-study continuing professional education, and other products that can be found on our CPA2Biz website
- Newsletters, such as the FVS e-News, FVS Consulting Digest, and the Forensic and Valuation Reporter

To learn more about these and other resources or to learn about becoming accredited in business valuation (ABV), please visit aicpa.org/fvs and aicpa.org/abv.

General Texts

Bogdanski, John A. *Federal Tax Valuation*. Boston: Warren, Gorham & Lamont, 1996 with 2006 Cumulative Supplement No. 1.

Hitchner, James R. *Financial Valuation: Applications and Models*, 2nd ed. Hoboken, NJ: John Wiley & Sons, Inc., 2006.

Johnson, Bruce A., and Spencer J. Jefferies. *Comprehensive Guide for the Valuation of Family Limited Partnerships*, 3rd ed. Dallas: Partnership Profiles, Inc., 2006.

See FVS website section “Premium Member Benefits” for more information on Partnership Profiles.

Lang, Eva M., and Jan Davis Tudor. *Best Websites for Financial Professionals, Business Appraisers, and Accountants*, 2nd ed. New York: John Wiley & Sons, Inc., 2003.

Mard, Michael J., James R. Hitchner, and Steven D. Hyden. *Valuation for Financial Reporting: Fair Value Measurements and Reporting, Intangible Assets, Goodwill, and Impairment*, 2nd ed. New York: John Wiley & Sons, Inc., 2007.

Mercer, Chris, and Travis Harms. *Business Valuation: An Integrated Theory*, 2nd ed. New York: John Wiley & Sons, 2007.

Pratt, Shannon P. *Valuing a Business: The Analysis and Appraisal of Closely Held Companies*, 5th ed. Burr Ridge, IL: McGraw-Hill, 2007.

Pratt, Shannon P., Robert F. Reilly, Robert P. Schweihs. *Valuing Small Businesses and Professional Practices*, 3rd ed. Burr Ridge, IL: McGraw-Hill, 1998.

Trugman, Gary R. *Understanding Business Valuation: A Practical Guide to Valuing Small to Medium-Sized Businesses*, 3rd ed. Durham, NC: American Institute of Certified Public Accountants, 2008.

General Periodicals

Journal of Accountancy. Durham, NC: American Institute of Certified Public Accountants, Inc., monthly.

Focus Newsletter. Durham, NC: American Institute of Certified Public Accountants, Inc., bi-monthly.

ABV e-Alert. Durham, NC: American Institute of Certified Public Accountants, Inc. bi-monthly.

CPA Expert. Durham, NC: American Institute of Certified Public Accountants, Inc., quarterly.

Business Appraisal Practice. Plantation, FL: The Institute of Business Appraisers, Inc., quarterly.

Business Valuation Review. Denver: American Society of Appraisers, quarterly.

The Direct Investments Spectrum Newsletter. Dallas: Partnership Profiles, Inc., bimonthly.

Deluxe BVUpdate. Portland: Business Valuation Resources, monthly.

See *FVS Website section "Premium Member Benefits"* for more information on Deluxe BVUpdate.

The Valuation Examiner. Salt Lake City: National Association of Certified Valuation Analysts, bimonthly.

Valuation Strategies. New York: Warren, Gorham & Lamont, bimonthly.

Categorized Information Sources

Cost of Capital

Cost of Capital Yearbook. Chicago: Morningstar, annual.

Federal Reserve Statistical Release, H.15 Selected Interest Rates. Federal Reserve Board, weekly, www.federalreserve.gov/Releases/H15/default.htm.

This web site is maintained by the Federal Reserve Board of Governors and provides daily information on key interest rates, including the current yield on government securities, corporate bond yields, and bank prime interest rates.

Grabowski, Roger, and David King. *Duff & Phelps, LLC Risk Premium Report*. Chicago: Morningstar, annual.

Pratt, Shannon P., and Roger J. Grabowski. *Cost of Capital: Applications and Examples*, 4th ed. New York: John Wiley & Sons, Inc., 2010.

www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/BusinessValuationandLitigationServices/BusinessValuation/PRDOVR~PC-WI476055/PC-WI476055.jsp#TabContent7*Ibbotson Stocks, Bonds, Bills and Inflation (S&BBI) Yearbook*. Chicago: Morningstar, annual.

Available in the standard or business valuation editions. Contains a spectrum of cost of capital data.

Economic Data and Analysis

National and Regional

Beige Book, Summary of Commentary on Current Economic Conditions. Federal Reserve Board, eight times annually www.federalreserve.gov/monetarypolicy/beigebook/

Economic Outlook Update. Business Valuation Resources, quarterly www.bvlibrary.com

FDIC Outlook. Federal Deposit Insurance Corporation, quarterly www.fdic.gov/bank/analytical/regional/

Monthly Economic Outlook. Wells Fargo, monthly www.wellsfargo.com/com/research/economics/economic_outlook

National Economic Review. Mercer Capital, quarterly www.mercercapital.com/index.cfm?action=page&id=163

Overview of the US Economy. JT Research, LLC, quarterly www.jtresearch.com/overview_US_economy.html

National Economic Trends. Federal Reserve Bank of St. Louis, monthly research.stlouisfed.org/publications/net/

Regional Financial Review. Economy.com, Inc., monthly www.economy.com/home/products/products.asp?pid=20-00000-00

State and Local

State Profiles. First Research, Inc., quarterly www.firstresearch.com/products_secondary.asp#state

U.S. Economy at a Glance. U.S. Department of Labor, Bureau of Labor Statistics www.bls.gov/eag

Other State and Local Economic Information

Universities, banks, chambers of commerce, and state governments are good places to check for commentaries on current economic conditions and the economic outlook for a particular state or metropolitan area.

Industry Information and Analysis

ASAE Gateway to Associations. ASAE American Society of Association Executives www.asae-center.org/Directories/AssociationSearch.cfm

A directory of the membership of the ASAE, comprising industry, and other associations.

Audit Technique Guides. Internal Revenue Service www.irs.gov/businesses/small/article/0,,id=108149,00.html

Hoover's Industries. Hoover's Inc., www.hoovers.com

Industry Growth Outlook. Integra Information, a division of Microbilt Corporation www.microbilt.com/industry-statistical-data.aspx

Industry Profiles. First Research, Inc., quarterly www.firstresearch.com/Industry-Profiles.asp

Market Research, Industry Research and Business Research: How to Learn About an Industry or Specific Company. Polson Enterprises www.virtualpet.com/industry/howto/search.htm#companies

Market Research Reports. IBIS World, Inc., www.ibisworld.com

Industry Workstation, Moody's Economy.com, Inc. www.economy.com/home/products/products.asp?pid=707-00000-00

Yahoo! Finance Industry Center, Yahoo! Inc., biz.yahoo.com/ic/index.html

Benchmarking Data

5-Year Industry Report. Integra Information, a division of Microbilt Corporation www.microbilt.com/industry-statistical-data.aspx

Annual Statement Studies: Financial Ratio Benchmarks. Philadelphia: RMA, annual. www.rmahq.org

Discounts and Premiums

Control Premium Study. Los Angeles, CA: FactSet Mergerstat L.P., quarterly. (www.bvmarketdata.com) and *The FMV Restricted Stock Study.* FMV Opinions. (www.fmv.com/rss_content.php?cid=144).

These studies are breakthrough, new Web-based tools used to quantify minority discounts and control premiums used in the business valuation, venture capital, and merger and acquisition professions.

Pratt, Shannon P. *Business Valuation Discounts and Premiums*, 2nd ed. Hoboken, NJ: John Wiley & Sons, Inc., 2009.

Market Approach

EDGAR Company Search. U.S. Securities and Exchange Commission www.sec.gov/edgar/searchedgar/companysearch.html

This site is maintained by the U.S. Securities and Exchange Commission (SEC) and allows the user to search for the SEC filings of any reporting entity. Such filings include 10Ks, 10Qs, and registration statements.

Hoover's, Inc. *Hoover's Online: The Business Information Authority*, www.hoover.com Hoover's is a subscription service that allows the user to build his or her own customized list of companies based on many parameters. You can sort by SIC code or NAICS code and look at who they consider to be the major competitors of a particular guideline company. This site also contains information on privately held companies.

Pratt, Shannon P., and Alina V. Niculita. *The Market Approach to Valuing Businesses*, 2nd ed. New York: John Wiley & Sons, Inc., 2005.

Yahoo! Inc. *Yahoo! Finance*. finance.yahoo.com/

This is a free site with a wealth of information on publicly traded companies, including current and historical stock prices, news articles, and basic corporate information. Much of the information is derived from other subscription services.

Zacks. Zacks Investment Research, www.zacks.com

DoneDeals. Practitioners Publishing Company, www.donedeals.com/

Pratt's Stats. Business Valuation Resources, www.bvmarketdata.com

Sanders, Jack R. *BizComps*. Las Vegas: Corporate M&A Advisors, Inc., www.bizcomps.com.

Salary and Compensation Information

Executive Compensation Reports. Economic Research Institute. www.erieri.com

Robert Half Salary Guides, roberthalf.com/SalaryGuide

Salary.com. Salary.com, Inc., www.salary.com

SalaryExpert.com. PAQ Services. www.salaryexpert.com

Business Valuation Software

Business Valuedirect

Adhikari Technology, Inc.

175 Olde Half Day Road

Lincolnshire, IL 60069

(866) BVX-VALUE

www.businessvaluexpress.com

PlanGuru

New Horizon Software Technologies,

Inc.

(888) 822-6300

www.planguru.com

Business Valuation Specialist
Practitioners Publishing Company
P.O. Box 699
Fort Worth, TX 76101
(800) 323-8724
ppc.thomson.com

ValueSource
4575 Galley Road, Suite 200E
Colorado Springs, CO 80915
(800) 825-8763
www.valusourcesoftware.com

Ancillary Services

PDI Global—the nation’s leading source of integrated marketing and management solutions for accounting and consulting firms, law firms, banks, financial advisors, insurance providers, and the financial services industry. www.pdiglobal.com

