Financial Valuation *and* Litigation Expert

VIEWS AND TOOLS FROM LEADING EXPERTS ON VALUATION, FORENSIC/FRAUD AND LITIGATION SERVICES

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We are Not Paid to Agree with our Clients

The Art of Agreeing to Disagree

~ GUEST ARTICLE ~

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We build and market our business valuation practice, we get introduced to a perspective new client, we analyze their needs, we establish a personal relationship, we write a tailored proposal, we put ourselves at risk of being rejected – and we win! We win a new client! But then, the hard work actually begins.

As we get into the business valuation engagement, we may not see everything the way the client sees it. Clients naturally have a different perspective, which is a healthy and good thing. However, we are paid to be independent and our clients depend on it. We are not the company's CFO and we are not interviewing for that job. We are not the type of investment banker who is eager to boast about the business and advocate the highest possible value with lipstick in hand for any blemishes that may be noticed. We are engaged as the business valuation professional.

Although it is against most capitalistic instincts, sometimes we have to say no and walk away from our clients if we can't reconcile the differences. We have to agree to disagree.This is not just smart practice management, but it is fundamentally what we are paid to do, because we are not paid to agree with our clients.

A few recommendations to help over-come this important reality:

- **Turn Your Antennae on Early in the Process** – From the very beginning, even before you win the engagement, don't be afraid to address issues where you may disagree. Identify issues early on and start managing expectations where there could be differences. The proactive identification and discussions of issues leads to a more collaborative and successful resolution of any differences.

EXPERTS in this Issue

- **Focus on Educating** – As a third party expert, one role we play is to educate and provide additional details to our clients. Doing this in an arrogant and condemning way is a fatal flaw. But having a true bedside manner to patiently walkthrough the seemingly more basic concepts is important and helps position you as an educator and technical resource, which will add to your credibility and ultimate persuasiveness.

- **It is Okay to Disagree with Auditors and Other Valuators** – Realize that there is a lot of disparity in practice and other valuators have other approaches and different interpretations. It is rare, if ever possible, for two valuators to come to the exact same answer. It is a natural part of the profession. And, just because one valuator is more detailed, that does not always mean they are more accurate. What is important is the ability to find agreement in how each valuator can reconcile to each other. Don't get unnecessarily hard nosed and stubborn; respect other perspectives.

- **Beware of Project Creep** – In two recent and separate situations, we disagreed with the auditors' assessment of the fair value of the stock that was used in two acquisitions. However, our engagement was not to opine on the fair value of the stock; but rather, using that as the key assumption, our engagement was focused on calculating the intangible assets as part of the purchase price allocation. We documented this key assumption in our report, we made our disagreement known to the audit partner (politely), and we built the relationships from there. The key here is to fully document all assumptions and clarify the scope and nature of your specific engagement.

- **Don't Get Stuck on Year-to-Year Trends** – It is important to look at each client fresh each year, pretend they are a new client and that you don't have a history. Don't let the history overly persuade you where the value should be in the current year. When this happens, it can be too easy for the valuation to get ahead of itself.

- **Remember Fair Market Value** – Fair Market Value is not the highest value to the most strategic buyer who is willing to pay a combination of cash, stock and contingent consideration and who is about to realize unique short-term and longterm synergies. Go back and re-read Revenue Ruling 59-60 each year.

- **Managing the Client Expectation Gap** – Client misperceptions about the valuation process can undermine the objective analysis and collaboration required to develop a reasonable conclusion of value. Managing client expectations and communicating with the client throughout the engagement is critically important to address the anxiety and frustration a client may have understanding complex financial models and valuation concepts.

- **Ongoing Management of Retainers and Engagement Progress** – Technology allows for real-time management of engagement progress. Establishing benchmark progress payments with completed tasks can improve efficiency and identify sticking points early, so that communication with the client can resolve them promptly and minimize fee exposure and lost time. Clients agree to pay us at the beginning of an engagement; if we communicate with them during the engagement, they will pay us at the end too. In all, remember, having differences with your clients is natural and healthy. If it is not happening periodically, ask yourself why?

expert **TIP**

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