

Be Realistic About Your Asking Price

Be Realistic About Your Sales Price

What is your business worth? Well, the technical definition of the value of any business is: "The amount at which a business would exchange between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having a reasonable knowledge of relevant facts." Let's break that down into plain English, shall we? Your business is worth only what the buyer(s) is willing to pay for it. No more. No less. This, my friends, is known as the market value. Getting you the widest pool of potential buyers is key in getting the best price!

What You See...

In the business world, what you see is often what you get. If a potential seller walks into a store and sees a disaster, they are much more likely to not think seriously about purchasing the business. Businesses that look great are more likely to sell better. It is similar to when you purchase a home. If you walk into a home and find that there is paint chipping off the walls, a toilet that doesn't work, and rooms that look like the laundry dryer exploded in them, you may want to turn around and run in the other direction. No matter what buyers say, they appreciate finding a well-maintained business when they visit one that they are interested in.

Assets you can see are called tangible assets. These range from the fixtures in the business to the equipment and beyond. But in this day and age of technology, there are often businesses that don't require many tangible assets. This is when buyers start looking at intangible assets. These intangible assets could include: the reputation the business has with its customers, the reputation it has built within the industry, the current customer and client lists, the quality of the product or service, the reputation with the suppliers and vendors, and the strength of the business' technology and other systems. There are plenty of other things a potential buyer can look at, and it's your job to try to envision your business through their eyes.

Take A Step Back

Selling a business can be an extremely emotional experience, but, for a moment, try to step back and look at your business as if you were buying it, instead of selling it. Try to note which things you think strengthen your business, and which things do not. If you look at the business objectively, you will be better able to set a reasonable price, which will bring the buyers in, instead of scaring them away. How much \$ would you **invest** to get a return of **what %** is often what it comes down to. Common must apply. Is an engineer making 100k a year really going to buy your convenience store that nets 50k, and have to work twice the number of hours? They may, if the store is well managed and the new owner will only have to devote 10 hours a week!

There are some industries that don't have a track record for showing a paper profit, such as restaurants, delicatessens and convenience stores. Businesses that deal mostly in cash, like beauty salons and liquor stores, also have a difficult time proving what their total cash flow is. It is extremely important, if you have one of these types of businesses, that you have all of the information readily available to back-up the profits that your business makes. This allows the potential buyer to easily see how much profit the business has.

The Basics

Here are some great key points to remember when you're trying to figure out what sort of a price you should put on your business.

- Do not let your accountant be your only guide. Accountants are not always knowledgeable about the value of small businesses.
- Do not listen to your friends, neighbors or relatives, unless they are directly involved with selling businesses. Everybody has an opinion, but the only one that truly matters is yours.
- In the business world, Cash is King! If you have a great business with contracts that are likely to produce a revenue stream for years, buyers will more likely be willing to pay. If your business has products that can be bought anywhere, however, you may need to go a little lower on your expectations, in order to get a bite.
- Like fishing, keep checking the line. If you have a flurry of offers, then it is likely you placed your business too low and need to re-bait. If you are getting no offers, then you probably have the business priced too high and need to pull the line out of the water and change the bait.
- Do not wait a long period of time before arriving on a good price for your business. If the business sits on the market for an extended period of time, buyers are often put -off by it and believe that it hasn't sold for a negative reason.
- It is important to have pride in your business, but do not let it be to your detriment. If you have a preconceived notion of how much you believe your business should be worth because of all of the hard work you put into it, you may price the business too high, and it will not sell.

So what attracts a potential buyer to your business?

- Excellent bookkeeping
- A history of sales volume and profits on the rise
- All income and profit being reported
- Audited financial statements (if available)
- Tax returns that coincide with business operations
- Up-to-date equipment that has a reliable maintenance contract
- A growing industry or prime location
- Good contracts with customers or vendors
- Excellent lease terms or an option to buy the property
- Unique patents, ideas or processes that have great growth potential

And what can turn a buyer off?

- Incomplete, inaccurate or un-reconciled books
- Income and profits that are not reported
- Tax returns that do not reflect the true business activity
- Old, obsolete equipment, or equipment that has not been maintained well
- A decrease in sales volume and profit
- Employees who are paid "under the table"

When all else fails and you are not sure what to do, remember to stand back and look over your business as if you were a potential buyer. Seeing things from a different point of view can often clear up your confusion and help you to set a reasonable and profitable price for your

business.