



SUNBELT
The place to go to buy or sell a business

Contributed by Sunbelt Business Brokers

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How Do Buyers Determine Value?

Business owners often tell us that they want \$x for their business or that their [fill in someone] told them that a business is worth X times [fill in your favorite term here – earnings, revenue, EBITDA, cash flow, days of the week, etc.]

The reality is that Sellers never determine what the value is, unless they ask too little for their company. Selling a business is all about the buyer. Without an accepted offer there is no sale. Buyers determine value in two ways, one is in terms of price and the other is in terms of fit.

Frequently, potential buyers of a business will ask me how the seller chose their asking price. While this provides some academic interest to the buyer, it doesn't really help them in their decision-making. A better question for the buyer to ask (of themselves and their advisors) is, "what is this business worth to me?"

We all know that buyers and sellers certainly start out with different opinions of 'value'. If they can end at the same place – we can do a deal. What buyers need to establish is what a given business is worth to them. Amongst multiple buyers assessing the same opportunity, several versions of the 'right' value will appear.

Here are some key questions for business Sellers to answer as they put a price on, and package their business for, sale:

- From the cash flow of the business can I pay myself a wage that is reasonable for this industry?
- After my wage, can I service the debt I need to take on to purchase this business?
- How has it performed financially in the past?
- How much risk is there that it will perform as well in the future? How about better?
- Am I comfortable that I have considered my working capital (operating funds) requirements in my value of this business, either as included in the price, or necessary for me to have available after a purchase?
- How much does this business (and the job that goes with it) interest me?
- Do I bring skills to this business that will make it perform better for me than for the previous owner, or potentially for other buyers? If I do, does this increase my perception of value, or is it just another checkmark in continuing my evaluation?
- Does this business offer me the kind of future I see for me and my family; financially, and personally?
- Will I want to get up every morning and go to work at this company?

The first five questions are related to the price and determination of value, the last four questions are about whether the business 'fits' the Buyer.

Every buyer is different, and each will have different reasons for purchasing a business, and a different basis upon which they determine the 'value' to them. Buying a business, like it or not, is a process of learning,

studying, and negotiating. Price, training, inclusions, terms and conditions, and seller notes are just a few of the items that buyers need to consider and be prepared to negotiate.

Do you really want to sell your business? Make sure you have a reasonable answer to the first five questions, to set your price expectations. Make sure you present and prepare your business to show buyers the positive side of the last four questions.

Remember, your business is not for everyone. You need to turn away all people that it doesn't fit, even if they have the skills and financial resources. If the business doesn't fit – at the end of the day, they won't buy it!

WANT TO LEARN MORE? The London office of Sunbelt offers a free program called Buyer 101. In that 2 hour seminar we discuss only 4 key issues that are critical to a potential business Buyer – Importance of Confidentiality; How to Determine Value; Financing a Purchase, and; the Offer and Due Diligence process. These same elements are critical to – and the same for – business Sellers! Email us, or call 519-473-2227 to register for the next course!