Part of the Washington SBDC Podcast Series

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What is Your Business Worth? :

What happens when the buyer and seller do not agree?

A problem occurs when a business owner wants to sell his business and the buyer does not want to pay his asking price. In this case the seller and buyer should find a way to systematically find the business' value.

Valuation Methods:

- Market approach: Researching the marketplace for actual business sale transactions that are similar and relevant to the business being sold. Similar to market comparable approach used to appraise real estate. Compare sale price to actual business sales. This steps outside of the business that is being sold to minimize any influence from the business owners. Consult the Institute of Business Appraisers to get actual sales price data.
- Income approach: Discount future earnings or cash flow using Net Present Valuing process using an appropriate discount rate.
    - This focuses on forecasting and determining an appropriate discount rate (which is an art unto itself).
    - Best used for businesses that have constant and steady earnings.
- Asset approach: Choose one.
    - With ongoing concerns the assets are valued at fair market value.
    - If the business will cease operation then a liquidation value is used (almost always lower than fair market value).

Each of these valuation methods will help determine a supportable valuation of the business but the different approaches can result in widely different valuations. This makes it important to understand that each approach has strengths and weaknesses depending on the economic and business outlook.

This is technical process and professional assistance should be sought and used. Business valuation tools *should be used ending in a meeting of the minds between the seller and buyer*.

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