Determining the value of a Business

CATEGORIES BUSINESS / FINANCE

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Selling a business takes a lot of work. You need to make it appealing to buyers and investors. There are many things that determine the value of a business and understanding these things will help you sell yours faster.

10 Thing That Determine Influence a Business Valuation

There are some factors that help influence valuation and an allow you to make your business more valuable in the eyes of the buyers. Those ten things include,

- Historic growth
- Profit and margins
- Customer diversity
- Employee diversity
- Product and service mix
- Recurring revenue versus bid business
- Financial condition
- Five- to ten-year projections
- Outside risk exposure
- Industry environment

Choosing The Right Asking Price

When you are ready to sell a business, one of the first things you will need to do is determine the asking price. This is important as it will attract buyers and be one of the first things they consider when it comes to buying the business. The down payment amount and the amount that needs to be financed are important. According to, Achim Neumann, author of "The Road Beyond."

"More than 80 percent of all businesses sold are sold with 25 percent or less cash down and 50 percent bank financing, with owner financing representing the remaining 25 percent. Asking for half down will reduce the price by approximately 20 percent. Asking for all-out cash will reduce the price to about 40 to 60 percent of the amount that would be attainable with 25 percent down."

Information Quality

Buyers want to feel like they are informed about the business. They will already be nervous about making the purchase so the more information you can give them the better. You should also make sure the information is easy to understand and accurate. They need to be able to verify any financial information you give them and see records and documents that back it up. If a buyer can tell that the business has been growing over the years, they are not only more likely to buy the business, but even offer up an amount that is above the asking price. Neumann adds,

"A particular challenge for buyers and sellers is to distinguish between deal value and deal structure. I have witnessed numerous scenarios in which the buyer reduces the deal value just because there might be a high customer concentration. However, such concentration should be reflected in the deal structure—for example, the deal can be paid as an earn-out. This essentially means mitigating the risk that customers will leave. The seller must have a qualified M&A advisor to ensure the correct treatment of such intricate components."

What If The Business Is Failing?

Most investors or buyers aren't going to be interested in a business that won't make them money. If a business is failing, there is probably a good reason for it and really no future for it. The only way to sell a business that is losing money is to have a plan that shows how the company will become successful. This isn't an easy task for the seller and can take some time. If you want to sell your business, you will put in the work to make it appealing to investors and buyers by showing them it can be turned around.

Tags: business, business valuation