

Business Valuation and Other Factors That Influence Your Offer Price

Before you even consider making an offer on a business, you'll want to utilize BizTrader.com's valuation functionality or get a professional business valuation report. More than just an appraisal, a valuation report uses technical, industrial, geographical, and financial information to assess a business' current and future worth. It includes economic conditions, financial analysis, and other information that is then analyzed to determine a business' value on every level—from book value to liquidation value. It's an important resource for business owners—whether you're setting the price or making an offer. A detailed valuation can also help identify what's needed to increase the value of the business, attract new capital, or project potential proceeds from an initial public offering (IPO).

While you'll probably base much of your offer price on the valuation report, there are other factors you should take into consideration. Decide how important each is to you, and vary your offer accordingly.

The longer a company has been in business, the more likely is it to continue to succeed. If the industry has remained strong for the last 10 years, it's probably safe to believe it will continue to remain strong, unless you have evidence otherwise. Additionally, look at the trends of the business you want to buy over the last several years. Obviously, increased profits imply increased growth, and higher potential.

Evaluate how smoothly you'll be able to make the transition of owning this company. Do you have the right skills? The right knowledge set? Will existing employees stay on to help you learn the ropes? Can you hire the seller as a consultant? The smoother you can make the transition as the owner, the more likely you'll be to continue successfully operating the business.

Before you buy, meet with the current landlord to discuss the lease. If the business you want is in a particularly desirable location or if it has a relatively low monthly rent, these increase the value of the business if the landlord will allow you take over the lease under the same terms.

Also a loyal client base can be perceived as a selling point that will increase its value. At the same time, make sure that the majority of a company's profits aren't based on the business of just one or a few clients. If the loss of one client could strongly affect your business, you run a much higher risk—especially since you won't have the same relationship with them as the previous owner.

While you might be extremely interested in a certain business, remember to think with your head and not your emotions: the number one red flag you can find is discrepancies in the books. Ask to review all the financial records and make sure they've been kept meticulously. Don't let a seller try to convince you they haven't been keeping all of their profits on the books and that the value is higher than your valuation report suggests. Not only is there no way to prove it, do you really want to do business with someone who's been cheating to get out of their taxes?

A business that offers a unique or exclusive service might be more valuable provided it can prove that it's profitable. Patented or trademarked goods or services should be assessed to evaluate their worth.

Hard assets are also desirable to buyers. Not only do they increase a lender's view of a business, making financing more likely, but hard assets can also be sold if a company has to be liquidated.

And finally, there's nothing safer than a company with a strong recurring revenue base. Services that will always be in demand—like plumbing or self storage—are the closest thing you can get to a sure bet, but it's likely you'll have to pay more for that security.