

What Impacts the Purchase Price of a Business For Sale?

While buyers may base much of their offer price on the valuation, the final purchase price is impacted by a number of factors—some financial, and some not. Here, you'll find some of these factors and learn more about the role they play on the price you could receive for your business.

In addition to the immediate performance of your business, buyers will also look at the last several years to see if your profit margin is on an incline or a decline. Obviously, increased profits imply increased growth, and higher potential. If your business has been declining, it will probably be more difficult to sell. Similarly, the longer you've been in business the greater the perceived stability, so if you've been successful for 30 years, brag about it!

Buyers also want to purchase a business they feel they can handle—and they have to believe the transition of ownership will be smooth. If the set of skills or the knowledge required to run your business are more complicated than the average person can handle, this may be discouraging to potential buyers. To overcome it, present your business in the simplest terms to show buyers how easy it will be for them to take over and continue your success. This might mean anything from guaranteeing that existing staff will stay on to offering your services as a business consultant.

Before you sell, speak to your current landlord about your lease. If your business is in a particularly desirable location or if you have a relatively low monthly rent, these can be selling points if the landlord will allow you to transfer the lease to the new owner.

If you can show potential buyers that you have a loyal client base, that can be perceived as a selling point that will increase the value of your business. At the same time, you'll want to show that the majority of your profits aren't based on the business of just one or a few clients. If the loss of one client could make or break your business, you'll get a lower offer than if you have a diverse client base.

While buying a business is obviously a business transaction, a surprising number of buyers will trust their gut instincts when it comes down to making an offer—and the number one red flag for a buyer is accounting discrepancies. Keep meticulous records of your financial transactions and your taxes. If you've been keeping some of your business dealings "under the table," start reporting all of your income and track it on the books. It's the only way to prove your company's actual revenue and can ultimately impact the purchase price. Nothing will ruin your deal more quickly than shoddy record keeping.

If your business offers a unique or exclusive service, this can elevate its value, provided you can prove that it's profitable. If your product or service is patented or trademarked, have an assessment done to evaluate its worth.

Hard assets are also desirable to buyers. Not only do they increase a lender's value 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 more alluring to a buyer than a strong recurring revenue base. Services that will always be in demand—like plumbing or self storage—are the closest thing buyers can get to a sure bet. If your company has any element of recurring revenue, you'll want to draw attention to it when marketing to potential buyers.