

What's It Worth

- I. Definition of Terms
 - a. **Price:** What the buyer will pay for the business.
 - b. **Value:** What the business is actually worth
 - c. **Going Concern Value:** The most probable market value, expressed in dollar terms, available on the open market, for a proven business enterprise.

- II. Business Valuation Methods (for determining going concern value)
 - a. **Book Value:** The summation of current and capital assets, less liabilities.
 - b. **Book Value Adjusted:** The same as book value, with assets valued at current market rates.
 - c. **Comparative Sales:** This method used mostly in real estate transactions; value based on most recent comparable sales of a similar asset.
 - d. **Sum of the Assets:** This method is most often used when a high proportion of business value is represented by capital assets.
 - e. **Capitalizing Net Profits:** Application of a capitalization rate to stabilized net operating profit; usually historic based.
 - f. **Discounting Projected Net Operating Profit:** Similar to capitalizing net profits, except that future net operating profit is projected then discounted to net present value.
 - g. **Price-Earnings Ratio:** The method reserved primarily for stock market and larger company valuations.
 - h. **S.W.A.G:** Unfortunately, this is the most widely used method. The seller determines what he would like to get, and the buyer seeks to raise the money to pay seller the asking price.

- III. Some Reasons Why Owners Sell Their Business (buyer needs to know reasons)
 - a. Losing money
 - b. Failing health
 - c. Retirement
 - d. Owner disputes
 - e. Excessive competition
 - f. Poor management
 - g. Owner outgrows the business
 - h. Maximum economic value reached
 - i. Better days were yesterday, not tomorrow
 - j. Lack of resources to expand
 - k. Capital gains
 - l. "I've had it"
 - m. Court ordered distress sale
 - n. Spin-off
 - o. Personal issues
 - p. Labor problems

- q. Etc, etc., etc.
- IV. Things You Should Know Before Determining Numeric Value
 - a. Money (the Alan Greenspan factor)
 - b. Political climate
 - c. National scene
 - d. Public attitudes and perceptions
 - e. Target markets:
 - 1) Population
 - 2) Demographics
 - g. The neighborhood
 - 1) Traffic
 - 2) New development and/or rehabilitation
 - h. Industry assessment:
 - 1) History
 - 2) Supply and suppliers
 - 3) Customer and client relationships
 - 4) Big boxes and franchises
 - 5) Financing
 - 6) Labor
 - 7) Obsolescence
 - 8) Key ratios
 - i. Business specific
 - 1) Legal
 - 2) Goodwill (how good is it?)
 - 3) Lease
 - 4) Competitors

An excellent resource book for those of you who want to know more about business valuation is **What's It Worth**, Lloyd R. Manning, The Oasis Press, 2000.