

Forget The Asking Price of A Business For Sale!!

There's a popular saying regarding the asking price of any business for sale: "a business is overpriced the day it's listed for sale." Experience shows, there's more truth than fiction to this statement.

The asking price has nothing to do with the purchase price. Good negotiating skills and creative deal making is what gets a deal done! So, when looking at listings, don't get discouraged by what they're asking. After all, if you do this right, that's not what you're going to be paying...right?

It's easy to understand the seller's desire to price a business higher than what the market will bear.

Most sellers have an emotional attachment to their business

Sellers generally do not receive any professional input when establishing their selling price.

Every seller wants to get the most money in his or her pocket from the sale.

The challenge for a potential buyer is to combat these issues with factual information in order to acquire the business and achieve the greatest possible return.

Both buyers and sellers must realize that business valuations are very subjective. It's an art, not a science. Both parties must also realize that appropriate formulas for that particular size and type business must be applied. Of equal importance is that both parties must agree that a business is only worth what a buyer is willing to pay and what a seller is willing to accept.

All of this sounds pretty basic and generic doesn't it? The difficulty of course is to come to a common dollar figure. I've always felt that every seller's value is too high and every buyer's calculation is too low, and somewhere in the middle lays an accurate valuation.

This Is A Down Payment Driven Negotiation

Sellers usually have a fixed figure of what they want to walk away with in their pocket. That is why the down payment is quite often more important than the actual purchase price. I have been involved in countless transactions on behalf of buyers when we've offered to meet the down payment requirements in exchange for a massive reduction in the total purchase price or have received incredible concessions on the balance of sale note (zero interest for one year, extended terms, etc.)

When addressing the price in any negotiation, ask the seller to outline how they arrived at their price. If you do your research, you'll be able to demonstrate an abundance of reasons why they may be asking too much. Having said this, there are certain sellers, highly motivated ones, who price their business fairly. In these cases, work on getting other concession in the deal in exchange for meeting their price.

Whenever you look at a business purchase, keep in mind that EVERYTHING is negotiable; especially the price. Use it as a barometer for the seller's thought process. Don't allow the asking price of any business within striking distance be a deterrent to you. If it's the right business for you, then solid negotiating skills can adjust any seller's thinking.

"You won't believe it but I got the ultimate compliment at the deal closing last week: the seller called me a "shark". I figured you'd love to hear that. Thanks for everything and I'll be in touch."

Henry Segal
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