

FACTORS AFFECTING THE SALE PRICE OF A BUSINESS

In the previous Supertrac Bulletin we discussed how to calculate the base value of a business by assessing the value of the free cash flow generated by the business.

In practice, the realisable value may differ from this base value because of other factors. Here are some of them.

RISK – A FOUR-LETTER WORD

A poster in our office says: “Risk. You cannot discover new oceans unless you have the courage to lose sight of the shore.”

Risk is a four-letter word a purchaser knows well. What will happen when the current owner leaves? Can the purchaser repeat or improve on past performance?

There are hundreds of factors to take into account when analysing a business. We have a checklist of more than 400 items available!

Anything that lowers the perceived risk to the purchaser will clearly make the business more attractive.

Key ingredients to build the value of a business to a purchaser are:

- 1 Strong Systems
- 2 Organisation Structure
- 3 Quality Staff
- 4 Image, Brand & Reputation

STRONG SYSTEMS

A systems-rich business reduces risk to the purchaser because:

- Loss of business on changeover will be minimised as the system is driving the business
- Detailed business operation manuals reduce the importance of, and reliance on, spontaneous decision-making skills
- The business will be easier to run and grow
- The purchaser can learn the business more easily
- The system makes it easier to demonstrate how well the operation has been perfected

ORGANISATION STRUCTURE

Generally, the more reliant the business is on the owner, the less comfortable the purchaser will be. A business with strong management in place and/or with strong support staff offers the purchaser greater comfort that the operation will continue after the owner leaves.

QUALITY STAFF

Ideally key staff will either remain or be replaceable. Positive signs are a stable workforce, high morale, well-paid staff and good integration of systems and people. The staff's ability to drive the system is important.

STRONG IMAGE, BRAND & REPUTATION

These reflect the perception of the business in the minds of its customers and the degree to which the business has its own momentum vs dependence on its owners. A brand will often have value in its own right, having been built up over time.