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Buying a Business - For Sale By Owner

By Scott Balfour

This article may sound extremely self-serving, but might be the most valuable one I've written. So in spite of appearances, I've decided to take the risk and write it.

When buying a business there are two choices: buy a 'FSBO' (For Sale By Owner) directly from the owner, or buy a business through a Business Broker. If you think buying a FSBO is where the deals are, you might want to think again.

Sellers who are not counseled tend to have an over inflated opinion of what their business is worth. This year alone I've encountered sellers who were hoping for a value, not just a little over market, but as much as 2 and 5 times higher! Not all these sellers were shysters. To the contrary, some were the nicest people you'd ever want to meet. So why does this happen? Let's take a look at a few of the reasons.

Some are looking for **the Rich Idiot** to come along. They will sell 'at the right price' but if that doesn't happen, they rigidly hold to their price, believing the reason their business doesn't sell is because of something other than price.

Basically, they want to hit the next best thing to winning the lottery. The reasons for doing this, other than self-deception, could be many, including: they

are listing the business for sale to appease a third party, such as a partner, spouse, doctor's orders etc. Or, they have some personal needs that would be satisfied by a hugely inflated price and they don't think it will cost anything to give it a try. Either way, their value is not driven by the market or perceived needs of a buyer.

Some price their business based on **"what they have into it"** or based on the loans they have against it. In one of my cynical moods I might rephrase this approach as 'original cost plus



all losses'. This tells me, sellers pursuing this method of pricing their businesses are wasting a lot of time - yours and theirs!

Others want to value their business based on what **"Uncle Louie"** suggests. Uncle Louie always has an opinion. He may be individually successful, and even well intending, but is offering an "off the cuff opinion" without serious research and analysis. Some "Uncle Louie's" have professional degrees and designations ... but don't have much experience in the field or have market knowledge.

Another approach I run into is called **2H+D**. It stands for two heartaches plus a divorce. My

heart goes out to these folks. They have put money, blood, sweat, and tears into their business. They have worked long hours, sacrificed much in their life. They have often gone without compensation, without vacations, without much family or personal time, just to keep their business open. Some of the proudest people you have ever met. Now that they have made the heart-breaking decision to sell, they try to get compensated to make up for this pain. Truth is, the business is worth what the numbers say to the buyer; seller's pain doesn't have a number.

Some people price their business based on what it will take to get into their next venture or to retire. Does **salary times life expectancy** sound like a valid pricing formula to you?

Another popular, but misapplied, approach is the **'one size fits all' multiplier** approach. Sellers are confused on which multiplier to use, times what number, should that number be adjusted? If so, by what?

So if you want to waste a lot of time, and frequently money, pursuing FSBO's that have used some of these above pricing techniques, knock yourself out.

If you are looking for a business to buy, contact a business broker. Perhaps hire one. It just might save you a lot of time and money. It certainly will save you aggravation. **Shouldn't the business you buy be valued to assure your success, and be bankable?** Give us a call ... it never hurts to talk.