

Why do businesses sell for less than they are worth?

By Brett Morante

Businesses today regularly sell for less than they are worth. Two common reasons are lack of planning and inadequate preparation. Leaving it until the business is to be advertised for sale is much too late. These issues should and could be easily addressed well before this time. Let's explore six other areas that may dramatically impact the potential value of your business.



1. Business reliance on a single person

This may be the owner, manager or a key employee. When there is an over reliance on you as the business owner, to both do the work and generate ongoing income, it may mean your 'business' may not be saleable at all. If it is sold then only a fraction of the business may sell for a small amount.

2. Higher degree of real or perceived risk for the buyer

Generally higher risk will contribute to reducing the amount a buyer may be prepared to pay. Businesses sell for less when steps are not taken over a period of time to reduce this risk. Risk factors may include market, financial or general business issues.

3. Lack of suitable business systems and processes

The more effective and efficient a business operates the easier it is to transition from a seller to a buyer. This in turn can increase the attractiveness to purchase your business. With established systems in place the reliance on a single person may also be reduced.

4. Needing to sell at short notice

This is often coupled with not taking the time to prepare for a sale well ahead of time. As with any transaction a buyer will pay what they believe something is worth to them. If you are forced to sell and the buyer 'smells a bargain' this in itself can impact the final price. One thing is guaranteed the day will come when you will leave your business.

5. Selling without required knowledge

Significant financial benefits may result in seeking professional advice from your accountant, solicitor, business advisor and broker. Selling a business is much more than putting a for sale sign in the window (this may not be a very good idea anyway)

6. Needing to get out due to frustration

When a business owner has had enough and makes the decision it's time to get out now! This is compounded if time, effort and resources have not been invested to prepare the business in advance for sale – yes it is surprising this does happen.

Real benefits can flow to business owners by considering what it takes to sell their business and investing to maximise business value ahead of time. This should be done from the time a business starts and continue until its eventual sale. It is also prudent to take a strategic outlook in preparing a business for sale. This may allow time for the business to be positioned for sale at the right time for the right buyer. The benefits can be substantial both for your current operations and future business valuation and eventual sale price.

Keep in mind it is in your interest to give a potential buyer good reasons to purchase your business than to provide them easy excuses not to do so. You want them to see the 'value' you have worked so hard to achieve.

It is one thing to recognise something needs to be done it is yet another to take the required steps to increase the value of your business. T4B Consultancy is committed to helping businesses succeed and looks forward to assisting you further.



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