

The Price is Right. Or at Least it Should Be!

by OJ Robinson, CBI



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The owner of ABC Motel (not the real name) listed their 37 room motel for sale with a real estate agent 11 months ago for \$2.5M. The offering was considerably overpriced for the area and the amount of business the motel was doing. After this listing expired, they chose another real estate agent and listed it for \$2.25M. Recently, I received an e-mail notifying me that the price had been reduced to \$1.7M. The very next day, there was a postcard in the mail announcing a foreclosure auction of this motel. My experience and knowledge of the local hospitality market tells me they will not get \$1.7M, or anything close to it, at the scheduled auction.

All Sellers want to get as much money as possible for their business. However, it has been my observation that an asking price that is too high can actually reduce the eventual selling price and will cause substantial delay in the process.

Businesses get the most buyer attention when they are first offered for sale. Once a business has been on the market for a long time, it gets tired, even with price reductions and new marketing descriptions. There are a limited number of qualified, ready buyers for any business. An overpriced offering will turn away these most likely buyers.

Buyers who have looked at the business once, but have dismissed it because of the price, move on to other opportunities. I have found it very difficult to get buyers interested in a business they have already turned down. Their initial look may have revealed possible problems with the business. The extended time on the market often confirms their suspicions.

Sellers who want to get the most for their businesses (that's ALL Sellers) should:

1. **Have your business valued by a professional.** Expect to pay for this service just as you would pay an accountant or lawyer for their services. A valuation will give an owner a realistic idea of what the most probable selling price will be for the business. A valuation will also point out the business attributes that add and subtract value and it

can give a seller guidance in what to do to increase the value of their business and prepare it for sale.

2. **Hire a Business Broker.** A Certified Business Intermediary (CBI) is a member of the International Business Brokers Association (IBBA) and will have the training and experience not only to properly position the business in the market, but to successfully lead the buyer through the process of due diligence, inspections, financing, licensing, and the transfer of the business, real estate, inventory, and intangible assets. Real estate agents typically have no expertise in these activities.
3. **Offer the business for sale at or near the price determined through the business valuation.** Asking far above this price will most likely result in a delayed process that will initially turn away some of the best buyers. Overpricing could even result in a final selling price that is lower than could be attained with a realistic initial offering price. During the delay this often causes, there is a risk of the business declining, losing key employees, and owner burnout. The risk of having the business decline in value may be greater than the probability of finding a buyer willing to pay more than the business is worth.
4. **Continue to invest time and money into your business.** This is not the time to coast. Do that AFTER the sale. It is difficult to sell a business that is, or is perceived to be, in decline. Don't wait until you are burned out to start thinking about selling your business.

The owner of ABC Motel would have been much better off to follow the previous steps. By hoping to get an above market price, and not working with a Business Broker, he has put his business and himself at risk of financial hardship or bankruptcy.

When you get ready to sell your business, choose carefully who you will work with to sell your business, and be realistic about your expectations of a selling price. Don't be the seller that offers a business at a high price to "see what happens." Working with a Business Broker will ensure your company is strategically priced from day one.