15 COMMON MISTAKES BUSINESS OWNERS MAKE THAT OVERVALUE THEIR BUSINESS AND PREVENT THEM FROM SELLING!

By Hank Bockus | July 17, 2021

Attention all small business owners! Are you looking to sell your business but not sure how to value it correctly? Do not make these common mistakes that can cause you to overvalue your business and never make a successful sale.

Check out our latest article that outlines 15 ways to avoid overvaluing your business and ensure a successful sale. From understanding the importance of fair market salary and rent adjustments to separating real estate purchases from business purchases, we have got you covered.

But do not just take our word for it, read the success stories of small business owners who have accurately valued their businesses and made successful sales. And do not forget to engage with us by sharing your own experiences or asking questions.

Please share this article to help your fellow small business owners avoid these common valuation mistakes. And stay tuned for more valuable content and tips on how to grow your business!

1. **Wrong Weighted Averages**: If you are using a weighted average to calculate your business's value, make sure it reflects sudden increases or decreases in profit and revenue. Weighted averages are used to give more weight to recent performance rather than past performance. However, if you use a weighting system that only benefits you, it will make your business seem more valuable than it is. So, be honest and transparent about your business's performance when calculating its value.

2. **Inappropriate Addbacks**: When calculating your business's financial statements, you may add back expenses that are not essential to the business's operations, such as excessive travel expenses. However, SBA lenders do not like these types of addbacks, and they may affect the value of your business. Make sure the add-backs are necessary and reasonable and seek professional advice to ensure you are accurately representing your business's financials.
3. **Ballparking**: Don't use rounded numbers when estimating your business's value. Exact documentation is required to avoid any discrepancies that could jeopardize the sale. Use specific numbers and provide evidence to support them. This will help build trust with potential buyers and ensure you are not overvaluing your business.
4. **Not Considering Capital Expenditures**: Capital expenditures are expenses incurred to acquire or upgrade assets that have a useful life beyond the current accounting period. These expenses are important when calculating the value of your business because they affect its future earning capacity. Make sure to factor in capital expenditures when calculating your business's value. If you do not, your business's value will be overestimated, and it may deter potential buyers.
5. **Lack of Fair Market Salary and Rent Adjustments**: Your salary and rent are important factors when determining the value of your business. Adjust them to fair market value to avoid overvaluing your business. If your salary or rent is higher than market value, it can artificially inflate your business's earnings and make it seem more valuable than it is.
6. **Not Separating the Real Estate Purchase from the Business Purchase**: If you own the real estate your business operates on, make sure to separate it from the business sale. Potential buyers may assume they are buying real estate along with the business, which can affect their interest in the purchase. So, be clear and transparent about what you are selling to avoid any misunderstandings.
7. **Too High of Multiple**: When determining the value of your business, it is common to use a multiple of earnings or revenue. However, you should never lead with multiples when doing valuations. It is easy to get carried away and apply the highest number that applies to a Fortune 100 company to your small business, but it will overvalue your business. Instead, use multiple valuations as a benchmark and adjust them to reflect your business's unique characteristics.
8. **Applying Wrong Multiples to the Wrong Benefit Stream**: There are different types of multiples used to value a business, such as EBITDA, net income, or cash flow. Make sure to apply the right multiples to the right benefit stream to avoid overvaluing your business. For example, if you use an EBITDA multiple for a business with high capital expenditures, it will overvalue the business, as EBITDA does not consider capital expenditures.
9. **Not Adjusting Sale Prices for Rising Interest Rates**: Interest rates can affect the value of your business. If interest rates are rising, it can lower the value of your business because potential buyers will have to pay more interest on their loans. Adjust your sale price accordingly to reflect the current interest rates so existing cash flow will support the principal in interest payments on the debt.

10. **Making Stupid Predictions of a Perfect Situation for Future Performance**: Don't make unrealistic predictions about your business's future performance. Buyers want to see realistic projections based on historical data, not overly optimistic assumptions. Making overly optimistic projections will overvalue your business and deter potential buyers.
11. **Poor Advice from Influencers**: Be cautious of advice from influencers who do not have experience in business valuation or selling. They may give you advice that overvalues your business and prevents it from selling. Seek advice from reputable professionals with experience in business valuation and sales.
12. **Not Understanding the Difference Between Personal Goodwill and Business Goodwill:** Personal goodwill is the goodwill that is associated with the business owner, such as their reputation or personal relationships with clients. Business goodwill is the goodwill that is associated with the business itself, such as its reputation, brand, and customer base. Make sure you understand the difference between personal and business goodwill when valuing your business. If you overvalue personal goodwill, it can inflate the value of your business and deter potential buyers.
13. **Government Stimulus Applied Wrongly to the Financial Statements**: Government stimulus, such as the Paycheck Protection Program (PPP), is not income. It is important to properly account for these programs in your financial statements to avoid overvaluing your business. Seek professional advice to ensure you are properly accounting for these programs.
14. **Not Including Inventory in Your Sale Price**: If your business sells products, make sure to include inventory in your sale price. Not including inventory can understate your business's value and deter potential buyers. Make sure to value your inventory accurately and include it in your sale price.
15. **Being Needy**: Being needy can make you reliant on a sale and willing to overvalue your business to make a deal. Just because you have a financial target sale price in your mind – does not mean a buyer will match your expectations. Take your time and wait for the right buyer who will offer a fair price for your business.

Avoid these common mistakes to accurately value your business and attract potential buyers. Seek professional advice to ensure you are properly valuing your business and presenting it in the best light. A properly valued business will attract the right buyers and help you achieve a successful sale.

GET A BUSINESS APPRAISAL

If you consider buying or selling a business, it helps to work with our experienced firm that knows similar comparable sales. We can provide a clear and effective business valuation to help sell your business or to help you understand the Company you are purchasing.

The selling price is not based on a "financial retirement need" but a weighted approach between Cost, Market, and Income.

BUY A BUSINESS THROUGH BOCKUS CONSULTING BUSINESS BROKERS

If you consider purchasing a business, please fill out our online buyer profile found on our website at bockusconsulting.com.

SELL A BUSINESS WITH BOCKUS CONSULTING BUSINESS BROKERS

Hopefully, this article has provided an overview of some of the factors in the valuation of a company. If you are considering selling your business, we offer a confidential consultation to give you more specific information related to your business. After reviewing your financial information, we can provide you with a recommended plan.

We have a large pool of potential buyers and will aggressively market your business while maintaining your confidentiality. Having a large number of potential buyers competing for your Company will get you the best price.

Bockus Consulting specializes in selling companies with annual net incomes of $250,000 to $17 million in various industries. We offer a free, confidential consultation to learn more about you and your Company.

You will only sell your business once – so hire the best.

Bockus Consulting – Business Brokerage is an Oklahoma-owned, non-franchised firm that successfully matches sellers to prescreened prospective buyers. To learn more about buying and selling businesses in Oklahoma, visit our website at bockconsulting.com.