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The Difficult Issues Often Attached to Valuing a Business

There is little doubt that valuing a business is often complex. In part, this complexity is due to the fact that business evaluation is subjective. The simple fact is that the value of a business is often left to the mercy of the person conducting the evaluation. Adding yet another level of complexity is the fact that the person conducting the valuation has no choice but to assume that all the information provided is, in fact, correct and accurate.

In this article, we will explore the six key issues that must be considered when determining the value of a business. As you will see, determining the value of a business involves taking in several factors.

Factor #1 – Intangible Assets

Intangible assets can make determining the value of a business quite tricky. Intellectual property ranging from patents to trademarks and copyrights can impact the value of a business. These intangible assets are notoriously difficult to value.

Factor #2 – Product Diversity

One of the truisms of valuing a business is that businesses with only one product or service are at much greater risk than a business that has multiple products or services. Product or service diversity will play a role in most valuations.

Factor #3 – ESOP Ownership

A company that is owned by its employees can present evaluators with a real challenge. Whether partially or completely owned by employees, this situation can restrict marketability and in turn impact value.

Factor #4 – Critical Supply Sources

If a business is particularly vulnerable to supply disruptions, for example, using a single supplier in order to achieve a low-cost competitive advance, then expect the evaluator to take notice. The reason is that a supply disruption could mean that a business' competitive edge is subject to change and thus vulnerable. When supply is at risk then there could be a disruption of delivery and evaluators will notice this factor.

Factor #5 – Customer Concentration

If a company has just one or two key customers, which is often the situation with many small businesses, this can be seen as a serious problem.

Factor #6 – Company or Industry Life Cycle

A business, who by its very nature, may be reaching the end of an industry life cycle, for example, typewriter repair, will also face challenges during the evaluation process. A business that is facing obsolescence usually has bleak prospects.

There are other issues that can also impact the valuation of a company. Some factors can include out of date inventory, as well as reliance on short contracts and factors such as third-party or franchise approvals being necessary for selling a company. The list of factors that can negatively impact the value of a company are indeed long. Working with an M&A Advisor is one way to address these potential problems before placing a business up for sale.

About TOGA, The Oil & Gas Advisor:

The Oil & Gas Advisor's team of M&A Brokers and advisors specialize in selling businesses related to the oil, gas, and energy industry. Clients include manufacturers, distributors, services, construction and logistics firms. TOGA is USA's expert in selling propane companies. Since 1987, they have been investment banking merger and acquisitions advisors, providing certified business broker and intermediary services. TOGA's experts are award winning industry leaders with offices in Texas, Oklahoma and Pennsylvania.

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