

# PRICE VS. VALUE

There can be a big difference between value and price. Value is normally calculated on the business's income and net assets – it is both a quantitative and a qualitative theoretical calculation. On the other hand, price is what someone is willing to pay!! There are many factors that come into play with price. Purchasers can be emotional and irrational when determining the price they are willing to pay but that is what the seller puts in his pocket.

We have all heard the stories of two people standing on the porch of a house in a hot real estate market bidding up the price tens of thousands over the point of realism. Emotion, bragging rights and easy credit! So price and value don't always line up.

Another factor in price can be the terms of the deal. In the U.S. 98% of sales involve a vendor take back. In addition, most deals in the U.S. have an earn out clause. The vendor is participating in the upside of the business over a specific time period.

Finally, who buys your business can be a factor in arriving at the price to be paid. An existing business may be looking for only assets i.e. only clients while another purchaser is looking for a turnkey operation i.e. name, office, etc. Different purchasers will have different reasons for bidding higher or lower than the theoretical or asking price.