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HYDE Valuations, Inc.

We Value Both Real Estate and Businesses
Including Machinery & Equipment

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Is it Marketable?

Marketable is generally defined as “able or fit to be sold.” A critical assumption in virtually any appraisal is that the subject of the appraisal is marketable; i.e. it can be transferred from seller to buyer in a reasonable period of time after exposure for a “typical” period of time. Marketability, or sometimes the lack thereof, is something that appraisers must consider when appraising virtually any subject. This concept applies to all types of appraisals, but it is particularly interesting with respect to business appraisals. The following is a very interesting question that has been argued about for many years.

How many small businesses put up for sale actually sell?

There are no known records that provide an answer to this question. However, discussions with many business brokers and my own experience as a business broker have given some good indications.

According to the business brokers I have talked to, and my own experience as a business broker, only about 10% to 20% of businesses listed for sale actually sell. This varies somewhat based on the type and size of the business. The main reasons many businesses do not sell include:

1. The business is overpriced. Seller’s unwilling to accept “fair market value” for their business, i.e. an amount that can be supported by the business’s ability to provide funds needed to repay a loan, give the buyer a “market” salary, and provide a reasonable return on the cash invested.
2. The business records are in bad shape and claimed earnings cannot be confirmed.
3. The lack of availability of bank financing for many types of businesses.
4. Lack of strong seller motivation to sell that usually results in not getting needed items to facilitate a sale.
5. Some businesses are more difficult to transfer than others, i.e. personal goodwill is involved in some businesses which erodes the actual business value.

One very large business brokerage operation in Texas has kept records to determine the average number of times a business needs to be “shown” before a sale takes place. Their average was 54 times. In my experience, the actual number of showings, on average, seemed lower than 54, but it does take a large number of showings to generally produce a buyer that makes an offer that actually closes.

Another statistic of real interest is that between 30% and 50% of the businesses listed for sale actually go out of business within one year of being on the market. The most common reasons that a business fails include:

1. The business was not making money and the owner could no longer fund the losses.
2. Poor business practices – lack of required time spent in business, lack of capital, lack of marketing, poor employee management skills, etc.
3. Landlords that refuse to allow another tenant to take over the existing lease or refuse to provide a new lease to a buyer; usually because they have another tenant willing to pay more rent that the existing business can afford.

There are no rules of thumb or convenient, easy formulas that can be easily applied to generate the value of any business. Each business is unique and each has specific issues that must be investigated and examined by a qualified and experienced business appraiser in order to determine its actual value.

Valuations play a part in all strategic transactions, tax, and many litigation matters. For additional information or advice on a current situation, please do not hesitate to call. **We value real estate, businesses, and personal property including livestock and machinery & equipment.**

Sincerely,



Paul R. Hyde, EA, MCBA, ASA, MAI
Enrolled Agent – Enrolled to Practice Before the IRS
Master Certified Business Appraiser
Accredited Senior Appraiser – Business Valuations
Designated Member – Appraisal Institute (MAI)
Certified General Real Estate Appraiser
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