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Cheap, Fast & High Quality – Pick Any Two

Paul R. Hyde, EA, MCBA, ASA, MAI

As all of us do, I typically get several phone calls a day from someone who needs some type of an appraisal. Most of these calls are serious and we are happy to see if we can help the potential client meet his or her need; however, a few of them are simply humorous. The funny calls generally go something like this:

I need an appraisal of a 2,500 acre ranch in Southern Nevada with a feedlot, seven homes, and a Bureau of Land Management grazing permit for 3,600 acres. Can you get it done for me by next week; we need it to be of high quality because we are going to court for a divorce and property settlement, and we have a limited budget so can you get it done for \$1,000?

or

My partner and I don't get along and we need to have our manufacturing business appraised so we can figure out how much I have to pay him to leave the business. We just need a quick, simple idea of what the business is worth because we are sure to settle things without going to court. We have been in business for 14 years and did \$32 million in revenue last year. Can you give us what it is worth by tomorrow for \$500?

As stated in the title, **Cheap, Fast & High Quality: Pick Any Two** defines fairly well the options available. Professional work such as business, real estate, and machinery & equipment appraisals, come in a variety of configurations depending on the client's need. If a client needs it **Fast**, generally it must be expensive because everything else must be dropped in order to get a specific panic project done on time and often weekend and evenings must be worked. If the client wants it **Cheap**, it generally takes longer as it can be worked on when nothing pressing is due and can be used to fill up under utilized time or staff. If the client wants it to be of **High Quality**, it generally isn't going to be cheap and may take a while to cover all of the needed bases and it certainly won't be cheap and fast.

As we all know, professional services, such as appraisals, legal work, accounting & tax work, etc., are not commodities. A commodity, according to Wikipedia, "is something for which there is demand, but which is supplied without qualitative differentiation across a market. It is a product that is the same no matter who produces it, such as petroleum, notebook paper, or milk. In other words, copper is copper. Rice is rice. Stereos, on the other hand, have many levels of quality. And, the better a stereo is, the more it will cost."

It is often difficult for clients and potential clients to differentiate between professional service providers. Price alone is not generally a good way to decide between professional service providers unless each provider is equally qualified based on experience, education, and training. For example, I have seen legal professionals in a specific field quote a much higher hourly fee

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for work than a general practitioner for the same work. However, the specialist at the higher rate who regularly does this type of work in the end is much less expensive than the generalist that you must pay for considerably more hours at a lower hourly rate while he or she figures out how to deal with the issues at hand. In addition, it is generally much less expensive to have a project done correctly the first time rather than to have it done several times before it is done correctly.

I find it amusing to hear about the astronaut that when sitting in the space shuttle about to blast off into space thinks "I am sitting on top of a rocket and in a space craft in which every component was made by the lowest bidder." Components of such equipment, however, are made to very specific specifications and are examined by other professionals to make sure they are properly made before being put into use. Such objects are in fact, similar to a commodity. One such object is as good as any other as long as they each meet the required specifications.

As an appraiser, I am often asked to simply provide a fee quote on a job, often without the person asking for the quote understanding the many differences in quality and scope that could be construed to cover what is being asked for. Real estate appraisals, for example, come in three report categories: self-contained, summary, and restricted use; however, there are really considerable gray areas in the definitions of these report types. Some appraisers include great detail and high quality work in a summary report that others would call a self-contained report. I believe the best way to select a professional is to check with others that have used their services – in other words, check their references and find out if the professional meets their client's needs. Certainly, no one wants to pay more for a service than is needed and we all like to get a "deal"; however, getting a cheap appraisal that does not meet the client's needs is never a bargain.

Our profession needs to do a better job of letting the typical users of appraisal reports know that appraisals are not a commodity – there is a difference between quality of work based on the appraiser's experience, education, and training. It would be a shame to have business appraisals treated as a commodity in a similar fashion to what has happened to many real estate appraisals. Many lenders typically hire the lowest bidder from a group of real estate appraisers on their "approved" list – they treat all appraisers as if they were the same regardless of qualifications, experience, education, and training. I believe many of the loan problems that have plagued the financial markets for the last few years are largely due to poor quality appraisals – it is hard to get a good analysis of any property for \$300. Over the last few years I have seen many complex property appraisals that were done for very low fees with corresponding poor analysis generally using recycled comparables that were used for numerous other similar appraisals. This type of poor quality appraisal does nothing but fulfill a requirement to have a piece of paper in the file.

Our firm refuses to get involved in bidding wars for appraisal services. Perhaps we are fortunate to have the ability to do many things and thus avoid this trap; however, I feel that regardless of the fee charged, I am obligated to do the very best job for the client possible. Over time, I am convinced that those appraisers who do nothing but high quality work will succeed in developing a well deserved reputation among users of appraisals that will result in continued work for many years.

Cheap, Fast & High Quality - Pick Any Two

Appraisals are not a commodity! An appraisal is, or at least should be, a well supported opinion of value.

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