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Business Valuations

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Business Valuation Appraisal Methodology

There are a number of standard appraisal methods used to value a business that include, **Asset approach, Income approach, Market approach (Comps), Capitalization of Earnings, and Discounted Future earnings**. Each one of these methods individually does not always represent the true value of a business. We have seen appraisals where the derived value of these five different approaches varied by 500%. Also used are Rule of Thumb values based on multiples of adjusted profits, percentages of gross sales, and Comparisons of the subject business to other similar businesses. The rule of thumb methods work best when there are many similar businesses with records of their selling price. If all the businesses valued this way had the same operating expenses and assets this might work. This doesn't happen and when you use the method on more unique businesses it just doesn't work. Using Comps tends to give the average value of the compared businesses and not the value of the business being appraised. We wanted to find a more accurate and easier to use method.

After working with the standard methods for some time and evaluating what creates value in a business we learned that combining the Asset, Income and Market approaches into a single method gave a report that provided a **complete and accurate appraisal**. Having been involved with our own Business Brokerage for over twenty years we were also able to look at businesses sold to adjust and refine the combined method to reflect market value.

The next step was to find a way to keep the detailed analysis of the business being appraised and present it in a simplified easy to read manner. By looking at the components of a business that created value and categorizing them into Income, Assets and Market related we were able to create an Excel program to present the appraisal. The program was designed to be flexible so that it can be changed to meet different types of businesses and the many different purposes for business appraisals. This system may look simple but the complexities of doing an appraisal are still applied. There are many things that we still consider that are not listed in every report. When they are needed we add them into the Excel program.