



ASKING THE RIGHT

PRICE

By Brendon Falk

Pricing your business is the first and most difficult decision the seller has to make. Ultimately, it can mean the difference between success or failure. Whilst we are obligated to achieve the maximum sale price for you, sometimes the price may be set unjustifiably high. Because a lot of vendors are not familiar with the sales process, they believe they will get what they are asking when this is not usually the case. Unless you have a monopoly or some form of exclusivity, you are selling in a competitive market and your business will be compared to others. Furthermore, the buyer's accountant or financier will analyse your business financials in order to analyse past, present and potential cash flows (the 3P test). If the business cannot justify the asking price, it will be apparent during this process. This reminds me about metaphor of the 'magnificent fish'. This story applies to both buyers and sellers and is well worth reading.

The Magnificent Fish (adapted from Siegel, P. 2005, *Businesses For Sale: How to Buy Or Sell A Small Business*)

This parable describes the story of a man who was attracted by the legend of a magnificent fish in a beautiful lake in the middle of the woods. He dropped his line and waited for the catch of his life. He was filled with hope and anticipation to know that soon it would happen. Other fishermen passed by to fish lesser creeks and lakes on the outskirts of the woods. The man saw them every day when they returned with the catch of moderate-sized fish with ordinary markings.

The man smiled at himself because he was sure that soon he would land the magnificent fish and put other fishermen to shame with his catch. So he continued to wait. He waited for days, then weeks and eventually months had passed. By now he grew hungry and frustrated as he watched the other fishermen, day by day bring back fish to feed and nourish them. This only made him more determined until he became incredibly weak and increasingly malnourished. The story suggests that he may still be waiting there today, more resolute and determined than ever.

According to Siegel (2005), this is the modern day equivalent of the small business owner who wants to retire but is waiting for the perfect buyer. Someone with pockets full of cash who agrees to the asking price on the seller's terms is very rare indeed. About as rare as a gold Unicorn. Conversely, many buyers have the expectation of a highly profitable, risk free investment to fall into their lap at a very low price. Keep dreaming!

Both these type of people indeed have a long wait ahead. To hold out for the magnificent deal, rather than to deal in reality is a choice made by a surprisingly large number of owners. Subsequently, it is the main reason why more than 50% of buyers and sellers are not successful in their efforts. Don't risk being faced with the decision to close down or give the business away. The moral of this story is: don't risk trying to catch the 'magnificent fish' at the expense of catching nothing at all.

Should you require any further information or assistance on this topic, I invite you to contact me on my mobile 0412 311 803 or by email bfalk@foresightbusiness.com.au.

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