



Debunking the Multiple Myths- “I heard they sold for...”

Gathering with family and sharing stories about each other when we were growing up can be a lot fun. It can also be quite dangerous as well. Many times family members will have remember the “facts” of the story completely different when they were all there at the same time! This same phenomenon holds true with eye witnesses of a crime as many studies have proven. There is another area, where memory can fail us...”I heard they sold for....”

For whatever reasons this happens are not important for this discussion, what is important is that people will base future business plans on undocumented “discussions” about what other businesses sold for. I am not talking about Rule of Thumb discussions. These can be reliable if used in the right context. Why, there are books published on the Rules of Thumbs that business sell for. I recommend everyone have a copy of Tom West’s most current book, 2020 Business Reference Guide, The Essential Guide to Pricing Businesses and Franchises. He has just released the 30th edition. You can purchase your copy on Amazon or at www.bbpinc.com.

Rules of Thumb can be a sanity test for business appraisers and Rules are Thumb can be a sanity test for owners of a business when they are trying to estimate the value of their business but do not wish to invest the time or money for an appraisal. Please do not just base your plans for the future off what you hear on the street, at least pay \$177 for Tom’s book to discover if what you are hearing is even half way correct.

The main error generally happens when people hear a multiple that a company sold for "off the street". Unfortunately, they will apply the multiple to their Gross Revenue instead of the net cash flow of the business that the multiple was intended. I have seen siblings fight over family businesses that they thought were worth multiple millions, only to find out in court that the business was not even close to a million in value. Lives can be destroyed by not doing your homework.

You can also work a life-time for price you will never achieve. Your best money spent is to talk with a professional that can give you a real concept of how to grow, price, and sell your business so that you get the most equity “when the time is right”.

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