



BUSINESS ADVISORS, INC.

3700 Mansell Road, Suite 220, Alpharetta, Georgia 30022

770.625.5050



The Decision Process in Buying a Company

By: Stephen E. Capizzi, CBI, CFP®

Buyers and sellers both seek answers to the same question: "What is the company worth?" Most people see the worth of a company as the total value of equipment and fixtures, inventory, and buildings and land. The value of the assets are important, but the sum of these asset values may not equal the value of the company.

Value is derived from the present and/or future earnings of the business. The basic valuation components can be found in the capitalization of earnings method by following the "IRV" formula:

$$I / R - g = V$$

I = Earnings of business

R = Rate of return

g = Growth rate of business

V = Value of business

For both buyer and seller finding the answer to this question is the most difficult and at the same time the most important step in the buy-sell process. But this conclusion reflects many other important decisions that must be made while the transaction is being considered. The buy-sell process is a flow of decisions to be made by both the buyer and seller. It would be impossible to point out every decision that must be made, but the basic decisions are as follows:

Motivation: a decision to attempt the sale or purchase of a company.

Contact: a decision on how to find the right buyer (or seller) for a company with specified characteristics.

Information: a decision on what information must be gathered and disclosed to buy or sell a business.

Sources: a decision on how, where, and at what cost the needed information can be obtained.

Analysis: a decision on the meaning, importance, and reliability of the information gathered.

Value: a decision on what the company is worth.

Price: a decision on how much money to take or give for the company.

Financing: a decision on how to pay or receive the purchase price.

Contract: a decision on the form and content of the contractual relation.

Implementation: a decision on how and when to transact ownership.

Both Buyer and Seller should make these decisions with experienced professionals who have both knowledge and experienced in making these decisions.

Stephen E. Capizzi is a Business Advisor with CORE Business Advisors, Inc. CORE is a private business advisory firm specializing in selling businesses and acquisition services to entrepreneurs and middle market corporate clients in a variety of industries. The firm counsels clients in the areas of exit strategies, acquisitions, succession planning, valuations, and strategic planning. Steve is a Certified Business Intermediary (CBI) and a Certified Financial Planner (CFP®). He is a member of the International Business Brokers Association (IBBA), M&A Source, and the Financial Planning Association (FPA). For more information please contact Steve at (770) 625-5050, email: Scapizzi@core-business-advisors.com or visit our Web page www.core-business-advisors.com.