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WHAT TO DO WITH A LOWBALL OFFER FOR YOUR BUSINESS

Whether solicited or unsolicited, an offer to buy your business that comes in below what you expected feels like a slap in the face—a lowball offer. You've built a strong, salable company…and they think it's worth *what?* What an insult!

But wait – before you get upset, understand that just because an offer is too low for you to accept doesn't necessarily qualify it as a 'lowball' offer. Although some buyers may seem to be trying to "steal" businesses at discount prices, more often, it's simply a gap between the owner's perception and the buyer's view of value.

Is it Truly a Lowball Offer?

For you, the owner, the definition of a lowball offer is a lower price than you think the business is worth. That number is inherently subjective, so we need to use something more concrete. The objective, measurable definition of a lowball offer is one that comes in below fair market value with no supporting rationale. To revisit my previous article on thinking like a buyer:

"Fair market value is what willing buyers (market) consider a fair price. It is not the seller, the broker, the CPA or your friend who sets the sale price. This number might not be appealing to you as the seller, in which case it's perfectly fine for you to politely walk away and go about your business. Just realize that while value may be different for each buyer, it is rarely aligned with the seller."

In other words, you are not the creator or keeper of fair market value. We can position your business to increase its value, but it's ultimately the buyer(s) who will determine this number.

There's More to It Than the Market

If you receive an offer below fair market value, there may be other factors at play. It could be customer concentration, owner transfer risk, debt financing, old equipment or market conditions. In one deal we handled, a manufacturing company did 50 percent of their business with one client, who wanted to buy the company. This potential buyer wanted to subtract their revenue as a customer from the business valuation. Why would the buyer want to pay a multiple on profit made off of themselves? The result was a low offer, but for a completely understandable reason. It's not a lowball offer; it's just a low offer backed by their logic.

Here's another example we experienced, and one that you, as an owner, will like better: We had a business that dominated a niche and their three competitors wanted to buy the business – awesome. Not only was it a good business to buy, but their motivation for doing so was to keep the other competitors from acquiring it – even better. They had themselves a bidding war. In this situation, you might receive an offer well above fair market value because the value is more about market space than your numbers.

My point in both of these instances is that different buyers have different perspectives and varying goals. But remember, if you only have one offer on the table, that lone offer stands as fair market value.

Don’t Shoot It Down

Don’t create harm where none is intended. Keeping your business on the market longer doesn’t make it worth more. If you receive a lowball offer, then probe for supporting information and always counter. Play nice with the buyer and respect their thought process. Instead of thinking it’s a lowball offer, try to find where the difference is in perceived value. In the worst case scenario, this will give you areas to work on to improve the value in the future.

In the meantime, reevaluate whether you want to sell your business and what needs to happen in order for you to have a chance at getting the price you want. Exit Consulting Group can help you sift through the details and truly understand where a potential buyer is coming from – get in touch now, before you beat yourself and/or a buyer up over a lowball offer that really isn’t.

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