

# Duvall & Associates, Inc.

## Taking Care of Business

### THE MEANING OF VALUE

"I need perspective, I don't trust my eyes." Peter Gabriel

Perspective is paramount in determining business values. Water is priceless in a desert - but worth nothing in Lake Erie.

The traditional definition of business value is as quoted below:

"Fair market value is defined as the cash or cash equivalent price at which property would change hands between a willing buyer and a willing seller, neither being under a compulsion to buy or sell and both having reasonable knowledge of the relevant facts."

But even this generic definition must be applied carefully in consideration of the circumstances or hypothetical posed.

Consider the scenario which generates the lowest value for a business - a short-term liquidation. The seller has minimal time to sell and few negotiating options.

The extreme polar situation yields the highest business value - a stable seller with multiple options negotiating terms with a synergistic strategic buyer.

Values generated for owner buy-sell agreements carry a unique fact-situation wherein value must be determined from a frame-work involving multiple years and relative impact to negotiating parties.

In a normal business setting (or even an abnormal litigation world), the hypothetical seller is envisioned as one who has adequate time to sell in an efficient manner. The buyer is deemed an individual who will buy the business and either step in the shoes of the seller or hire a manager to run the business.

In other words, the hypothetical buyer will operate the company in similar fashion to the existing owner/seller. The business value so generated per this hypothetical will yield a value conclusion somewhere in between the extremes discussed above.

So what's your business worth? Depends on your perspective.

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