



## BizStats™ ..... newsletter

BizStats is **not** a valuation method. It is data... transaction data from actual business sales nationwide. They have records from over 7,000 sales and have over 100 agency offices enrolled to submit statistics.

BizStats is an invaluable resource for accountants, valuers, and business brokers wishing to appraise businesses using the Direct Market Data method. This has been defined as *“a method of appraising closely held businesses that uses information on actual sales of other closely held businesses to estimate the value of the business being appraised”*. As valuation guru Shannon Pratt comments: *“the theory of the market approach to valuation is the economic principle of substitution: One would not pay more than one would have to pay for an equally desirable alternative. Therefore, we seek valuation guidance from the price of other similar companies (or interests in companies) that have sold”*.

The BizStats database can supply **average** price/earnings ratios or price/revenue ratios as well as other valuable information. But this only provides a **point of centrality** and the appraiser must make a subjective judgement as to whether the business is better or worse than average. This judgement must consider the specifics of the business being appraised and the value drivers for that industry.

For a café or a restaurant some of the major factors impacting value will include hours of operation, location, menu/concept, lease, and licences. For a manufacturing firm value may be affected by organisation structure, customer/supplier relationships, reliance on key personnel, competitive environment, and plant condition etc.

All valuations are opinions and the only true test of value is an arms length sale on the open market after reasonable marketing program. BizStats provides credible and defensible guidance as to the “most likely selling price” because it is based on actual sales and market realities.