

## **The Business Experts Bureau Great Business Idea - Tuesday 20<sup>th</sup> July 2010**

The suitability of any business is reflected in what a buyer is prepared to pay for it and there are 3 main components that form a business valuation:

1. A measure of value – this could be past profits
2. A risk profile – this indicates the stability of the business
3. Future maintainable earnings – this tells us how sustainable the current profitability will be going forward.

All three components are variables and are influenced by economic, industry and company specific risk factors. For example a business operating in a market with low barriers to entry will tend to sell for a low price ie – high risk profile. Whereas a firm with a competitive advantage – say with unique products and fewer competitors – will achieve a higher sale price as the risk profile is lower and subsequently future maintainable earnings will be higher.

Investing in a business is a risk and return relationship. The higher the risk the lower the sale price; conversely a well run business will possess a lower risk profile and achieve a higher selling price accordingly.

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