



## Price v. Value — What's the Difference?

Consider this scenario: You're a growing manufacturer. One of your direct competitors decides to sell his business, and you are approached about buying it. Thinking over the deal, you ask yourself:

- What are you willing to pay to remove a direct competitor from the marketplace?
- What are you willing to pay to expand capacity without the hassle of building a new plant?
- What are you willing to pay to double the size of your client base?

Clearly, the competing business is worth much more to you than to the average buyer. In fact, you're probably willing to pay a premium to get it.

### Strategic Value

In the case above, you are a strategic buyer, and what you are willing to pay for the business is represented by its strategic value.

Strategic value is not a true standard. It will never be cited in a valuation report, for example. Yet strategic value is of great importance because it reflects the price that a strategic buyer is willing to pay.

Most business valuations calculate fair market value — the price at which the business would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller when neither is under compulsion to buy or sell.

A business valuation based on fair market value is a good place to start, but it is not the price. Facts and circumstances change everything. If the owner is ill or needs a quick sale, the price may go down. If the buyer would benefit competitively, the price may go up.

There's a saying in the financial world, "Value can be calculated, but price is always negotiable." Keep this in mind when considering the sale or purchase of a company.