

Asking Price versus Selling Price

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In preparing for a talk in Florida next month, I found a very interesting statistic. I have kept some data from my days at United Business Investments (UBI). As a few of you know, UBI was the first business brokerage firm to have some 50 company-owned offices in eight states. I had someone who kept pretty accurate statistics of the offices' performance: number of listings, number of deals, sales, etc.

One of the more interesting statistics was the actual selling price versus the seller's asking price. In 1978, it was 84 percent. In other words, the seller received, on average, 84 percent of his asking price. Keep in mind that in most cases, unless we would be completely insulted, we took the listing at the price the seller wanted. We might have haggled a bit, but if we liked the business and thought it was saleable, the asking price was a non-issue. We were more concerned with the terms that the seller was willing to accept, since owner financing was it. No SBA, etc. And our listing period ranged from 90 to 120 days.

That meant we had to get the business to market as quickly as possible. If the seller wasn't happy with our efforts, we wouldn't be able to renew the listing. In those days we didn't do a valuation or create a package. We put the listing in our listing book, pitched the listing to the other agents in the office and began the selling effort. Now, this only applied to main street businesses. This was long before M&A deals. In the early 60s and even through the 80s, an M&A deal was a two-store dry cleaning business or a very large and profitable cocktail bar.

Now, back to our 84 percent figure! In today's market, business brokers are very picky about what they list and what the seller wants for it. Our average office at UBI got at least 20 new listings per month. BBP's most recent industry survey indicates that today's office gets an average of three listings per month. It also states that 75 percent of the offices performed a valuation with or without a fee. A lot fewer listings and 75 percent had a valuation done, so I assume that if the seller wouldn't accept something close to the value produced by the valuation, the listing wouldn't be accepted by the broker.

In addition, today's brokers take listings that don't expire for a year. In addition to the valuation, many brokers prepare an offering memorandum on the business. A lot more work is done on every listing than in earlier years. In those years covered above, one took a listing, and went to market with it. Of course, in those days there were no computers or online valuation programs, etc.

And, the interesting thing is that according to a 2011 industry survey conducted by bizbuysell.com, the leading industry listing site, guess what the percentage (actually

median) of the actual selling price to the seller's asking price was for 2011 – you guessed it – 84 percent.