business
for sale

Common Mistakes to Avoid when Valuating an Online Business

Unlike other businesses, the online venture may not have any tangible assets such as property, machinery, or vehicles instead they will have Intelectual Property, websites, and systems. The company may also have an online presence and income generation as proof of its value. Your business needs to be listed at a realistic market-related price. The correct valuation is thus imperative to ensure that the online business is sold at the right price. Below are four common online business valuation mistakes to avoid.

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An online business generates income, just like a brick-and-mortar based enterprise. However, when it comes to selling a website-based business, the seller has to consider whether someone would be willing to pay the selling price.

Willing buyer, willing seller.

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Putting Too Much Value on Social Media and online traffic

Having a large following on social media does not make an online business profitable. Yes, the social media presence is important, as it is a vehicle for driving visitors to the online business where sales are generated. But, it is not as valuable as one might think. Social media should be considered as a factor that influences the company's income. To this end, influencing factors, such as email lists, social media accounts, and more should also be considered in the valuation.

Not Considering the Owner's time dedication

The seller discretionary earnings valuation method makes provision for the owner's salary, but it does not allow for the analysis of the time investment. The selling price of the online venture should be set with hours per week of investment as a factor. There is a difference between an online venture that requires two hours a week from the owner's time and one that requires 20 hours a week of the owner's time. A near-passive online enterprise is worth more than one that relies heavily on the owner.

Considering the Historical Income vs Opposed to the Current Income

Keep in mind that with almost no physical assets or none at all, the online business is about its presence, traffic, history, and most importantly, income. Unlike a traditional business valuation, one cannot pay too much attention to the historical earnings of the online business. Although it is important, for any business valuation, you cannot just rely on one type of valuation. Use different valuation models to come to an accurate conclusion.

Putting Too Much Value on Potential

Another online business valuation mistake to avoid is that of setting the selling price based on potential. Anything can have potential. Any person is potentially a millionaire. All business has the potential to be very lucrative, as the owner you need to achieve the potential before you sell.

Seeing an opportunity to double the earnings of the business does not automatically increase the business value. It will ake the business more sellable, but not necessarily more worth.

Creating a business, with low overheads, minimum staff, limited owner involvement, and a recurring income will attract the right buyers, paying the right price.