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How Much Should a Business Appraisal Cost?

The price should be driven by the purpose of the appraisal, the appraisers professional standards, and the appraiser's overhead.

From: Inc.com | July 2003 **By:** Steven F. Schroeder

Like any other professional service, such as legal services, medical care, financial advisory services, or accounting services, the price of appraisal services to the ultimate user should always be *one* consideration in selecting the professional or professional firm. However, it's usually *not* appropriate to shop for the lowest priced vendor, or to use competitive bidding to obtain the lowest price. The heart patient whose life may depend on the skill and judgment of his surgeon, wouldn't be smart to put his surgery out to bid. Similarly, the client whose financial fortunes may rely on the quality of work or the effectiveness of testimony by his valuation expert should probably not make a decision on hiring an appraiser based primarily on lowest fees.

Beware of Low-Cost, Low-Wisdom Appraisals - Your Financial Life May Depend on It!

In business appraisal, the low-end software-driven product should be approached with caution. In general these products are designed to give quick, and not necessarily accurate answers to price shoppers, and by design deny the client the expertise of the appraiser's many years of valuation wisdom. Often these are done by part-time appraisers, or are loss-leaders intended to lure clients into more expensive consulting agreements. Users should beware of any appraiser who is willing to render an opinion of value without a site visit, personal interview, and hands-on inspection of the company's financial and administrative records.

That said, the relationship between quality of services and fees is not linear: there are factors unrelated to the quality of the services that affect the fees demanded for them. For example, the basic amount of work the appraiser has to perform for an appraisal is driven by the professional standards he must follow in conducting the appraisal. The emergence of the Uniform Standards of Professional Appraisal Practice (USPAP) as the controlling rules for appraisal engagements has increased the amount of work appraisers must do, even for simple appraisal assignments.

The largest single driver of appraisal cost though, is the purpose to which the client desires to put the appraisal result. Appraisals for use as informal pricing guides for sellers or buyers require the least amount of work on the continuum of effort, and appraisals done for use in contentious litigation probably require the most effort. In between these extremes are appraisals for other purposes, such as buy/sell agreements, partnership agreements, estate planning, asset allocation, etc.

Preliminary Analyses, Value Studies - \$3,000 to \$10,000.

These kinds of less-than-comprehensive valuation efforts can be well-suited for situations where a client needs a ball-park estimate of value, perhaps as a starting point for sales negotiations, or to achieve a better understanding of the value drivers in his company. Often this type of assignment is begun with a Value Study to identify the value drivers of the subject business entity, and followed-on with consulting over a period of time to prepare the business and the owner for subsequent sale. Where we are involved in negotiation, packaging, or presentation of the business entity there may also be a success fee payable to our firm.

Limited Partnership Appraisals - Value in Real Property Assets Only - Discount Study - \$3,000 to \$10,000.

The typical setting for this kind of appraisal is a Family Partnership formed to protect real property assets from estate taxation. Usually the partnership has no income distributions to the limited partners, and all of the profit is paid to the General Partner. The value of the entity is based on its assets, and the values of the real property assets are provided to us by the real estate appraiser. Our assignment is to estimate the value of small minority limited partnership holdings in the entity, and to assign marketability and minority discounts from the enterprise value, if applicable. These projects typically involve only a summary report.

Comprehensive Appraisal - Summary Report - \$7,500- \$35,000.

This is the most common type of assignment, and calls for the application of a full complement of appraisal procedures. This is the type of engagement suitable for most kinds of litigation, including family law, partnership disputes, shareholder oppression litigation, forced buy-outs, business torts, contract disputes, etc. The chief reason that appraisal engagements for litigation cost more is because the analysis and reporting must be performed to a standard of thoroughness that will allow them to survive rigorous cross-examination by opposing counsel. This takes time and costs money, just as all of the other components of litigation. The appraisal is not the place to cut corners.

All of these pricing guidelines are predicated on the availability of good bookkeeping and accounting records. Generally, the appraiser cannot commence the engagement until there are good financial statements (income statements and balance sheets) available. These need not be uncontested, of course, but where the income of the entity or the values of the assets are in question, the appraiser must be given an instruction as to what assumptions to use in his appraisal.

Steven Schroeder, JD MCBA ASA, heads the Northern California offices of American Business Appraisers. You can reach him at 800-882-2600, or via e-mail at sfs@busval.com.



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