At times I watch Shark Tank. I enjoy the interaction and business lessons we can learn from the program. One common mistake many entrepreneurs make when entering the Shark Tank is asking for a ridiculous valuation. I've seen several shows where the sharks were interested in the idea; but the valuation was so high compared to earnings, no one was willing to pull the trigger and make an offer.

As a consultant I have encountered many business owners who, at times, have an unrealistic valuation of their business. Here is an example.

An owner of a mailbox type store wanted to sell the business for $150,000. The owner was making $40,000 working a 60-hour work week. One of my questions to the owner was why would somebody want to pay $150,000 for a business that makes $40,000? They could get a job for that amount and save $150,000. The short answer was that the business had the potential to make more money and the owner wanted to be paid for that potential.

I explained if someone bought the business and did all the work to start making more money, the new business owner would feel that the increased revenue belonged to the one who generated it rather than the past owner. In this instance I had to represent the potential buyer. However, when I realized there would be no deal; I did what I generally don't do, I gave free advice. I said, "If you believe there is true potential in the business, make the changes that generate more income now. Then you will have a business that will be more attractive to a buyer."

Often, a person on Shark Tank may say that the business doesn't have many sales but has great market potential. Business failures are littered with businesses that believed they were going to garner a small market share to be successful. In order to be successful, you need to develop a business plan and effectively execute it to demonstrate how it generates sales. The sharks usually demonstrate their approval when somebody says they have $200,000 to $600,000 in actual sales.

Some entrepreneurs will go on to explain how huge an overall market is, but what the sharks are interested in is how many sales are currently being generated. Even though people spend billions of dollars in the cosmetic market, a new cosmetic business needs to demonstrate how they will effectively penetrate this large market. Telling the sharks they may have $15,000 in sales in a market that has greater potential will fall on deaf ears.

A critical factor in arranging an equitable purchase or selling price is whether the transaction is one you would take whether you are the buyer or seller. Abram said, “Is not the whole land before you? Let's part company. If you go to the left, I'll go to the right; if you go to the right, I'll go to the left." (Genesis 13:9, NIV) We have a perfect model here for a business transaction. In this example what Abram proposed was clearly fair to either party. When I advise individuals, either in buying or selling a business, I stress that sellers must look carefully at the transaction from the buyer’s point of view. Take another look at Shark Tank. If you want to sell your business, think like the seller when you set the valuation.