

When Should You Get Your Business Ready to Sell? The Best Time to Start Is Now – Here's Why.

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When you decide to put the “for sale” sign on your business, how long should it take to hand everything over to a new owner and start counting your profit? Don't get discouraged when I tell you it will take years – or should.

It doesn't mean the market is down or your business isn't desirable. Getting the price you deserve takes years of important actions to raise your company's worth and offer something as attractive as possible to potential buyers. It's not a single transaction but a multi-year plan that's an integral phase of your business strategy.

The ideal starting point for selling your business is really the day you start it. The next best time is today.

To sell your business for maximum value, start with your planned sale date and work backward. You may be surprised to see how little time is taken by the sale itself and how much is devoted to getting the company in shape. Let's reverse engineer it step by step.

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Phases of the sale process

From the day the business is sold, you will need about a year to get through the exit process. You may need to work with a business broker and an investment banker to guide you through the sale.

Your business valuation is going to be dependent on your last three to five years of financial history. You can't just base the worth on one good year. Even if you sell it to an internal party like an employee or a family member, they're going to look at the average of three to five years.

Unless those three to five years have produced a stellar performance, you'll want to take three or more years to improve your profitability.

You can still make optimizations along the way. For example, if we want to get the business to a net profit of \$500,000 per year and we want to sell it at four times that, we can make tweaks so that in, let's say year three, it gets to \$500,000 in net profit. Once we have finances showing \$500,000 or higher on the bottom line for three years, that's when we'd go to market for sale.

That brings our timeline to four years. You'll probably need to factor in another year, prior to those three years of proven financials, to get the foundation right, stabilize the business, optimize the profitability and get the processes in place. That expands our timeline to five years, and if the buyer wants a five-year history, that'll take it to seven years.

Lay the foundation

Before you start building those three to five years of financials, do an assessment of the business to see what's working, what's not and what your goals are:

- **Profit improvement:** Most business owners overspend, even if they think they're running a lean operation. They're focused on revenue, not profit margins. I once worked with a bookkeeping firm that does bookkeeping on site, and for years, their prices didn't change. The owner didn't realize the impact that was having on her overhead because she wasn't watching. Those profit margins are going to be very important in the sale process. If someone looks at your numbers and sees that you're not really charging the true cost of business, that's going to lower the value of the company.
- **Owner's involvement:** How involved are you in the business, and what key roles do you play? If you're highly involved, you need to step back so the business' success is not dependent on you. One of the companies we work with is super-dependent on the two partners who own the business. They have about a 10-year timeline because they're launching a new division that has higher profit margins but is also going to be less dependent on them so they can exit for a much higher valuation.
- **Growth:** Once your margins are optimized and the business is running efficiently, focus on growth. Increase revenue while maintaining higher profit margins.
- **Exit strategy execution:** Decide whether you'll sell to a third party, transfer ownership to family or employees or pursue another exit option. Build the right team, including a banker, lawyer and accountant, to support this phase.

All these things are equally important, and they stack on each other – take them one at a time and in the right order for the greatest benefit. If you try to grow the business before you optimize your margins, for instance, you'll grow your business at a lower margin.

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An ongoing strategy

An exit timeline is not static; it should be reviewed and adjusted annually. During your year-end strategic planning, evaluate the following:

- **Your succession plan:** What happens to the business if something happens to you?
- **Your primary exit option:** Are you still planning to sell to a third party, or have your goals shifted?
- **Your backup exit option:** Do you have a contingency plan, such as selling to employees or dissolving the business?

If you want to get out of your business what you've put into it, you have to treat it like another phase of your business that continues over the long term. Having a clear timeline ensures you're always prepared, whether you're targeting a specific sale date or need to adapt due to unforeseen circumstances.

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