8 Tips for Making a Profitable Sale of Your Business

About half of business owners in the US and Canada aim to exit their companies within five years. That makes the subject of John Warrillow's book, The Art of Selling Your Business, quite a timely one. If you're one of those business owners looking to sell, here are some things you may want to consider.

1. Push and pull factors - The things that make you want to sell your company typically fall into two categories:

Push factors are the things that frustrate you about your business - red tape, difficult staff, heavy work load and the like.

Pull factors are things that excite you, that selling your business will enable you to do - learn a sport, write a book, start a podcast, take on a passion project, etc.

John has learned that people with more pull factors are generally much happier with the result of their sale than those seeking to escape the push factors. So if you're looking to sell, it's a very good first step to consider your pull factors first.

2. The freedom point - This is when the sale of your business, after all the attendant expenses, would create a nest egg large enough for you to do whatever you want, whenever you want. In short, true financial freedom.

This is when you have to decide, why keep the business? It could be you enjoy it. It could be the fulfillment of a vision that excites you. But consider that while you own it, you're risking something that could effectively fund your lifestyle for the rest of your life.

It seems counterintuitive to sell when it's going well, but that's exactly the right time. Wait too long and the chance could be destroyed.

3. Revenue does not equal value - A stable, fast-growing business doing $2 million annually can be sold for many times its revenue, allowing a very profitable exit.

In contrast, a $10 million company with three clients representing 80 percent of its revenue will be much less appealing to buyers.

Likewise, a $10 million dollar business selling someone else's commoditized product, without ownership or control of the brand, will be a very hard sell. Acquirers are much more likely to compete with it for the same market.

4. Don't write it off too long - This is related to number 2. If your business is doing well and an appealing opportunity to sell arises, consider well. It could be your best chance to make a profit off the exit from your company. Good times don't always last, so holding out for a better deal might be your undoing.

5. How personally involved should you be? - There are cautions about being the front man for your company, something that may make it harder to sell.

It's a delicate line to draw, as most CEOs are their business's number one salesperson.

You can, however, transfer the halo effect to the business in a number of ways:

- Make a clear line between your company and your name.
- Focus and invest in the brands that you're building.
- Make sure you're not the first face people see on the website. This can be done by alphabetizing team names instead of arranging in hierarchy.

6. Consider what it's worth in the buyer's hands - Tell the story of what your business could be when it's run by the buyer.

This is the definition of a strategic acquisition. When another party has assets, distribution channels, salespeople, stores, etc. that you don't have, they can potentially make much more of your business than it is in your hands. Your market, your product, your processes or what have you could be a huge gain to them.

7. Earnouts that become flameouts - It's relatively rare that a buyer hands over the price of a business in cash. More often you will have some skin in the game or delayed payment terms. Or you may need to see the business through a transition period and satisfy certain conditions.

The most common of these is termed an earnout, where you agree to try and fulfill a set of goals at a specific period after the sale. Part of the sale price, say 60 or 70 percent, will be paid to you upfront. The remaining percentage is yours when you achieve the specified goals.

The money upfront is all you can be sure of in such deals - the rest is at risk. So ask yourself, perhaps, how comfortable you would be if the upfront payment were all you got, the rest being cream.

8. The risk of financing with debt - When a private equity group is your prospective buyer, their game is usually to buy your business and finance it with a lot of debt. They'll typically buy 60, 70 percent of the company, a controlling share, and lever it up with debt. They then make you carry 30, 40 percent of the equity into a new entity, the argument being it will be worth a lot more when they combine companies and sell the entity further down the road.

It's not an uncommon story that the business fails to meet its debt obligations, the new entity goes bankrupt and the seller loses everything on the 30 or 40 percent.

John Warrillow advocates taking on multiple offers, to give you some control over the terms of the sale. A single acquirer, knowing they're the only one, are likely to take advantage and offer a deal less favorable to you.

Want more pointers on selling your business? Check out John's book at BuiltToSell.com/selling

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