A Practical Two-Part System for Finding Out What Your Business Is Really Worth

Business valuation experts Matt and Liz Raad say there are two considerations in business valuation:

1. Profit multiplier
You start by basing your valuation on the amount of profit a business is making. If it's making under a million a year, it can be valued somewhere between one year to three years' worth of profit, maybe five. If it's over a million, it could be up to 25 times, especially if it's share-listed.

2. Value adders
There's a lot of difference between $100,000 and $300,000, or between $1 million and $3 million, and what makes a business worth more or less are the value adders, of which there are eight points to consider:

1. Property - If you're dealing with an offline business, this would be the assets and things that the business owns. For a website business, this would be the:
- Domain name
- Content
- Establishment in the marketplace
- Connections and network in the market

Basically, if you were to own and keep the business for 10 years, what assets would you like to have to lock up the market?

2. Systems and automation - The more systematized and automated a business, the higher a price it can command. People will obviously be happy to pay more for a business that takes less effort to run. A good, solid business with nicely-running systems in place can be sold for 20 to 30 times monthly multiples.

Note: If the owner has been drawing a salary from the business's income and funding their lifestyle, this can be counted as part of the net profit and actually be a selling point. If the business can support a comfortable wage for its owner, this adds to its value.

3. Database/following and loyalty/stickiness - If you have a big list, the buyer of your business will naturally want to know that it will stay with them. Stickiness, in fact, is a private equity term, referring to the loyalty of your list, their engagement with the business. If you can show great email open rates or a big following on social media, that's worth big dollars. DAU and MAU (daily active users and monthly active users) are numbers that are good to

have.

4. Traffic - Buyers want organic traffic. They want rankings. And they want traffic sources that are diverse. Valuating your business is about reducing risk, and multiple traffic sources means no single-point sensitivity.

5. History - Along the lines again of reducing risk, prospective buyers will want to see a good, consistent growth history. They want to see that the business has been established, and the longer, the better. Which is not to mean you can't have had dips in performance; what matters is that the company recovered from such low periods. And ideally, you don't want to try selling your business when it's down. When you've made up your mind to exit, that's when you should be all the more focused in doing well.

6. Topic/niche/industry - This has to do with the popularity and trend of the industry or niche that the business is in. With a rising trend in a popular niche, it's easy to show value and potential ongoing merit.

7. Competition - How well is your business doing against the competition? If it's holding its own in a broad, competitive industry, it's worth a lot more than a business in a very small, tight niche.

8. Have the buyers in mind - Consider who your buyers might be and frame the business to appeal to them. One way to attract bigger buyers is to considerably increase the size of your business and net profit by merging with another.

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