

When Do I Want to Sell My Business? (Part 1 of 2)

Submitted by Nathan Corbitt on 06/24/2019 - 09:45



Research shows that 75 percent of business owners are unhappy within a year of selling their business*. In my experience, this unhappiness is rooted in a lack of planning for the transition, and of understanding what life would be like after a sale.

On the other hand, owners that plan well for a sale and life after business can manage and even dictate the terms of their exit. As a result, they are more likely to be satisfied afterward. This is why understanding **when to sell your business** is so consequential.

Loss of Control

Unfortunately, some owners will be forced to sell their business for reasons they can't control. It could be the sudden death of a partner, a divorce, a physical disability, a competitive business environment, or simply the loss of passion for the business.

If you've built a business generating millions in annual revenue, what would happen if you were suddenly disabled in an automobile accident or even died? You would want the business

to survive, and would likely pass it on to your heirs, a partner or even a key employee. Appropriate planning can not only identify risks you and your business face, it can also help mitigate the financial and emotional tolls that come with catastrophic events.

This is why having a contingency plan in place to handle the most critical aspects of the business is so important. At a minimum, your plan should include:

- How to handle key customer and vendor relationships;
- Ensuring the company's financial position and investments are maintained during any transition;
- An updated buy/sell agreement for anyone that is part of a multi-owner organization, and;
- Making certain key employees stay focused on their job and remain with the company during the transition to a new owner.

Finally, your transition plan must be communicated well to both employees and other vital company relationships.

Outside Forces

Even with planning, outside forces will affect the timing of your sale. The general economy, the business cycle for your specific industry, and even the cycle for mergers and acquisitions (M&A) will all impact, for better or for worse, your ability to sell and demand a premium price.

For example, if you are a 55-year-old owner who wants to sell within five years, you must anticipate where your business cycle will be at that time. If you anticipate your industry's business cycle slowing, that will likely impact both your cash flow and the sale price you'll receive. To receive a premium price, a better option may be to speed up your exit planning or possibly even wait for your business cycle to recover before entering the sales process.

Another factor to consider is the strength of the M&A cycle. This cycle tends to mirror capital market liquidity and run for five to seven years before slowing. And as it slows, so do your options of selling for a premium price. So, if the M&A market is strong (as it currently is), and you're planning to wait three more years before selling, you'll likely be leaving money on the table since the sales price will likely be lower.

I recently worked with a business owner who planned to work for another decade before selling the business. However, the market environment began shifting away from their traditional business model. After assessing the strength of their business cycle and the strength of the M&A cycle, he made the strategic decision to sell the majority of the business assets. In doing so, he not only was able to fully fund his retirement, but also managed to keep the operational side of the business, and the cash flow it created, fully intact.

Vision for Life After

I mentioned earlier that to be successful, you need to envision your life after the sale takes place. It's not enough to be at peace with leaving a business you've built. You must be clear about the direction of your life going forward.

After all, most business owners are “doers” and not particularly fond of a slow-paced life. Thus, it’s difficult to go from the constant adrenalin rush of running a business, to a more modest pace. But these need not be the only options available. Rather than ceasing passionate endeavors, we simply need to redirect them.

Your new direction may include travel, contributions and volunteer time with charities, more time with your family and grandchildren, or simply exploring new things. Having a plan for the next phase of your life will help determine when it’s time to sell. Ultimately, this vision will solidify the success of your transition out of your business and ease your transition into the rest of your life.

*Exit Planning Institute Readiness Survey (2013)

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