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4 STEPS TO FINDING YOUR SELL-BY DATE

Most business owners think selling their business is a sprint, but the reality is it takes a long time to sell a company.

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The sound of the gun sends blood flowing as you leap forward out of the blocks. Within five seconds you're at top speed and within a dozen your eye is searching for the next hand. Then you feel the baton become weightless in your grasp and your brain tells you the pain is over. You start an easy jog and you smile, knowing that you did your best and that now the heavy lifting is on someone else's shoulders.

That's probably how most people think of starting and selling a business: as something akin to a 4 x 100-meter relay race. You start from scratch, build something valuable, measuring time in months instead of years, and sprint into the waiting arms of Google (or Apple or Facebook) as they obligingly acquire your business for millions. They hand over the check and you ride off into the sunset. After all, that's how it worked for the guys who started Nest and WhatsApp – right?

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But unfortunately, the process of selling your business looks more like an exhausting 100-mile ultra-marathon than a 100-meter sprint. It takes years and a lot of planning to make a clean break from your company – which means it pays to start planning sooner rather than later.

Here's how to backdate your exit:

Step 1:
Pick your eject date

The first step is to figure out when you want to be completely out of your business. This is the day you walk out of the building and never come back. Maybe you have a dream to sail around the world with your kids while they're young. Perhaps you want to start an orphanage in Bolivia or a vineyard in Tuscany.

Whatever your goal, the first step is writing down when you want out and jotting some notes as to why that date is important to you, what you will do after you sell, with whom, and why.

Step 2:
Estimate the length of your earn out

When you sell your business, chances are good that you will get paid in two or more stages. You'll get the first check when the deal closes and the second at some point in the future -- if you hit certain goals set by the buyer. The length of your so-called earn out will depend on the kind of business you're in.

The average earn out these days is three years. If you're in a professional services business, your earn out could be as long as five years. If you're in a manufacturing or technology business, you might get away with a one-year transition period. Estimate: + 1-5 years

Step 3:
Calculate the length of the sale process

The next step is to figure out how long it will take you to negotiate the sale of your company. This process involves hiring an intermediary (a mergers and acquisitions professional, investment banker or business broker), putting together a marketing package for your business, shopping it to potential

acquirers, hosting management meetings, negotiating letters of intent, and then going through a 60 to 90-day due diligence period. From the day you hire an intermediary to the day the wire transfer hits your account, the entire process usually takes six to 12 months. To be safe, budget one year.
Estimate: + 1 year

Step 4:
Create your strategy-stable operating window

Next you need to budget some time to operate your business without making any major strategic changes. An acquirer is going to want to see how your business has been performing under its current strategy so they can accurately predict how it will perform under their ownership. Ideally, you can give them three years of operating results during which you didn't make any major changes to your business model.

If you have been running your business over the last three years without making any strategic shifts, you won't need to budget any time here. On the other hand, if you plan on making some major strategic changes to prepare your business for sale, add three years from the time you make the changes.
Estimate: + 3 years

Figuring out when to sell

The final step is to figure out when you need to start the process. Let's say you want to be in Tuscany by age 50. You budget for a three-year earn out, which means you need to close the deal by age 47. Subtract one year from that date to account for the length of time it takes to negotiate a deal, so now you need to hire your intermediary by age 46. Then let's say you're still tweaking your business model – experimenting with different target markets, channels and models. In this case, you need to lock in on one strategy by age 43 so that an acquirer can look at three years of operating results.

It certainly would be nice to make a clean, crisp break from your business after an all-out sprint, but for the vast majority of businesses, the process of selling a company is a squishy, multi-year slog. So the sooner you start, the better.