IS MY ONLINE BUSINESS SELLABLE?

A 25-POINT CHECKLIST TO DETERMINE IF YOUR BUSINESS IS SELLABLE TODAY, AND THE STEPS YOU CAN TAKE TO MAKE IT A GREAT ACQUISITION TARGET

QuietLight

YOUR 25-POINT VALUATION CHECKLIST

HOW TO USE THIS CHECKLIST

Your business is unlike anyone else's - and that's good! Its uniqueness is part of what makes it ***work*** and also what makes it ***valuable***.

Of course, this uniqueness can also make it difficult to know if your business is actually sellable. What traits appeal to buyers, and what traits scare buyers away? How can you evaluate your business in all of its uniqueness to know whether it is sellable?

The **FOUR PILLARS OF VALUE** is a simple framework for you to evaluate your business, whether it is sellable, and what you need to do to make it more valuable. The Four Pillars are:

- **Risk**
- **Growth**
- **Transferability**
- **Documentation**

The pillars represent what informed buyers are looking for, and therefore can increase or decrease the value of your business. When you evaluate your business through the four pillars, you'll find that its attributes either build these pillars up, or they tear them down. The more you build on these pillars, the more attractive your business becomes to buyers, and the higher your valuation. Conversely, if you have traits that tear down or destroy these pillars, it not only hurts your valuation, it could make the business entirely unsellable.

This checklist is a primer to get you thinking about whether you are building value in your business, but it's not a comprehensive guide. It won't answer questions such as how much you could sell your business for today or what it might be worth if you maximize each of the pillars.

To go deeper into the details of your unique business, we would recommend a professional review and we are happy to offer this complimentary (and entirely free of any sales pitches). Our mission is to help entrepreneurs reach their goals by giving them data-driven tools to make great decisions about their business and their future. That's it.

Once you finish this checklist, reach out to us for your complimentary 15-minute consultation to uncover your business's current and potential value.

TO SCHEDULE YOUR FREE CONSULTATION, CLICK HERE AND FILL OUT THE FORM AT THE BOTTOM OF THE PAGE

PILLAR 1

WHAT IS YOUR RISK EXPOSURE?

RISK IS ONE OF THE MOST INFLUENTIAL FACTORS IN THE VALUE OF YOUR ONLINE BUSINESS. IF YOUR BUSINESS IS TOO RISKY, BUYERS WILL OPT FOR OTHER OPPORTUNITIES. GENERALLY SPEAKING, IF YOUR BUSINESS REPRESENTS A LOW RISK PROFILE YOU'LL FIND BUYERS VALUE IT MORE HIGHLY.

QUESTION 1

HOW OLD IS YOUR BUSINESS?

Businesses that have a longer history tend to be viewed as more stable than younger businesses. As your business ages, it becomes inherently more valuable, although the gains in value do diminish. The minimum age we recommend before selling is 24 months, although this isn't a hard and fast rule.

QUESTION 2

HOW BIG IS YOUR BUSINESS?

Larger businesses are typically more diverse and thus represent less risk. Think of your business's annual top line revenues in terms of round numbers: $100,000, $500,000, $1mm, $5mm, $10mm, and $25mm all represent significantly different businesses. As your business hits these thresholds the impression is greater stability and less overall risk which makes them relatively more valuable.

QUESTION 3

IS YOUR BUSINESS DEFENSIBLE?

What is stopping new or existing competition from eating into your market share? Intellectual property (trademarks, patents, etc) are a strong line of defense. So are exclusive contracts, high review counts (if you are on Amazon), real barriers to entry (such as licensing requirements or knowledge barriers) or unique relationships. If your business is not defensible, it may still be sellable, but relatively less valuable.

PILLAR 1

WHAT IS YOUR RISK EXPOSURE? (CONT.)

QuietLight

QUESTION 4

REMOVE SINGLE POINTS OF FAILURE

Is your business dependent on any individual business product, customer, or trend? For example, are you the face of your business? Do you have just one really successful SKU? Is there only one manufacturer? The less your business depends on single points of failure, the more valuable it becomes.

QUESTION 5

DO YOU HAVE CHANNEL RISK?

If your business relies on external channels, do you have too much dependency on a single channel? For example, we worked with a business that established itself on their free Facebook page. When Facebook limited organic reach of page posts, their business imploded. Channel risk can be anything from acquisition sources to marketplaces.

QUESTION 6

WHAT DOES COMPETITION LOOK LIKE?

Are you in a highly competitive niche/industry? How capable is your competition, and what barriers do you have that protect you from competition? The more you can speak to protection from competition, the more valuable your business becomes.

QUESTION 7

ARE YOU SELLING BUGGY WHIPS?

Are you selling in an industry that will be obsolete in the near future? Buggy whips was once a major industry until the invention of the automobile. If your business speaks to long-term viability, you will see upward pressure on the value of your business.

PILLAR 2

WHAT ARE YOUR GROWTH PROSPECTS?

POSITIVE GROWTH TRENDS AND BUILT-IN FUTURE OPPORTUNITIES REPRESENT A STRONGER ROI FOR BUYERS, SO SHOWING GROWTH POTENTIAL MAKES YOUR BUSINESS MORE VALABLE. EVALUATE YOUR BUSINESS ON THESE SIX POINTS.

QUESTION 8

UPWARD FINANCIAL TRENDS

A growing business represents faster and stronger ROIs for potential acquirers. This means you can ask for a higher multiple. For example, a business that is growing by 25% year over year can ask for a 4x multiple on bottom line earnings while providing a buyer with their payback in 2.7 years. That's a strong proposition.

QUESTION 9

BOTTOM LINE VS TOP LINE TRENDS

While growing trends are good, if your bottom line earnings are up, but top line revenues are down, this can be a red flag for buyers. Make sure all of your trends are positive to maximize your value.

QUESTION 10

TIMING WITHIN YOUR YEAR

Most businesses experience some level of seasonality. The more you experience seasonality, getting the timing right during the year to properly evaluate your trend analysis is essential. In addition, for highly seasonal businesses, buyers will hesitate to deploy capital for an acquisition where the heavy season is too far out in the future. Most buyers want to shorten the time from acquisition to busy season as much as possible.

PILLAR 2

WHAT ARE YOUR GROWTH PROSPECTS? (CONT.)

QUESTION 11

DOES YOUR BUSINESS HAVE REAL GROWTH OPPORTUNITIES?

Have you explored all of the easily accessible paths to growth or are there easy opportunities for a new owner to pursue? The volume and ease of growth opportunities will directly relate to how much you can ask for your online business.

QUESTION 12

ARE GROWTH OPPORTUNITIES CLEAR?

Ask most business owners how they plan to grow their business and they'll give you all sorts of opportunities. The more these ideas and initiatives are cleared and mapped out for a buyer, the more you can increase the value of your business.

QUESTION 13

TIMING WITHIN YOUR YEAR

Nothing increases the value of your business more than having higher revenue and earnings numbers plus growth. Be wise with your investments 24 months in front of a sale to try and make the 12 months before a sale clear of any major investments and growth initiatives.

PILLAR 3

IS YOUR BUSINESS TRANSFERABLE?

POTENTIAL BUYERS WILL ALWAYS EVALUATE WHETHER THEY CAN RUN YOUR BUSINESS AS EFFICIENTLY OR EVEN MORE EFFICIENTLY THAN YOU. IS THERE ANYTHING IN YOUR BUSINESS THAT WOULD PREVENT A NEW OWNER FROM RUNNING IT? THIS COULD BE ANYTHING FROM REQUIRED LICENSES TO SPECIAL SKILLSETS THAT MAKE YOUR BUSINESS WORK.

QUESTION 14

ARE YOU THE DRIVER OF YOUR BUSINESS?

Are you the business? If it is your reputation, your name, or your specialized skills that are driving the business, it will be impossible for another owner to have the same success. Your business needs to be able to run without you.

QUESTION 15

DO YOU HAVE KEY STAFF?

Key staff members can make an acquisition transfer smoothly, or they can disrupt a deal entirely. As a result, key staff needs to be addressed before an acquisition. These are best addressed by doing two things: 1) ensure that any key staff will transfer in an acquisition, and 2) implement standard procedures for key staff roles and duties in the event a key staffer leaves.

QUESTION 16

MANUFACTURERS & VENDORS

If any vendors or manufacturer relationships will not transfer to a new owner, the value of your business will be significantly hampered. Make sure all key relationships with those who supply goods and services will transfer under the same or similar terms.

PILLAR 3

IS YOUR BUSINESS TRANSFERABLE? (CONT.)

QUESTION 17

CONTRACTS

If you have contracts with vendors, manufacturers, contractors, or employees, check the verbiage to ensure that those contracts are transferable. If they are not, work to make sure you can get new contracts for a new owner. Failure to do this will result in downward pressure on your business value.

QUESTION 18

HOW MUCH DO YOU WORK?

No buyer wants to buy a job, especially if the business size is smaller. The total number of hours per owner should be less than 40 hours total. As a business gets larger, most buyers will look to replace owners with staff. If your weekly workload is over 40 hours, they'll need multiple people to replace you.

QUESTION 19

PARTNERS AS OPERATORS

If any vendors or manufacturer relationships will not transfer to a new owner, the value of your business will be significantly hampered. Make sure all key relationships with those who supply goods and services will transfer under the same or similar terms.

PILLAR 4

IS YOUR BUSINESS WELL DOCUMENTED?

THE #1 REASON BUSINESS OWNERS DO NOT LIST FOR SALE, OR LIST AND FAIL TO FIND A BUYER IS POOR DOCUMENTATION. THIS HAS A REAL IMPACT ON YOUR VALUATION AND ABILITY TO FIND THE RIGHT BUYER FOR YOUR BUSINESS.

QUESTION 20

ARE YOUR FINANCES RELIABLE?

Use standard bookkeeping software (such as Quickbooks, Xero, etc....not Excel or spreadsheets) and outsource your work to a bookkeeper who is knowledgeable and detail-oriented. Hiring a quality bookkeeper is one of your most key hires.

QUESTION 21

CAN YOU PRODUCE ACCRUAL STATEMENTS?

Many CPAs want you to file taxes on a cash basis, however, you should still be able to generate accrual financial statements. We had one client who saw a 300% difference in valuation simply by flipping from cash basis reports to accrual basis reports. Accrual is a more insightful representation of your business's financial health.

QUESTION 22

STANDARD OPERATING PROCEDURES

Daily, weekly, monthly, and other repetitive tasks should be documented. You can use video or write out detailed guides. SOPs reduce keyman risk significantly and increase the transferability of your business. Having your business well documented will increase the number of interested buyers and thus place upward pressure on your business's value.

PILLAR 4

IS YOUR BUSINESS WELL DOCUMENTED? (CONT.)

QUESTION 23

CONTRACTS & CORP DOCUMENTS

This is a simple step, but important nonetheless. Save all contracts, incorporation documents, and corporate records to PDF. While this may not have a significant impact on your business's value, it will greatly ease due diligence and also open you to more discerning buyers who require these documents to close.

QUESTION 24

3RD PARTY REPORTS

Due diligence requires a deep dive into 3rd party reports such as tax returns, bank statements, credit card statements, merchant reports, and the same. If you commingle businesses or personal finances through these statements, be prepared to separate these for due diligence sake. Not having these available can make a business unsellable.

QUESTION 25

WHAT ARE YOUR METRICS?

What metrics are important to you as the seller? Gather these into monthly summaries to help potential buyers understand your business from your unique point of view.

WHAT'S NEXT?

HOW MUCH IS YOUR BUSINESS (POTENTIALLY) WORTH?

This checklist is designed to get you started thinking about your business and whether you are building value in it or robbing it of its asset value.

Now its time to dig deeper and find out how much your business is worth today, what what could it be worth in 6, 12, or 24 months.

This isn't to convince you to sell your business. Knowing the value of your business is simply a smart thing to do. After all, you know much you have in your checking account, and you probably know how much your home is worth. Why shouldn't you know how much your business is worth? It is often your most valuable asset.

To find out how much your business is worth today, and how much it could be worth in 6, 12, or 18 months, schedule a call with one of our advisors.

We make this promise to you: **you will never be pitched**. One of our core values as a company is to provide entrepreneurs with the knowledge you need to make good, informed decisions about your business and your future.

To schedule a 15-minute call, fill out the contact form at **quietlight.com/sell**.


QuietLight
BROKERAGE