

Identifying “The Gap”

Business owners have a lot of information at their fingertips. There are calculators and assessments available for just about every aspect of your business and personal situation. As a result, many business owners think they have an accurate idea about the value of their business. They may even think they have an idea of where the business value should be at their departure from the business. And retirement needs calculators are abundant, claiming they’ll give business owners a good idea about what they’ll need if or when they step away from their businesses. It can be difficult and somewhat complex to accurately measure the value of a company today, and then what it needs to be worth when the owner is ready to leave. Owners may be surprised to find “the gap” between the current value of their company and where the company value should be when they are ready to move on is much different than what they predict.

Start Your Gap Analysis

A Gap Analysis is the process that you can use to establish a few important benchmarks in your plans for the future, whether you intend to hold your business interest forever, transition ownership over time, or sell out completely in the next few years.

Step One - Quantify the money you will need to reach your personal financial goals.

Step Two - Determine the value your business can contribute toward meeting your financial targets today.

Step Three – Given your expectations for the future of your assets outside the business, try to predict what your business will need to be worth in the future in order for you to reach your financial goals.

Keep in mind that self-assessment and guesswork can only get you so far. You’ll ultimately want to work through this analysis with an experienced professional.

The size of the gap can help you set your priorities and timeline, highlighting your need for building business.



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Do You Need to Create a Value Building Plan?

Once you get an understanding of the gap between current business value and where you need to be, you can start developing action steps for the future. Building business value can be an important factor in closing that gap. Many owners know they have to increase business value and want to grow their companies. But owners don't always know how to do so. You can start by setting the scope of the value-building project.

1. Reorient yourself from working in the business to working on the business. This means as difficult as it might be, set aside your day to day activity and focus on the bigger picture and how you'll increase value.
2. You will need to determine how much the company needs to grow each year to reach your ultimate goals. Create monthly, quarterly, and annual cash flow projections. Focus your energy on reaching short-term goals that build toward longer-term targets.
3. Repeat your gap analysis. Your gap analysis is the foundation for your value-building decisions: the tools and processes you will use, the support you will need, and the intensity of your efforts. You may need a course correction.

Taking these steps to understand where your company currently stands, where you need to go, and what you need to reach your goals is a great way to effectively include your business in your larger plans for the future. Building business value might be the most important action a business owner can take whether they are ready to leave their business or not.

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