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The Gap Between You And A Successful Exit: Do You Know Yours?

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Let us introduce you to Peter Daniels, a business owner who would like to leave his food processing business in five years. Let's review what we know so far:

Peter:

- Age 58 married to Pam, also age 58.
- Sole owner of Daniels Food Processing, Inc.
- Salary of $250,000
- Exit Objectives:
    - Exit at age 63 (five years from today)
    - Post-exit income of $200,000 for 30 years

Daniels Food Processing, Inc.

- Annual cash flow of $250,000
- Value today: $1,000,000 to $1,500,000

Working Assumptions:

- Rate of investment return on personal investments (both pre- and post-exit): 7%.
- Life expectancy: age 91 (according to 2003 Annuity actuarial tables).
- Peter's non-business assets will be worth approximately $500,000 at Peter's desired exit date.

Bottom Line:

- To finance the Daniels' post-exit income needs, given the number of years they want income and their assumed rate of investment return (7%), Peter needs to sell his company for between $3M and $3.5M to net $2.5M.
- Peter must increase the value of his company by at least $2M if he is to exit on his terms.

In Peter's case, the Two Million Dollar Question is: How can he increase the value of his company by $2,000,000 over the next five years?

In your case, the first question is: "Have you quantified the amount you will need to leave your company in style?" And if so, is there a gap between your company's value today and the value you'll need when you exit?

Your very next question should be, “If I haven’t taken the time to identify and quantify my value gap, how can I take concrete and immediate steps to close it?” The size of your gap determines what needs to be done, how it is to be done; when each value building action needs to begin and who is to undertake each such activity.

Most owners know they have to increase business value and want to grow their companies. But most owners don’t know how to do so. That knowledge begins with first determining the scope of the value-building project.

If Peter is to reach his goal within his five-year timeframe, he must start work today. He will have to re-orient himself from working *in* the business to working *on* the business. This means that as tempting as it is to put out every fire, he must set aside time *each day* to take action to increase value.

Second, Peter needs to lay the groundwork for increasing value by determining how much the company needs to grow each year. This begins with creating monthly, quarterly and annual cash flow projections, and then directing his and his company’s energy toward achieving these immediate goals. An annual business plan based on these goals will become his roadmap to driving value upward.

Your gap analysis is the foundation for all of your value building choices: the tools and processes you will use, the support you will need, and the intensity of your efforts.

Creating a value building plan based on what you want is a first step in taking charge of your and your company’s financial future.