

Know Your Gaps

Three numbers every business owner should know and manage to meet their goals.



Profit Gap = The Profit You're Sacrificing by Not Operating at a Best-in-Class Level

= Best-in-Class Profit at Your Level of Sales – Your Actual Profit

Key Points:

- For the purposes of this discussion, profit is best defined as earnings before interest, taxes, depreciation, and amortization (EBITDA)
- To ensure an apples-to-apples analysis, your actual EBITDA should be re-casted or adjusted for
 - Extraordinary or one-time events
 - Discretionary expenses that are tied to the owner
 - Expenses that are currently above or below market rates such as rent, compensation and others

What good could you do in the business with that extra flow? **1**

Value Gap = The Business Value You're Sacrificing by Not Operating at a Best-in-Class Level

= Best-in-Class Value if at Your Level of Sales – Your Actual Business Value

Key Points:

- The basis of the Best-in-Class Value begins with the Best-in-Class Profit at Your Level of Sales (determined in the Profit Gap analysis)
- The Best-in-Class multiple is applied to the Best-in-Class Profit
- Your actual value should be based on your actual re-casted or adjusted EBITDA

How quickly would narrowing your Value Gap close your Wealth Gap? **2**

Wealth Gap = The Additional Wealth You Need to Accumulate to Meet Your Goal

= Your Net Worth Goal – Your Current Actual Net Worth (*not including your business*)

Key Points:

- For the purposes of this discussion, do not include the value of your business
 - It is not easily converted to cash
 - You may or may not convert it into cash depending on what you decide to do with it
- As you consider your net worth goal, identify:
 - What you truly need to live your life the way you would like
 - What you want

How Will You Bridge the Gap? **3**