

# KNOW YOUR GAPS

Three Numbers Every Business Owner Should Know and Manage to Meet Their Goals



PROFIT GAP

**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 this discussion, profit is 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; and
  - 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 this discussion, do not include the value of your business, because
  - It is not easily converted to cash; and
  - 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; and
  - What you want.

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

*For more information on managing your gaps or maximizing the value of your business, please contact Gina Miller by calling 770.396.2200.*