

# Know Your Gaps

Three numbers every business owner should understand and actively manage to reach their goals



## Profit Gap = The Profit You Are Leaving on the Table by Not Operating at a Best-in-Class Level

= Best in Class Profit at Your Level of Sales minus Your Actual Profit

### Key Points:

- For this discussion, profit is best defined as earnings before interest, taxes, depreciation, and amortization (EBITDA).
- To make a fair, apples to apples comparison, your actual EBITDA should be adjusted to reflect:
  - One time or unusual events
  - Owner related discretionary expenses
  - Expenses that are above or below market rates, such as rent, compensation, and similar items

What positive impact could that additional cash flow have on your business?

## Value Gap = The Business Value You Are Giving Up by Not Operating at a Best-in-Class Level

Best in Class Value at Your Level of Sales minus Actual Business Value

### Key Points:

- Best in Class Value starts with Best in Class Profit at your level of sales, as identified in the Profit Gap analysis.
- A Best in Class valuation multiple is then applied to that Best in Class Profit.
- Your actual business value should be based on your adjusted or recast EBITDA.

How much faster could closing your Value Gap help achieve your Wealth Gap goal?

## Wealth Gap = The Additional Wealth You Need to Build to Achieve Your Goal

= Your Net Worth Goal minus Your Current Actual Net Worth, excluding your business

### Key Points:

- For this discussion, do not include the value of your business:
  - It is not easily converted to cash
  - You may or may not ever convert it to cash, depending on your decisions

When defining your net worth goal, be clear about:

- What you truly need to live the life you want
- What you would like beyond those needs

What is your plan to Bridge the Gap?