Knowing What You Have to Get What You Need

For many business owners, building their successful businesses began by accurately determining what they had. Whether their businesses provide products, services, or ideas, the success they experienced didn't come to them blindly. It likely took years of refinement, study, and analysis to figure out the best way to establish and deliver the thing that makes the business successful. The same is true when discussing business exits.

As owners set their business exit goals, they may find that the resources that they currently have do not allow a financially independent business exit. That is, if those owners were to exit their businesses with their current resources, they would likely need to go back to work at some point to stay personally solvent. For those owners, a business exit is less a retirement and more of a headfirst dive into a pool of new challenges and opportunities. When they dive headfirst into that new phase, they want to make sure there's enough water in the pool to keep them afloat after they've jumped.

Owners who exit their businesses on their terms and who can dictate how they spend their post-exit lives tend to show similar patterns of action. After they establish what their business exit goals are, they evaluate the resources they currently have versus the resources they believe they will need to achieve a financially independent future beyond the current business. The difference between what you have now and what you need for financial freedom is called the *Asset Gap*.

Sometimes, the Asset Gap is small or non-existent. Many owners believe that they fall into this bucket. They believe that they have more than they will need or that their businesses are worth more than they are. However, it's much more common for owners to discover—sometimes too late in the process of exiting their businesses—that they've overestimated what their businesses are worth to a potential buyer while underestimating what they need to live the post-exit life they desire. How does this happen?

Overestimation of the business' value occurs when owners take a biased view of their companies and assume that their companies are worth as much or more than similar companies, possibly based on an assumed rule of thumb that doesn't really exist. It makes sense that owners fall into this mind-set: They've often built their businesses from the ground up and have reaped the benefits of their success. Because they've put so much work and money into the business, they tend to put an overly subjective value on the business. When they look to find buyers, they can be surprised—and sometimes offended—when the value of the business to them doesn't reflect the value of the business to the potential buyer.

Underestimation of post-exit needs occurs when owners assume that they can live on less than what they currently spend. However, the opposite is usually true. Do you plan to downsize your house, get rid of your nicest car, travel less, and avoid new hobbies or business ventures? In short, living on less after exiting is often an unachievable and unbelievable myth.

Do you know what your business is worth objectively? Do you know how much money you'll really need to exit your business on your terms? Do you have an accurate estimate of how long you'll likely live after you exit? Do you feel comfortable predicting how the markets will do far into the future? If not, contact us today. We work to help business owners find out what they have so that they can take steps to turn it into what they need.

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