

# Business Value Gap Case Study

## Live Cheap or Die young

We recently advised a client “David” (53), owner/operator of a successful business providing professional services to the building and construction industry. David had started thinking about retiring and believed all it would take is not getting out of bed to go to work. Until he spoke to us, David was looking forward to retirement. He was planning to sell his business to fund part of his retirement. He didn’t realise how the shortfall in his business value affected his future lifestyle. Based on his retirement plans, David’s Financial Adviser had estimated he would **need** \$1.25 million in retirement assets at aged 60 to fund his lifestyle in retirement. His projected income earning retirement assets were calculated as \$575,000 resulting in a shortfall of **\$650,000**, far exceeding the current value of his business.

If David did nothing he would face:

- *Accepting a lower standard of living at retirement*
- *Continuing working well past his desired retirement date*

This case study highlights how the **value of a business** affects an owner’s **future standard of living** and how succession planning can be used to grow and realise business wealth to fund the shortfall.

### Background

#### Client Need

- *Value gap \$650,000*
- *No formal succession plan*



### Issues

- *David is the business’s key “revenue earner” with his existing staff supporting his activities*
- *There was a young qualified professional working in the business but he moved on to gain more experience and build his career*
- *David has always rejected merger talks with like businesses for fear of losing control of his business*

### How resolved

David’s **FIRST STEP** was to complete a Business Value Gap analysis. This identified his value needed at sale, **value gap** and future profit target.

The Value Gap analysis showed he could close his Value Gap if he was able to increase his business profit (**\$50,000** in the first year). David was confident that with help from his advisers he would be able to achieve this.

Once David had identified his future profit target he implemented procedures to grow income and improve job profitability. David’s **growth strategies** included purchasing a new job costing system to accurately record job income and expenses. He also segmented his clients to focus on more profitable work and has identified some niche marketing opportunities. He has fewer clients but is making more money.

David’s **succession strategy** included joining a network of similar businesses to share training and professional development costs and selected administration functions. Sharing costs and functions with similar businesses is one way of retaining control but identifying “like minded” business owners. They may be the future buyer of his business.

### Client Process

David was offered a 2 stage client services plan. Stage 1 involved David completing a Business Value Gap consultation. From this David realised he needed a growth and succession plan for his business and completed a Business Life Plan (Stage 2). The Business Life Plan included strategies and action plans to help David close his value gap.

For more information Contact:-

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