

Business Value Gap

Case Study



Live Cheap or Die Young

Are these your only two options in retirement?

Background

We recently advised a client “David” (55), the owner/operator of a small to medium sized accounting business. David had started thinking about finishing work and believed all it would take is not getting out of bed to go to work. 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 adviser had estimated he would **need** \$1.25 million in retirement assets at aged 60. His projected income earning retirement assets were \$575,000. His asset shortfall of **\$650,000** far exceeds 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 retirement date

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

Client Need	Value gap \$650,000 Formal succession plan
Issues	<ul style="list-style-type: none">• David is the business’s “revenue earner”, his existing staff only support his activities• There was a young qualified accountant 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	<p>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.</p> <p>The Value Gap analysis determined he needed to grow his business profit by \$50,000 so he could afford to retire.</p> <p>Once he had identified his future profit target he implemented procedures to grow income and improve profitability. David’s growth strategies included upgrading his time recording system to accurately record client income and expenses. He also segmented his clients to focus on more profitable work and has identified some niche marketing opportunities. He is now offering succession planning services to his clients under an outsourcing arrangement. He receives a share of fee and financial services income. He has fewer clients but is making more money.</p> <p>David’s succession strategies 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 maybe the future buyer of his business.</p>
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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