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Business Article:

Website Summary:

Enhancing Business Value

by Leon Enriquez

Reading Time:
6 minute

Reader Benefit:
♦ Learn how you can enhance value for your business;
♦ Insights about value enhancement;
♦ Understand what you need to do.

Business value is measured by focusing on income. Put another way, you can improve the value of your business by increasing earnings and cash flow. Thus, business value can be achieved by sustaining the quality of earnings and cash flow.

Enhancing Business Value

by Leon Enriquez

Typically, business value is measured by focusing on income. In simple terms, you can improve the value of your business by increasing earnings and cash flow. Therefore, business value can be achieved by sustaining the quality of earnings and cash flow.

Obviously, a company or business concern should be managed with the objective of maximising value. In tandem, you can increase business value by reducing your operating and financial risks.

To maximise business value, there are two crucial steps to note:
- ♦ Income or cash flow; and
- ♦ Operating risk.

Maximising Income
In order to maximise income or cash flow, a business should do the following:
1. Develop diversity in its client or customer base, i.e., reduce reliance on just a few customers;
2. Develop a strong and organised marketing department;
3. Enhance the sustainability and quality of income;
4. Avoid excessive leverage, i.e., remember that interest expense erodes income and cash flow;
5. Avoid using business assets for non-business purposes; and
6. Avoid hiring excessive staff.

Reducing Operating Risk

In order to reduce operating risks, you must first identify those risk elements that most affect the business – and then – monitor, manage, and control them.

Risk elements may be described as the following:

1. Competition:

- ♦ Secure patent and copyright protection of products, services, and processes;
- ♦ Improve product and service quality;
- ♦ Maintain pricing competitiveness.

2. Financial strength:

- ♦ Reduce the amount of leverage;
- ♦ Increase the company's liquidity and working capital position;
- ♦ Build equity – refrain from stripping out the company's retained earnings.

3. Management ability and experience:

- ♦ Manage and control the turnover ratios for accounts receivable, inventory, fixed assets, total assets, and employee turnover;
- ♦ Improve the condition and appearance of the business's facilities;
- ♦ Maintain the quality of business records, including, contracts, financial statements, income tax returns, and employee files;
- ♦ Strive to develop management depth, which can often be accomplished through cross-training of existing staff.

4. Profitability and stability of earnings:

- ♦ Work on having a profitable business with stable earnings.

Enhancing Value

There are many things that can be done that will increase business value. These are just a few of the things that can be done to enhance value:

1. Maximise your operating profits;
2. Streamline your financial operating ratios;
3. Increase business gross income;
4. Minimise business expenses;
5. Consider an outside consultant;
6. Clean up your inventory;
7. Modify leases and contracts;
8. Audits;
9. Accounts receivable;

10. Settle disputes;
11. Secure your management team;
12. Avoid new debt;
13. Defer expansion;
14. Separate real estate;
15. Evaluate your directors;
16. Insurance contracts;
17. Marketing literature;
18. Document copyrights and patents.

Managing for Business Value

You need a simple yet integrated approach to aligning your corporate vision, strategy, management processes, and people within your company so as to continually enhance business value.

This requires you to adopt management techniques that stress a discipline, yet flexible approach towards making value-creating decisions. This involves:

1. A sound conceptual framework for understanding how value is created over the long term;
2. A model to pinpoint where value is being created across your various business units and your market segments;
3. A value-based decision making process for evaluating decisions and resource allocations; and
4. A performance measurement approach to track results against expectations.

Create a Methodology

You need a methodology that systematically unifies value solution techniques for customer perceived value trade-offs with revenue growth, corporate profitability and cash flow. The focus must be on identifying performance measurement drivers, value-based management activities, customer clusters, cash flow productivity and results linked compensation.

Goals and Objectives: These assist you with decisions aimed at enhancing value across your business units with different objectives and risk characteristics.

Value-based Management: You need to install a methodology that will help your company focus on value creation and realisation by driving value-based concepts and techniques into the culture and business process of your company.

Market Segmentation: You need to design an effective approach to market segmentation that addresses the key strategic issues facing your organisation. This approach should leverage and build internal capability and must be actionable across a variety of product groups.

Cash Flow Productivity: You need to focus on the entire, companywide cash flow pipeline, including cash generation, concentration, and utilisation. The main objective here is to raise your company's awareness of cash as a crucial asset in the value formula.

Performance Measurement: You need to develop and implement a performance measurement systems that links directly to your company's value drivers. Remember the saying: What gets measured gets done.

Performance Linked Compensation: You need to design a compensation plan that is carefully fitted to your company's business and unique culture – so that the only way managers can make money for themselves is by creating even greater value for stakeholders.

Be prepared to work with your company to develop internal controls and procedures. By integrating risk/return methodologies, a balanced scorecard of actual and potential risks and rewards is created. Such methodologies can then be integrated with your business processes to support your efforts to enhance value.

About the Author
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