

value audit

A tactical checklist for boosting the value of your firm

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In brief

Valuation is at the core of effective business management. Although strategic planning and vision statements may guide style and orientation, the key management mission is to optimize the value of the firm. Ultimately, the goal is to optimize value for shareholders, be there one or many. While that may not sound fashionable or politically correct, the reality is that no one will invest in a business that will gradually shrink in value until it is worthless. That does not mean it should not be managed with integrity but it does mean it must be managed on a sustainable basis.

What drives value? Business worth is a function of where your firm stands in four key areas: financials; sustainability; market position; business cycles. The best indication of a firm's value is what someone will pay for it. Those are the four parameters potential buyers use to gauge the worth of your business.

To focus on strategies for maintaining or boosting your business value, use the template below to review your performance in those key areas. Rank your operations between 1 (poor) and 5 (excellent) in each. If there is an item in which you feel you are underperforming, list what action you need to take to lift that rating. On the last page, add up your score in each of the four areas to get a total rating. That sum is out of a possible 100, so it's a percentage. What's your score?

To adopt a strategy of optimising your business value, look to the actions you have identified. Examine the steps you have to take to improve your score. Rank potential actions in terms of impact and choose the most important one, or for faster traction, one that is achievable in the shortest amount of time. Sometimes the simplest actions can have the biggest impact.

1. Financials

	RATING (CIRCLE)	ACTION
1. Working Capital: How do you rate your working capital management? Are terms and conditions methodically structured and clearly stated? Are they monitored and applied? Are accounts receivables firmly managed?	1 2 3 4 5 └───┴───┴───┴───┴───┘	
2. Investing Cash: Do you run a lean asset base? Do you regularly review your asset base, eliminating redundant investments, maintaining the most cost effective mix of owned and leased or rented assets?	1 2 3 4 5 └───┴───┴───┴───┴───┘	
3. Funding: Is the funding structure that finances your business the optimal model? How often do you review relationships with banks, shareholders and other intermediaries?	1 2 3 4 5 └───┴───┴───┴───┴───┘	
4. Strategic Integration: Is cash flow management a strategic priority across the entire spectrum of your firm: management, sales, marketing, operations, finance?	1 2 3 4 5 └───┴───┴───┴───┴───┘	
5. Monitoring: Have you identified your preferred KPIs or relevant ratios that determine the overall performance and value of your business? Are they the right ones? What are the key strategies you can put in place to optimise performance in these areas? What is the most important one for cash flow management?	1 2 3 4 5 └───┴───┴───┴───┴───┘	
YOUR TOTAL RATING (A)	/25	

2. Sustainability

	RATING (CIRCLE)	ACTION
1. Income Streams: Rank the quality of your income. How recurrent is it? Is it growing, mature, defensive, cyclical?	1 2 3 4 5 	
2. Management Depth: What is your long term management strategy? Is there a succession plan or management depth that will support the business with or without you?	1 2 3 4 5 	
3. Branding: How powerful is your brand? Can your business be easily maintained as a fully-integrated, functioning entity which is true to brand whoever owns or manage it?	1 2 3 4 5 	
4. Risk: How strong are risk management skills and practices? Are systems or processes in place to manage new challenges? Are operations transparent, easily assessed and governed with integrity?	1 2 3 4 5 	
5. Size: Do you have critical mass? Is the business size such that it has financial and market power? Is it strong enough to attract and acquire or does it have the power to make a successful acquisition?	1 2 3 4 5 	
YOUR TOTAL RATING (B)	/25	

3. Market Position

	RATING (CIRCLE)	ACTION
1. Customer Base: How do you rate the quality of your customers? What is the outlook in terms of future demand, changing demographics, scalability or loyalty?	1 2 3 4 5 -----	
2. Competitive Environment: Do you face rapid technological change or shifts in market dynamics? Are you in a position to manage them or leverage off them?	1 2 3 4 5 -----	
3. Market Risk: What is the probability of negative changes in regulations, economics, consumer preferences or market failure in your sector? In your firm?	1 2 3 4 5 -----	
4. Market Outlook: Will market conditions get better, worse or stay the same? Are you able to adapt to shifts in that outlook, or take advantage of it?	1 2 3 4 5 -----	
5. Market Power: Do you have strong value-chain and supply chain relationships? How much power do you have in terms of purchasing, distribution and customer access? Do you dominate your market or niche in a way that makes you important to competitors or new entrants to you industry?	1 2 3 4 5 -----	
YOUR TOTAL RATING (C)	/25	

4. Cyclical Timing

	RATING (CIRCLE)	ACTION
1. Global: Where does your business stand in terms of political trends, regulatory change or cultural shifts?	1 2 3 4 5 └───┴───┴───┴───┴───┘	
2. Macro: Where is the cycle in your immediate economic environment? What is the outlook for employment, interest rates, demographics or fiscal policy?	1 2 3 4 5 └───┴───┴───┴───┴───┘	
3. Micro: Is the structure of your industry stable or shifting? Where is investor focus now? What is the outlook for consolidation?	1 2 3 4 5 └───┴───┴───┴───┴───┘	
4. Product: Are your customer preferences shifting? Does technological change pose a threat? How are you placed to manage that challenge? What are the opportunities for reinvention, or adaptation to changing fashions?	1 2 3 4 5 └───┴───┴───┴───┴───┘	
5. The Firm: Where is the business in its own life cycle? What can you do to protect or grow value at this point? Are you able to adopt strategies that will optimise business worth in current conditions?	1 2 3 4 5 └───┴───┴───┴───┴───┘	
YOUR TOTAL RATING (D)	/25	

5. Your Value Ranking

SECTION	YOUR SCORE	
FINANCIALS	/25	enter from TOTAL RATING (A)
SUSTAINABILITY	/25	enter from TOTAL RATING (B)
MARKET POSITION	/25	enter from TOTAL RATING (C)
CYCLICAL TIMING	/25	enter from TOTAL RATING (D)
YOUR VALUATION SCORE (%)	/100	

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For more information, visit my website www.alanhargreaves.com

Hi, I'm Alan Hargreaves. I specialise in simplifying complex business problems. In over 35 years as a business executive, I have never found an issue that cannot be addressed through identifying the essential but simple steps required to make any problem manageable. It might be your career, your firm, your team or your strategy. It doesn't matter. All hurdles can be lowered through dispassionate analysis, and all executives can embrace simple processes to take them forward. Using these techniques, I have helped hundreds of people through the various stages of their business or career development. It may be the challenge of taking on new responsibilities; it could be the task of managing a business you have created yourself; it may be handling a difficult team in the midst of major change. I use a straightforward combination of key principles to get results: collaboration, adaptation, simplification and action. You can contact me anytime at alan@alanhargreaves.com.



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