

INTRODUCTION TO BUSINESS VALUATION

Strategy Analysis

Let's Start





Learning Outcomes

- ✓ Identify and describe the components of Strategy Analysis
- ✓ Identify the tools for Strategy Analysis – PESTEL, Porter's 5 forces, SWOT analysis, Value Chain Analysis
- ✓ Explain how strategy influences the value of a business
- ✓ Apply PESTEL Analysis to a technology company





Components of Strategy Analysis



Strategy Analysis



Industry

Industry Analysis is done to analyse the chosen industry in which the organisation/company conducts its operations.



Competitive Strategy

Competitive Strategy Analysis is done to evaluate an organisation/company's competitive positioning within the industry.



Corporate Strategy

Corporate Strategy Analysis is done to create and utilise synergies across business operations.



Tools for Strategy Analysis



Analysis Tools

External

Internal

Evaluate **macro-environmental impacts** on company from 6 factors:

- Political
- Economic
- Social
- Technological
- Environment
- Legal

PESTEL analysis

Analyse **competitive intensity and industry structure**

- Threat of New Entrants
- Bargaining Power of Suppliers
- Bargaining Power of Buyers
- Threat of Substitutes
- Rivalry

Porter's five forces

SWOT analysis

- Identifies **internal strengths** and **weaknesses**, and **external opportunities** and **threats**
- Links market conditions with internal capabilities to enhance strategic valuation assessments

Value chain analysis

Focuses on **internal operations** to identify **cost reduction opportunities** and **differentiation sources**.



Competitive Strategy Analysis



Competitive Strategy Analysis



Cost reduction

When efficiency improvements are done in value chain activities, it increases a company's profitability and cash flow, thereby leading it to higher valuation.



Product differentiation

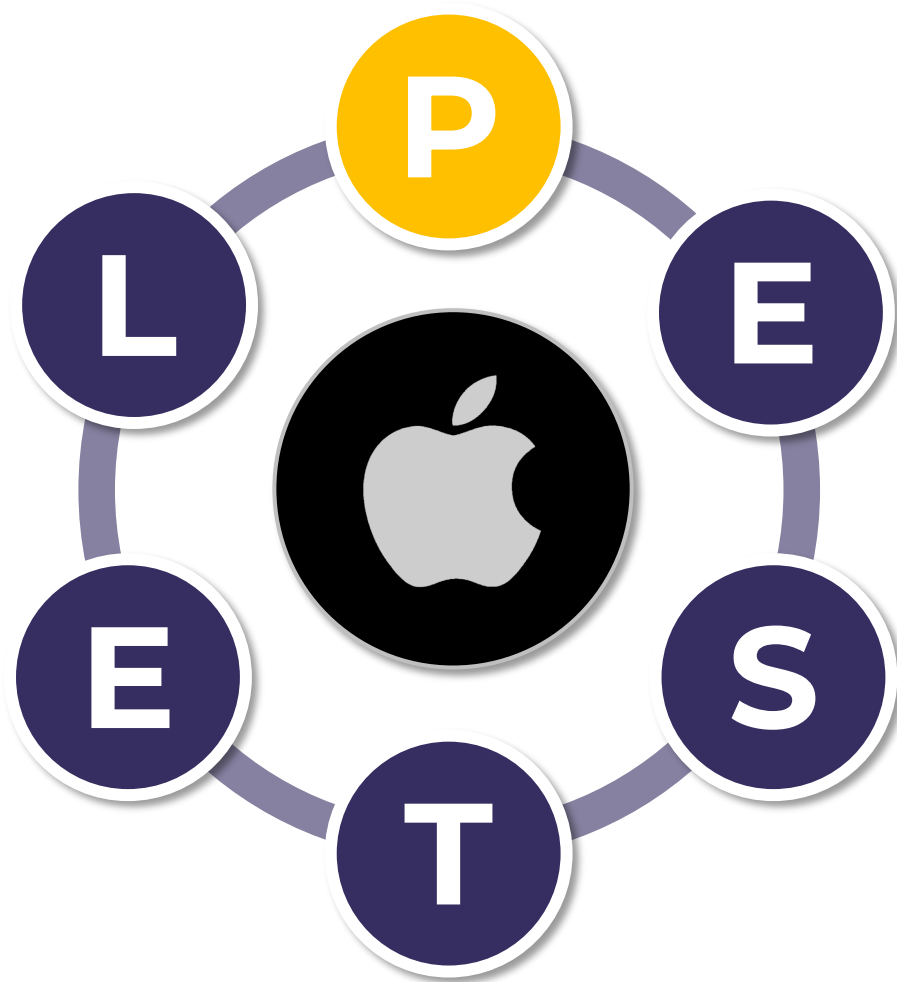
By implementing enhancements through R&D, design, or marketing, companies can stand out in the market, giving it a competitive edge, higher future cash flows, and therefore, higher valuation.



Case Study – PESTEL Analysis



Pestel Example – Apple



Political Factors



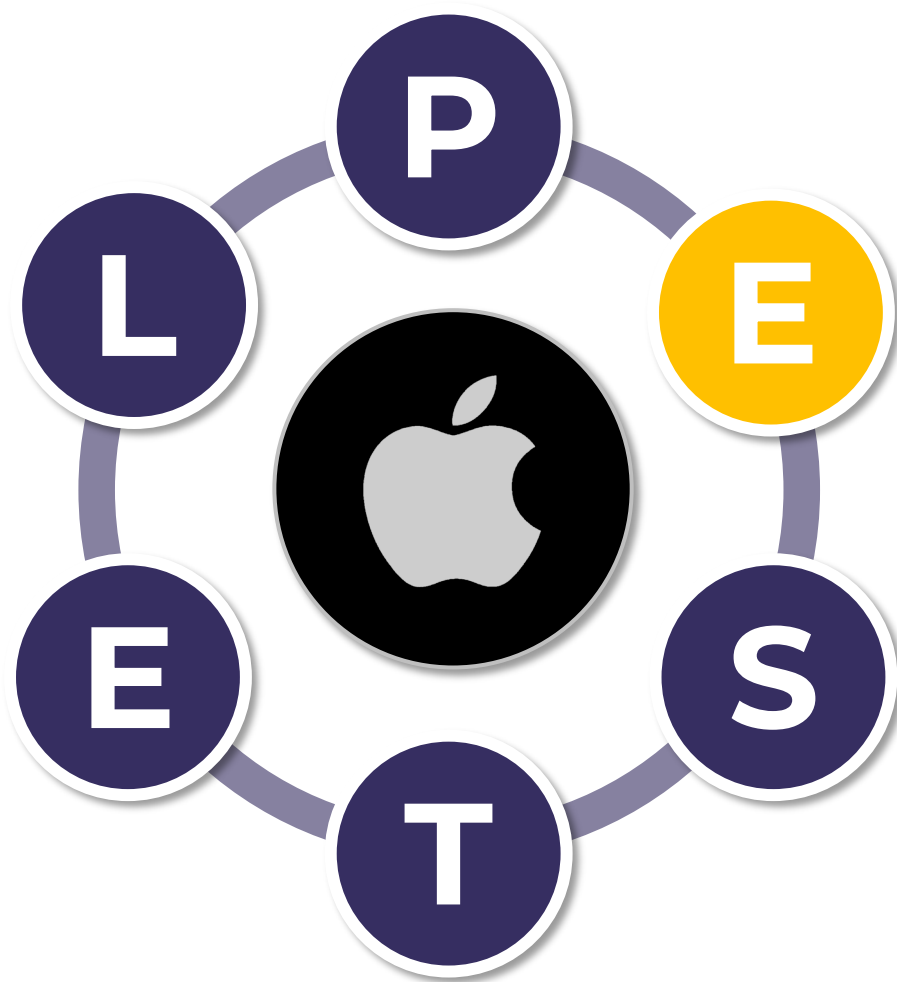
Global Trade Policies



Regulatory Environment

- Apple manufacturing is highly sensitive to changes in global trade policies.
 - They are affected by tariffs and trade restrictions, such as those between the U.S. and China, where most of its products are manufactured.
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- Different countries' regulatory frameworks regarding data privacy, taxation, and consumer protection can affect Apple's operations and compliance costs.

Pestel Example – Apple



Economic Factors



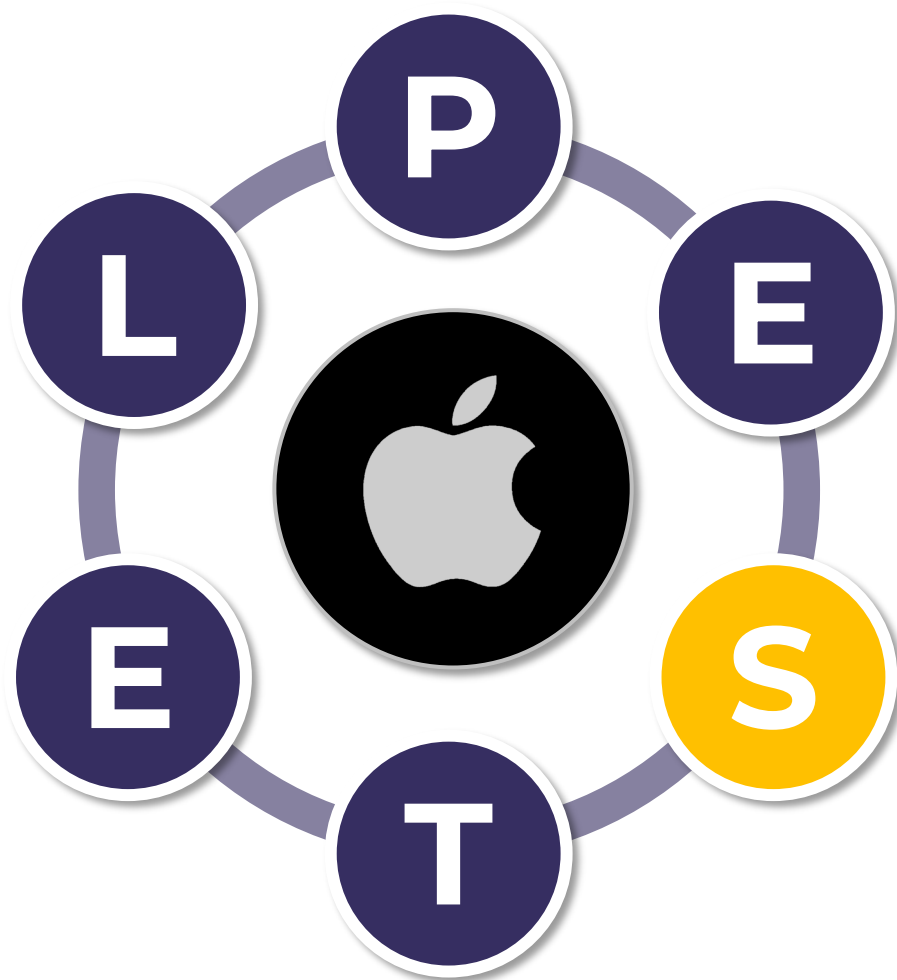
Economic Fluctuations



Currency Exchange Rates

- Economic conditions affect consumer spending behaviour and in times of economic downturn, consumers may delay or reduce purchases of non-essential goods, including high-end electronics sold by Apple.
- As a global entity, Apple is exposed to currency fluctuations which can affect the profitability of its overseas operations when converting foreign earnings back to U.S. dollars.

Pestel Example – Apple



Social Factors



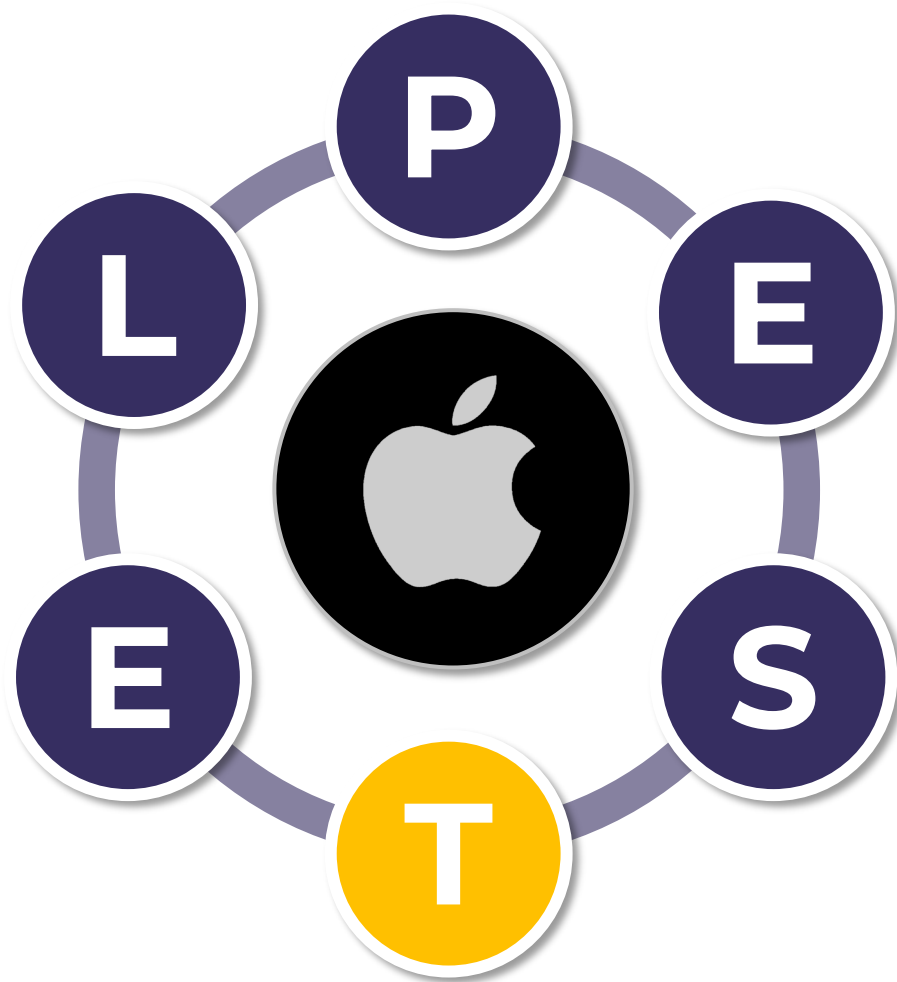
Changing Consumer Preferences



Brand Perception and Loyalty

- Consumer preferences for technology are rapidly evolving, forcing companies to innovate and adapt.
- Apple focuses its product development on trends such as mobile computing, wearable tech, and digital payments.
- Social trends favouring ethical business practices influence Apple's strategies around sustainability and labor practices. Maintaining a positive social image is crucial for customer loyalty and brand strength.

Pestel Example – Apple



Technological Factors



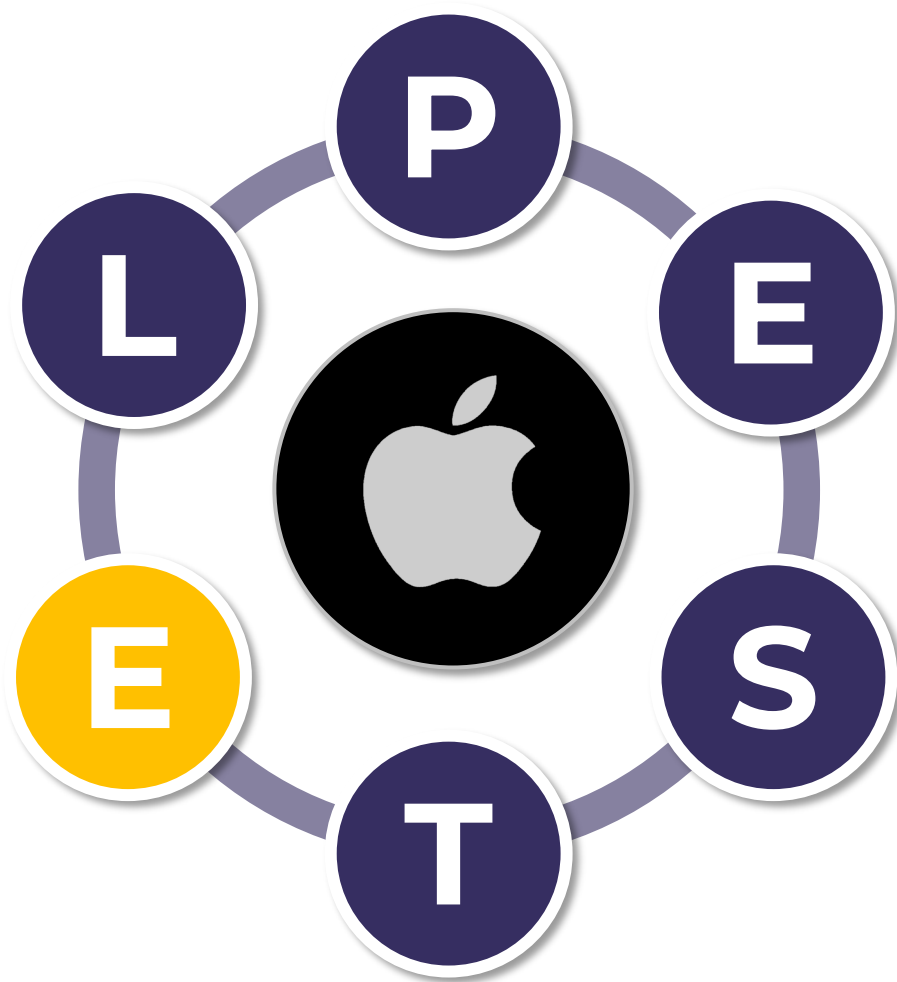
Innovation Cycle



Cybersecurity Threats

- The technology sector is characterised by rapid innovation. Apple must continually invest in R&D to stay ahead of competitors with newer, more advanced offerings.
- As digital and cloud services become a larger part of Apple's offerings, managing cybersecurity risks is increasingly important.

Pestel Example – Apple



Environmental Factors



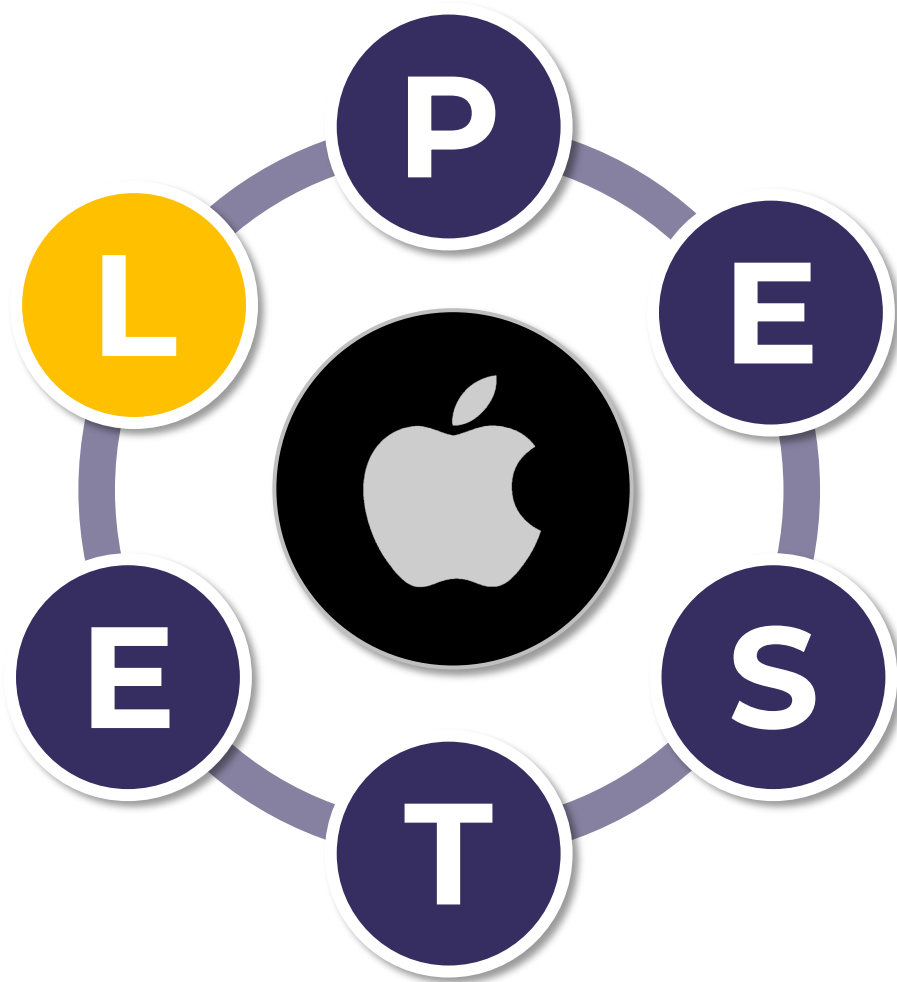
Sustainability Practices



Regulations on Environmental Impact

- There is increasing pressure on technology companies to demonstrate environmental responsibility. Apple has made commitments to reduce carbon footprints, manage electronic waste, and utilise renewable energy sources in its operations.
- Compliance with global environmental regulations affects how Apple designs its products and manages its facilities.

Pestel Example – Apple



Legal Factors



Intellectual Property Rights



Antitrust Scrutiny

- For a company like Apple, protecting its innovations through patents is crucial. Intellectual property litigation can have significant financial implications.
- Large tech companies, including Apple, are increasingly under scrutiny for potential anticompetitive behavior which could result in heavy fines and changes in business practices.



Summary

- Strategy analysis tools such as PESTEL, Porter's Five Forces, SWOT, and Value Chain Analysis, provide foundational knowledge to help us assess the value of businesses.
- To get a comprehensive understanding of a business valuation, looking at the external market conditions and internal business capabilities is a must.
- With the help of the strategy analyses provided here, valuers can think critically about how businesses position themselves within their industries, how they can leverage their strengths, address weaknesses, exploit opportunities, and counteract threats.

You have finished

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Finish

