

# Business Drivers and Value Creation





---

# Business Drivers and Value Creation

---

- ❖ When we come to identifying the factors that drive success in our business, it's useful to have an all-encompassing perspective
- ❖ We need to understand the connection between business drivers and value creation in the firm



---

# Business Drivers and Value Creation

---

- ❖ There are five main factors to consider - 3 internal and 2 external
- ❖ I find this a very useful model when trying to identify what is special about the business
- ❖ What enables the business to build sustainable competitive advantage - what Buffet would call the “Moat”?



# Business Drivers and Value Creation

## ❖ Internal Factors

❖ Financials

❖ Assets

❖ Management

## ❖ External

❖ Competition

❖ Markets

Historic  
Financials

Existing Assets

Management Team

-----  
MOAT -Sustainable Competitive Advantage  
-----

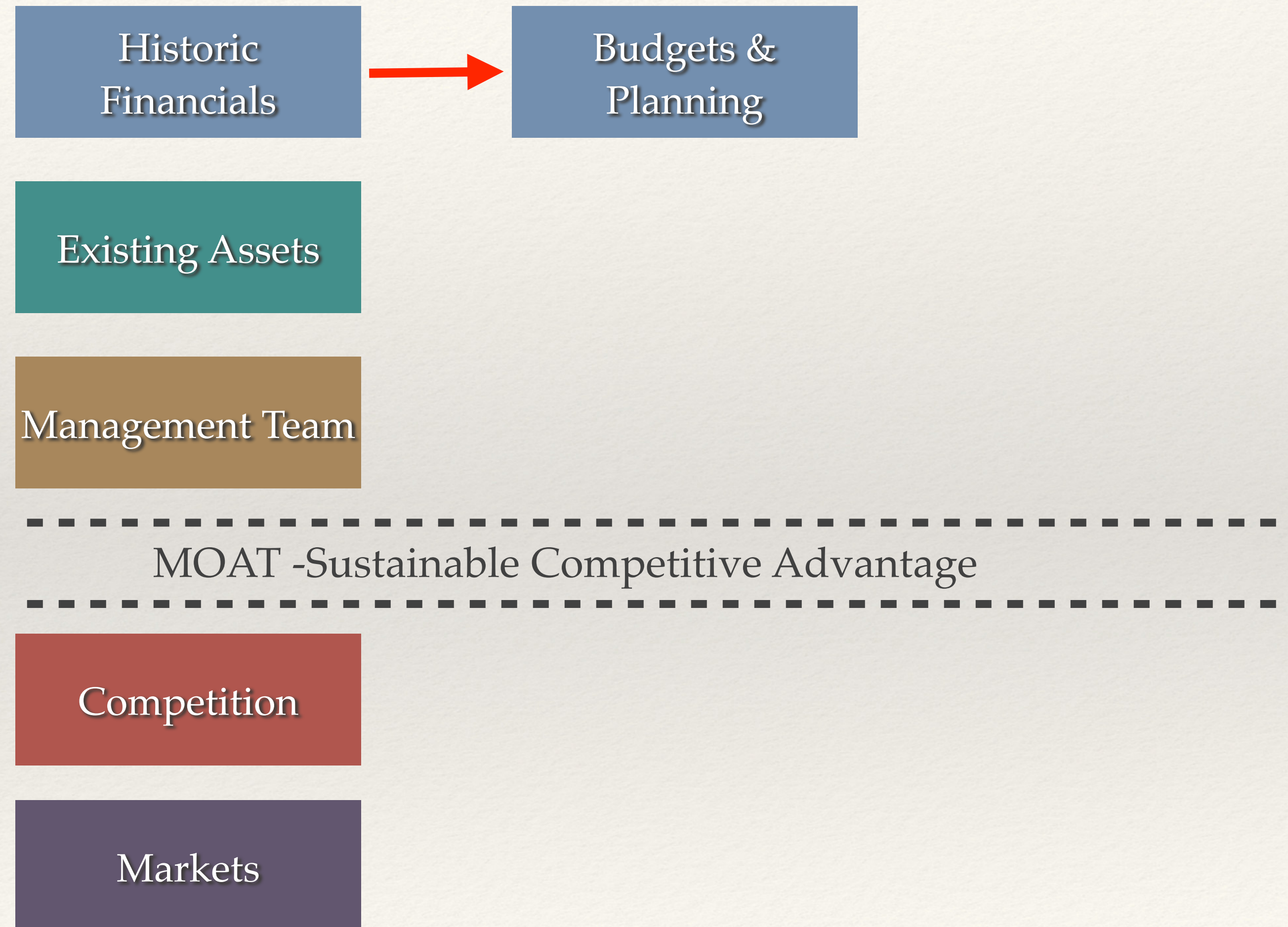
Competition

Markets



# Business Drivers and Value Creation

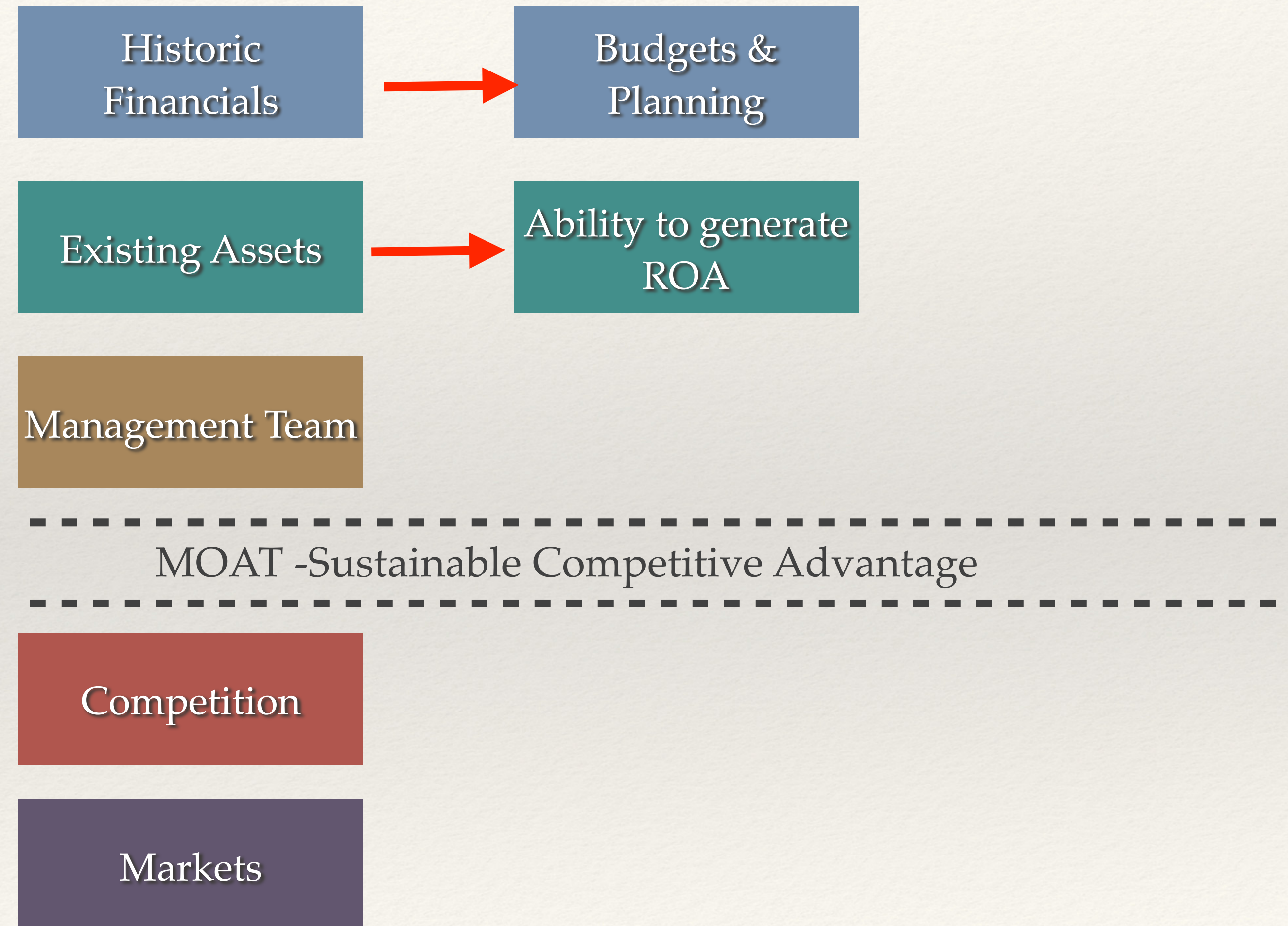
- ❖ The starting point are the historic financials which show us what the company has achieved, the sources of revenues, the margins of profitability, its balance sheet funding and its cash flows
- ❖ We also need to understand the current budgets and forward financial planning





# Business Drivers and Value Creation

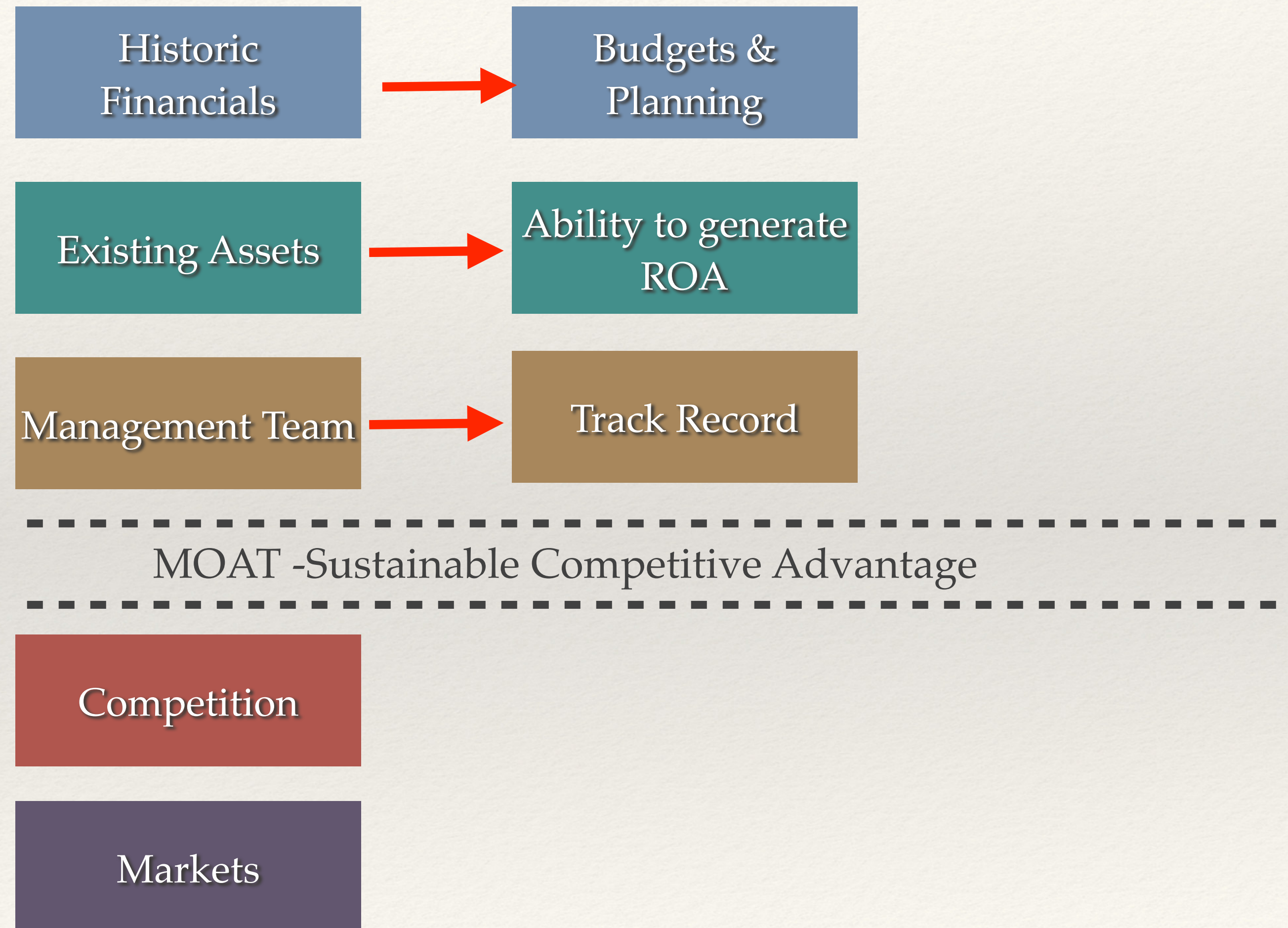
- ❖ The historic financials show us how the business earns a return on its assets (ROA), how it generates free cash flow
- ❖ Consider both tangible (PP&E) and intangible assets (brands, patents, IP)





# Business Drivers and Value Creation

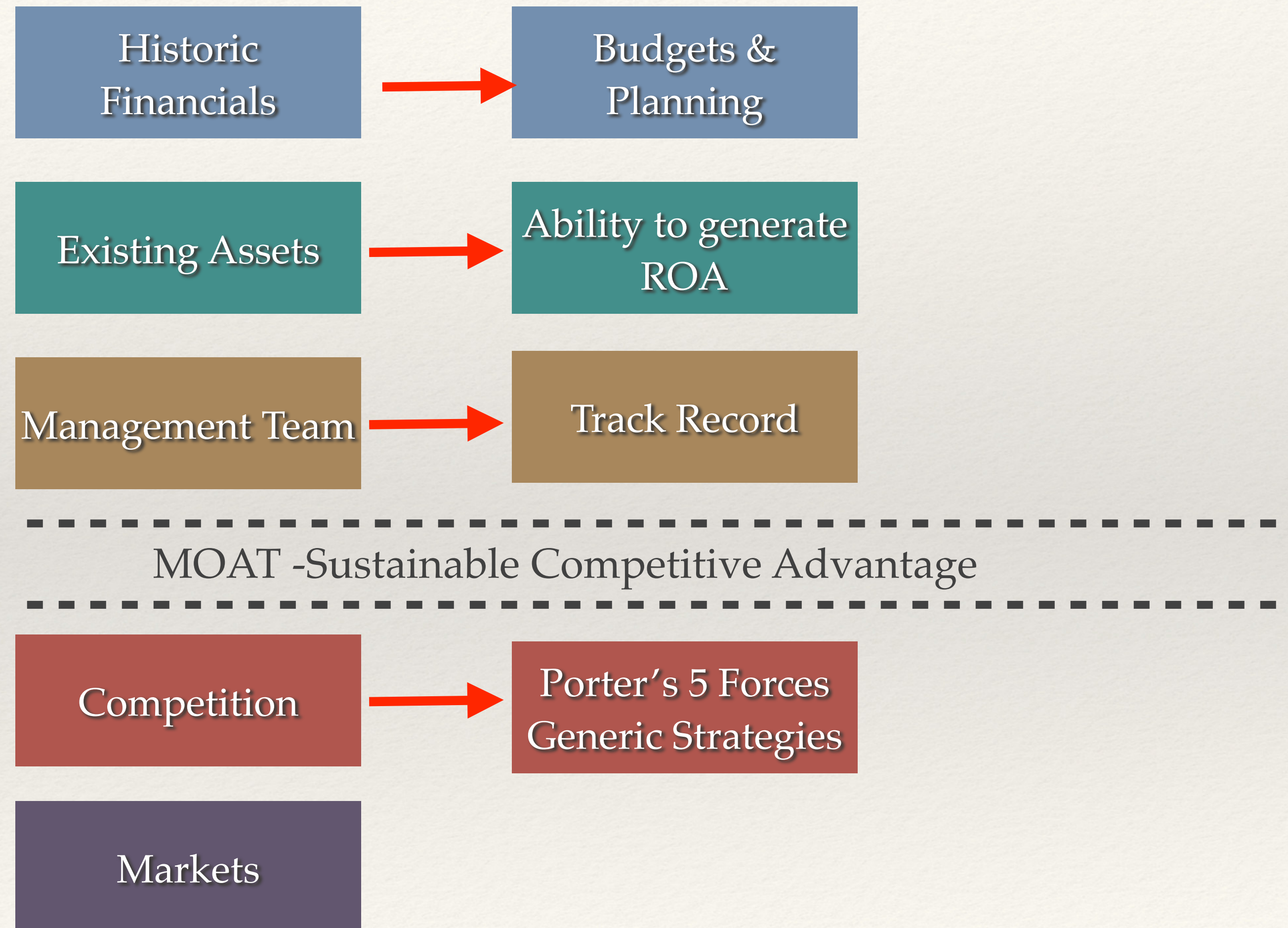
- ❖ The historic performance of management will tell you a lot about their quality
- ❖ Look at the board, their compensation, the leadership they provide?
- ❖ How do you rate their ability to create outstanding value?





# Business Drivers and Value Creation

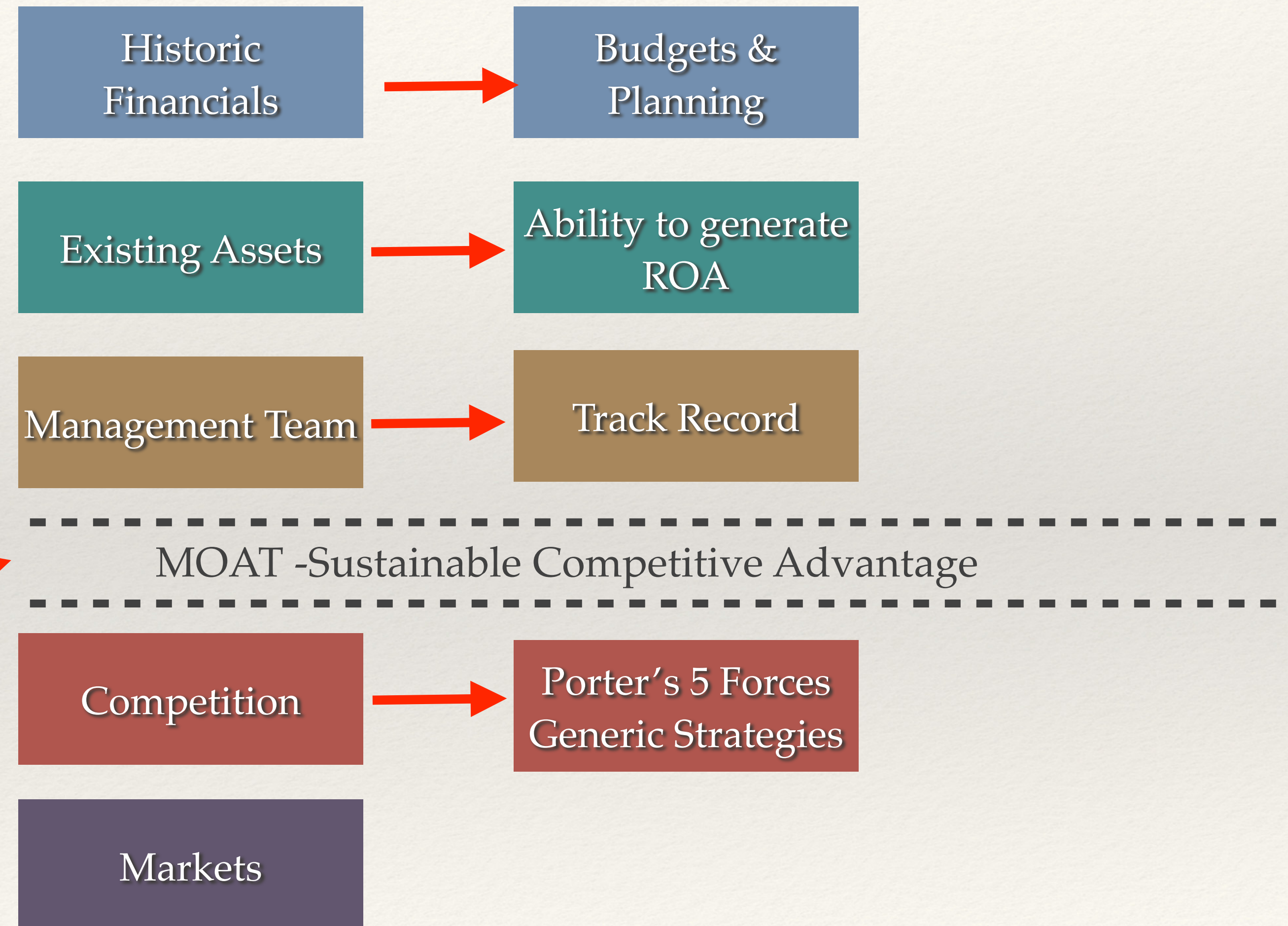
- ❖ When it comes to competition
  - keep Michael Porter's Five Force Model and Generic Strategies model to mind
- ❖ Power of Suppliers
- ❖ Power of Customers
- ❖ Barriers to Entry
- ❖ Risk of Substitutes
- ❖ Industry Rivalry





# Business Drivers and Value Creation

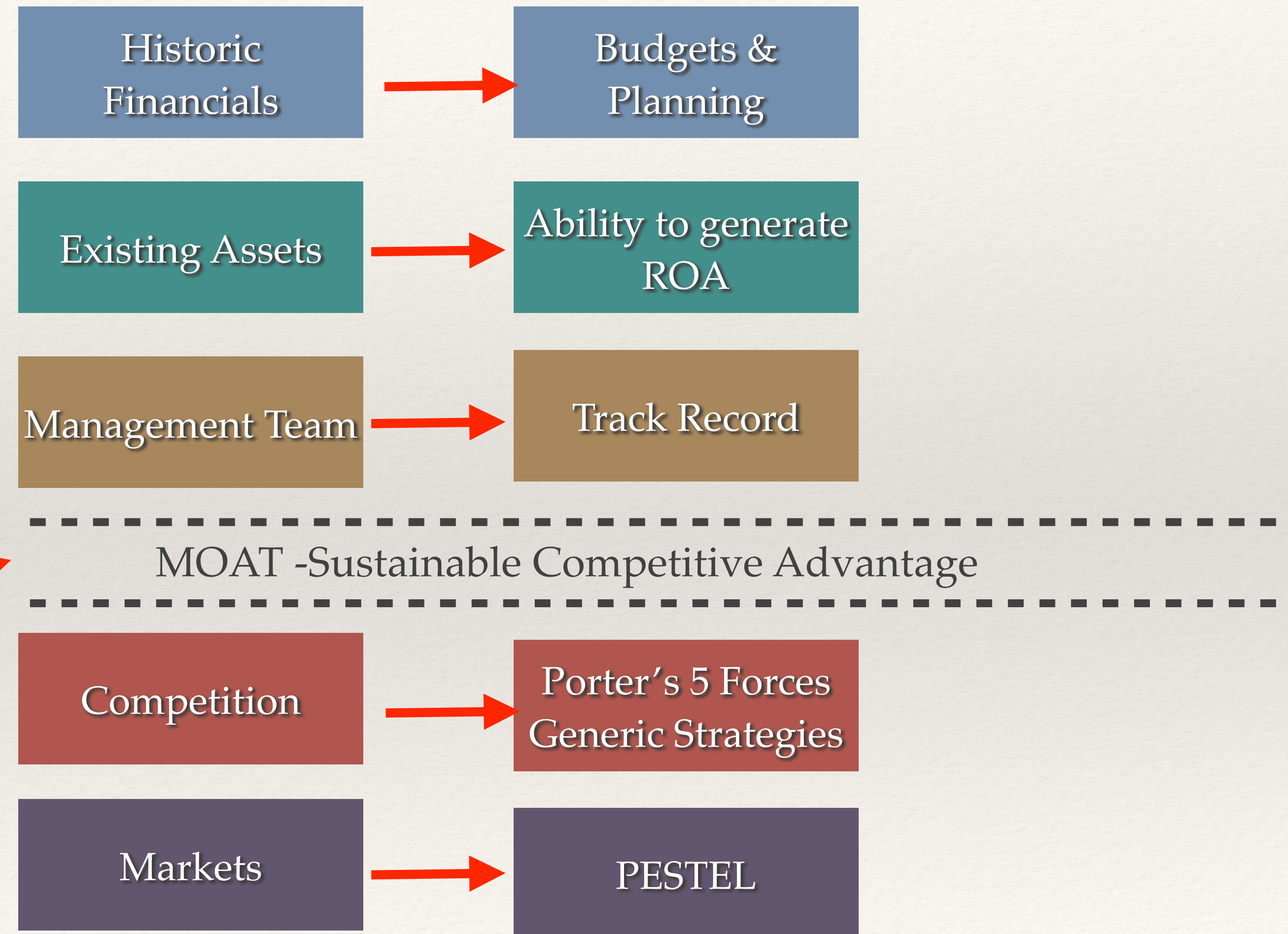
- ❖ How is the company competing?
- ❖ Differentiation or Low Cost?
- ❖ Broad or Focused?
- ❖ Is the company stuck in the middle?
- ❖ How does it surround itself with a “Moat” of competitive sustainable advantage?





# Business Drivers and Value Creation

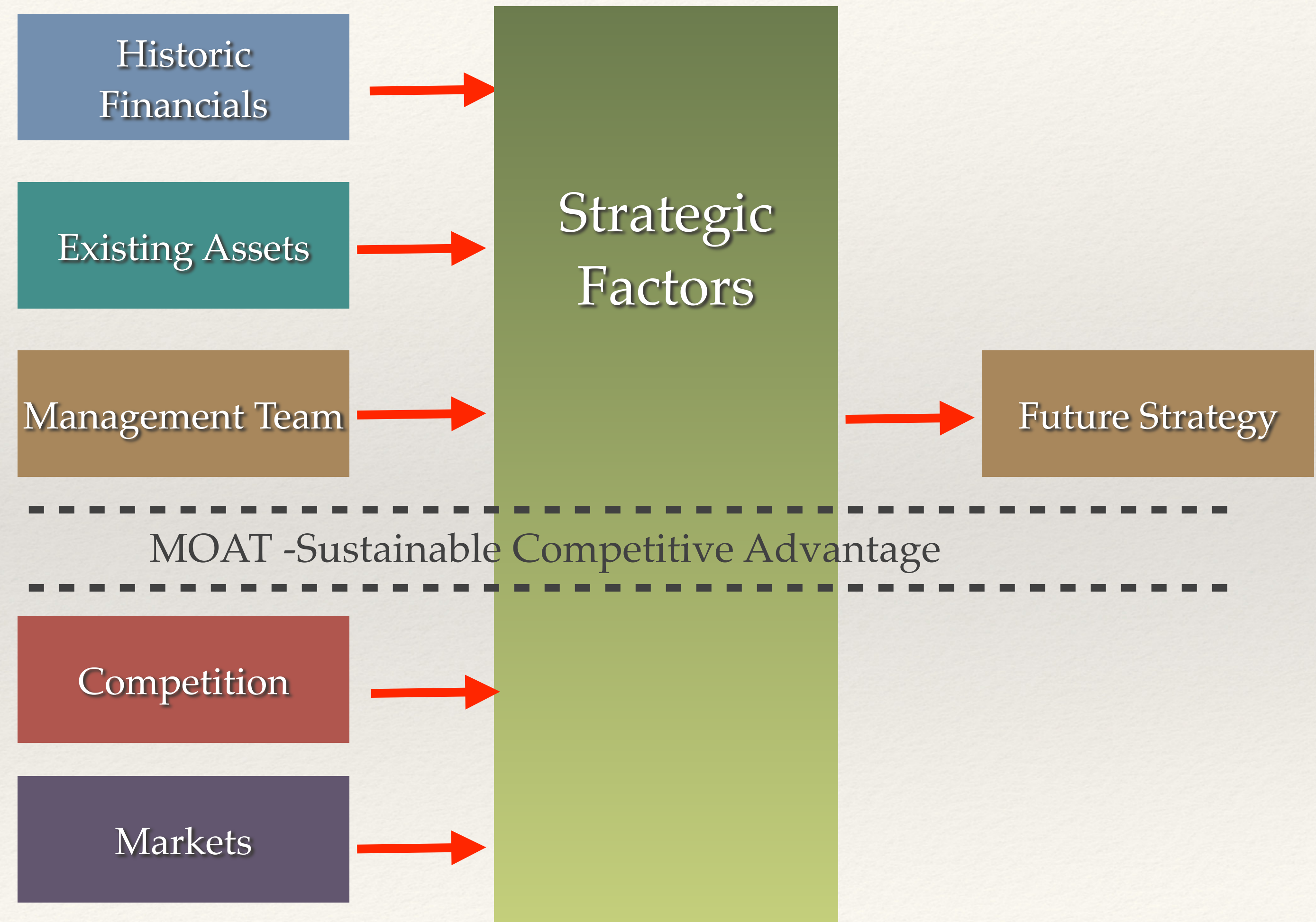
- ❖ When considering markets, turn to the PEST or PESTEL models to identify the external forces with which the company has to struggle
- ❖ How does it do this successfully?
- ❖ Political, Economic, Societal, Technological, Environmental and Legal





# Business Drivers and Value Creation

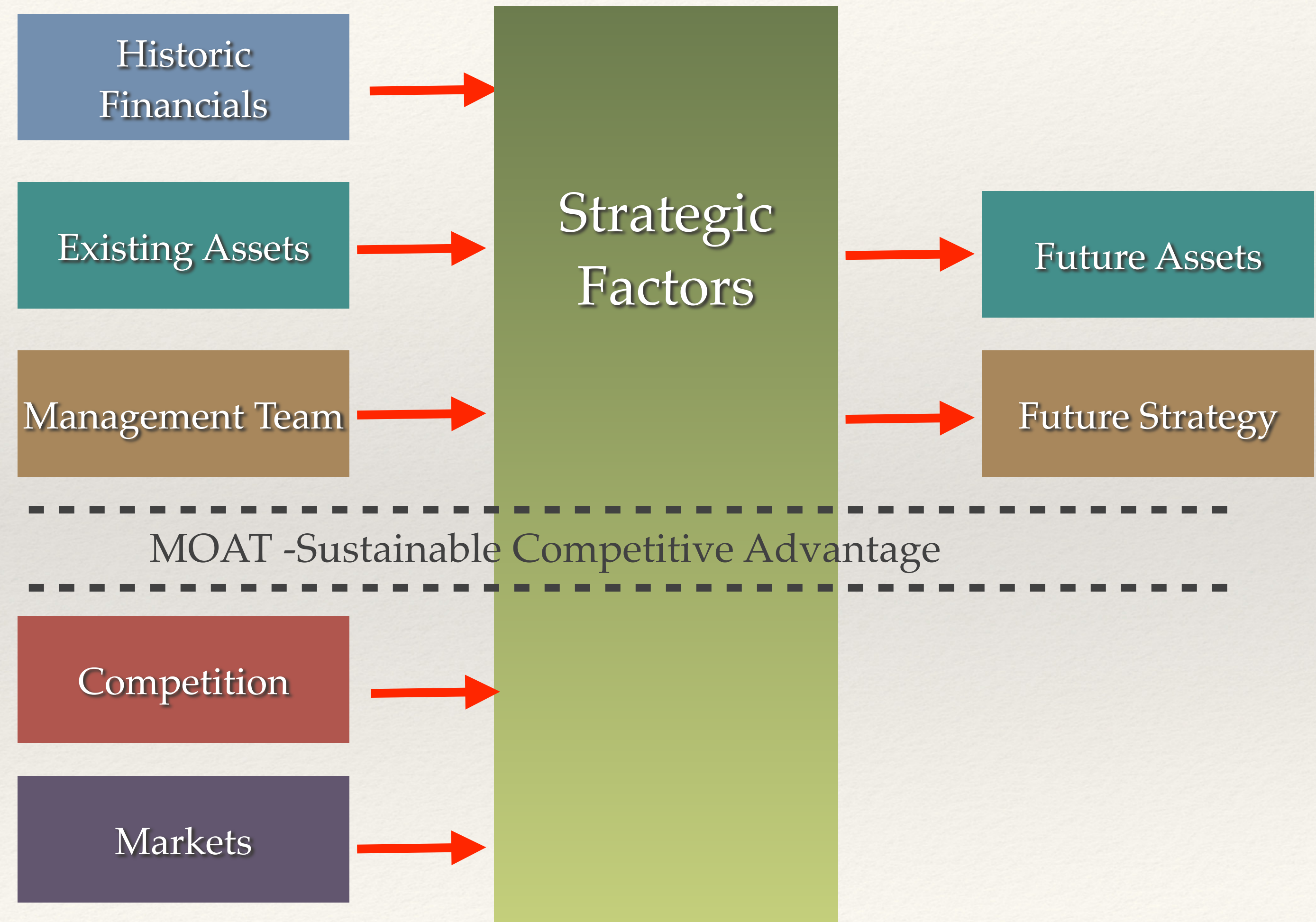
- ❖ Taking this together we arrive at a Strategy to compete and create sustainable competitive advantage
- ❖ How is management going to achieve this and what will they need going forward?
- ❖ Now we can turn our attention from the historic to the future of the firm





# Business Drivers and Value Creation

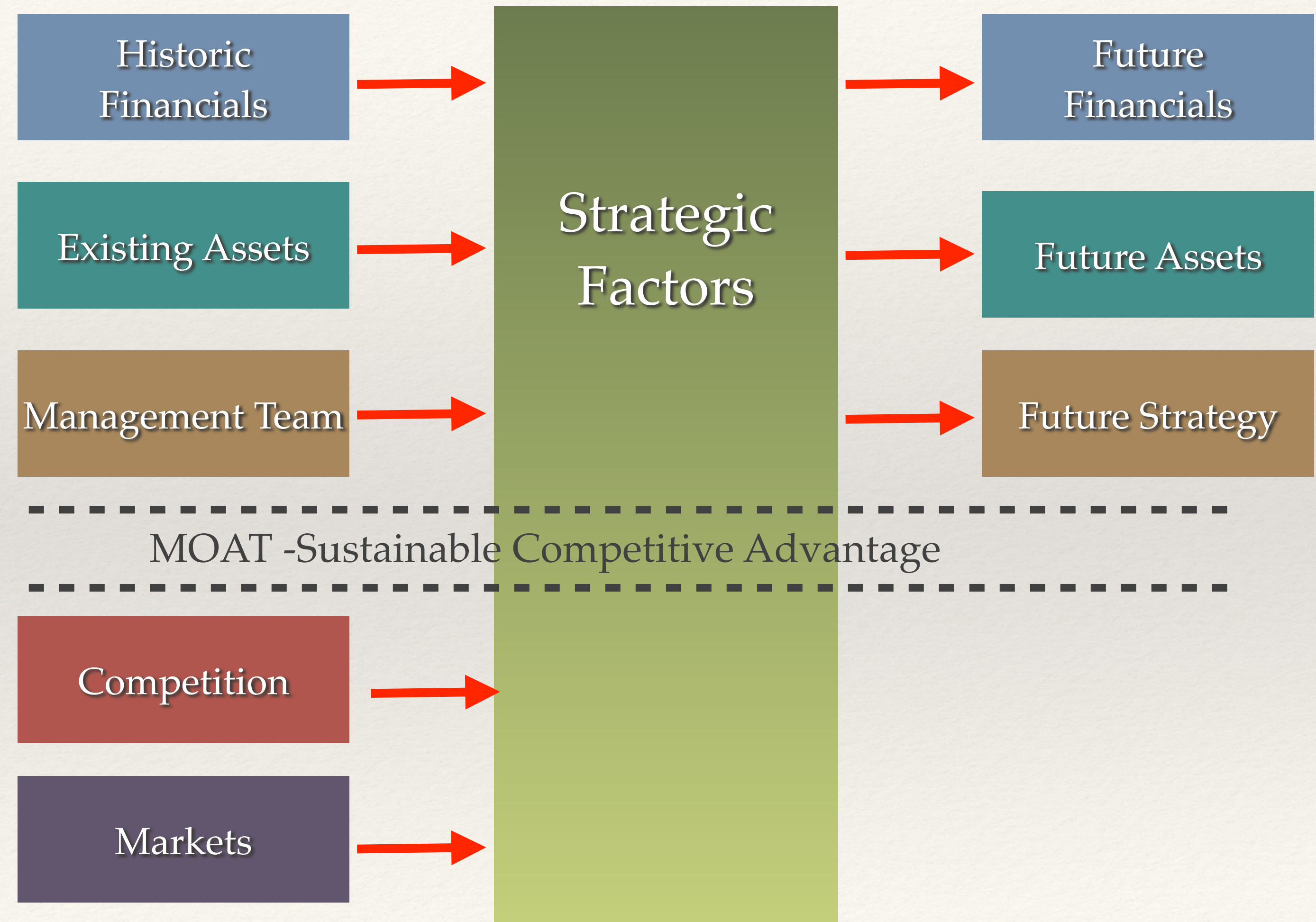
- ❖ What future assets will the firm need to sustain its competitive advantage and grow?
- ❖ What investment will be required?
- ❖ What is the forecast ROA on this investment?
- ❖ How will this impact free cash flow?
- ❖ These assumptions need to be build into your modelling





# Business Drivers and Value Creation

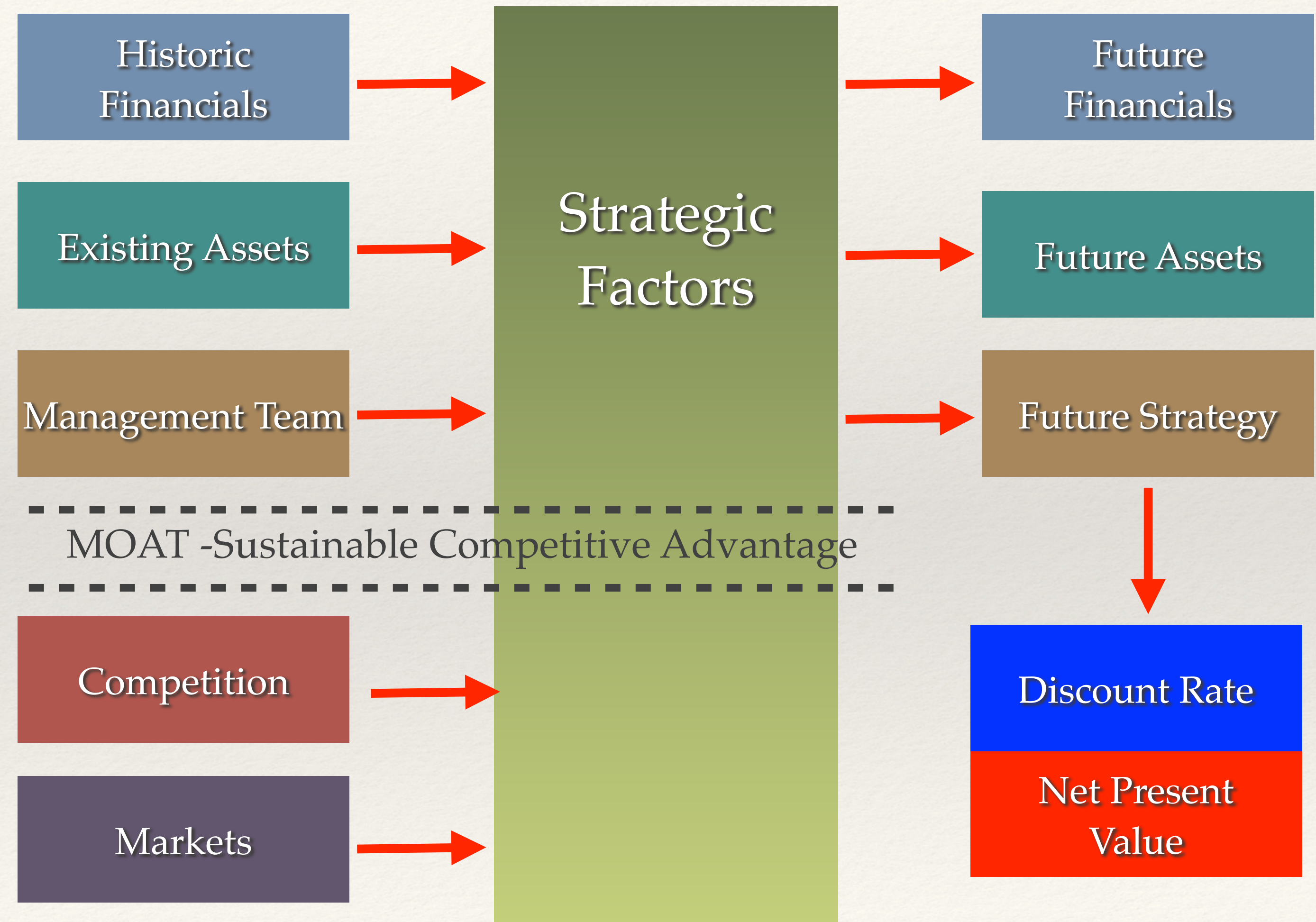
- ❖ As we build these assumptions into our model we can begin to create our future financials
- ❖ What are your growth assumptions for revenues and costs?
- ❖ How will this impact your margins and profitability?
- ❖ Make sure that your input assumptions are clearly itemised and easy to follow
- ❖ This will allow you to change your assumptions as you refine your model





# Business Drivers and Value Creation

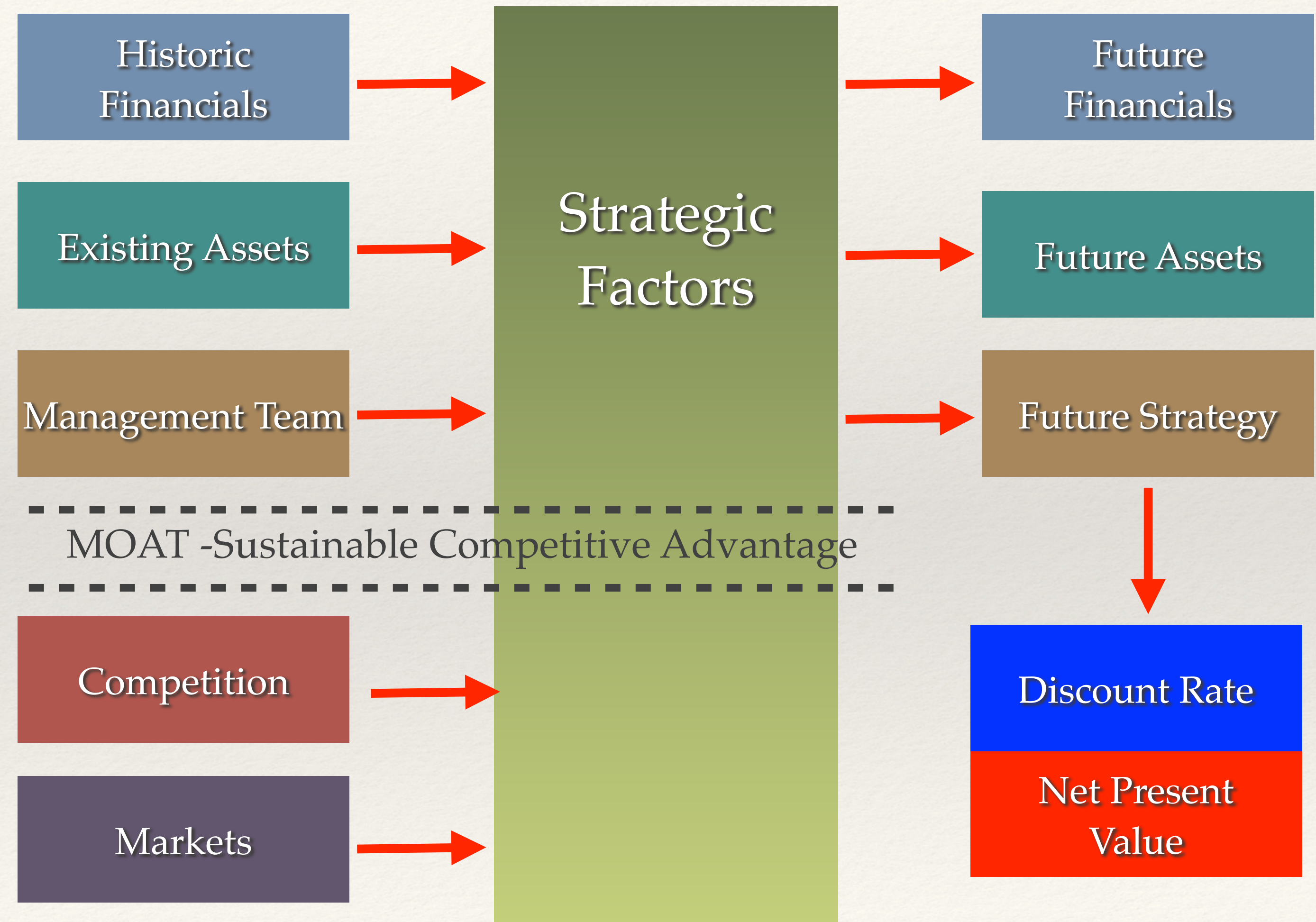
- ❖ The culmination of this process is to decide on the appropriate discount rate for the cash flows and arrive at the Net Present Value of our business





# Business Drivers and Value Creation

- ❖ Be prepared to test different scenarios, discuss this process with your colleagues
- ❖ Further investigation of markets, competition, as well as the internal factors of management, assets and financials will help you to refine and improve your model





# Business Drivers and Value Creation

