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"Creating & Enhancing Business Value – The Accountant's Role" ©

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I. Key Valuation Factors

A. Factors affecting the value of a business include:

1. Expected future amount of sales and profit
2. Expected future rate of growth in sales and profit
3. Future cash flow
4. Stability and predictability of future profits and cashflow
5. Amount of capital required in the future for the business
6. Level of risk
7. Assets (both operating & nonoperating)
8. Competitive advantages

B. Important Ingredients for Success

1. People

    a. Board of Directors

    b. Management

    c. Employees

    d. Advisors/consultants

    e. Shareholders

2. Assets – tangible and intangible

3. Cash

4. Strategy – a logical, well thought-out plan

5. The plan is well executed in a timely manner

6. Time

C. Key Points

1. Every business is either growing or declining

a. Challenge: Can you identify any business that remains the same for years?

2. The world is constantly changing – how will the company react to such changes?

a. Is the company anticipating changes or reacting to them?

b. Consider the impact of such changes on customers, competitors, suppliers, employees, and others

II. Effective Financial Management

A. Importance of accurate records

1. Decisions are only as good as the information and assumptions on which they are based.

2. Are the records up-to-date and complete?

3. Are the accounting and finance personnel competent?

B. The CFO's Role

1. Does the CFO help the CEO and Board of Directors set strategy?

2. Is financial management integrated with the company's business strategy?

a. What is the company's core operations? Focused?

3. Does the CFO keep the CEO and Board informed as to important financial issues?

a. Does the CFO anticipate the company's need for capital?

4. Are the company's financial statements accurate?

   a. Are the statements prepared in a timely manner?

   b. Are the company's internal controls adequate?

5. Are the company's projections fairly accurate?

   a. Comparison of actual results to projections or budgets?

   b. What happens when there are significant variances?

6. Are financial ratios prepared and studied?

   a. Are the company's ratios compared to competitor's ratios?

C. Capital Structure

1. Any off-balance sheet assets?

2. Any off-balance sheet liabilities?

3. What is the company's capital structure?

   a. What percentage is debt?

      (i) Can/should any debt be refinanced?

   b. Develop a chart scheduling the company's debts and obligations by their due date.

   c. Are long-term assets financed with long-term capital?

4. Are the company's options constantly being evaluated based upon changing market conditions?

5. Can any assets be sold?

6. Any intellectual property that can be licensed to third parties?

D. Effective Cash Management

1. Cash is critical to a business.

   a. Does the CFO have a good handle on projected cashflow?

2. How should the company's cash be used?

a. Buy assets

b. Pay-off debt

c. Invest in the company's operations

d. Pay dividends

e. Buy-back stock

f. Acquire companies

3. Basic rule: Accelerate cash receipts, defer cash disbursements

   a. Are invoices being sent in a timely manner?

   b. Are the invoices accurate?

   c. Are discounts on disbursements taken?

4. What is the company's credit policy?

   a. When will goods or services be provided on open account?

   b. Any financial information received from potential customers?

   c. Are personal guarantees required or ever received?

   d. Any limits on the credit?

   e. Balance the need for new customers and revenue with the need to collect receivables and the impact on cashflow

5. Are receivables being collected in a timely manner?

   a. Is an aging schedule of accounts receivable produced and reviewed?

   b. What is the policy if an account is outstanding for more than 90 days?

   c. Interest charged on outstanding invoices? Actually collected?

6. What is the company's pricing strategy?

   a. What is the gross profit margin for each product/service?

b. What is the trend regarding margins?

E. Keeping it Simple

1. Ways to increase profits and cash flow include:

a. Increasing revenue (assuming profitable margins)

(i) Increase the number of sale transactions

(ii) Increase the amount of the average sale

(iii) Focus on customer retention

b. Decreasing expenses

(i) Can "cut out the fat"

(ii) Don't cut muscle with the fat

(iii) Some companies spend $1 to save a nickel

(iv) Ask: Is this expense really necessary?

(v) It takes money to make money

(vi) There is some real limit to the level of expenses that can be cut

2. Improving Cash Flow

a. Can the company accelerate collection of its receivables?

b. Increase inventory turnover?

c. How can capital expenditures be reduced?

III. The Accountant as a Business Advisor

A. Many companies wish their accountants or outside CPA would be a business advisor.

B. What will generate growth in the future?

1. Existing markets grow

2. The company goes into new markets

a. New products and variations

b. New services

3. Operational efficiencies reduce expenses

4. Mergers & acquisitions

5. Alliance & joint ventures

C. What are the obstacles to future profits and cash flow?

1. Competition

2. Fundamental problems with the company's products/services

a. The product or service does not meet the customer's need or desire

b. Less than excellent quality

c. Delivery is not timely

d. Pricing is not competitive

3. Problems with the company's information technology, internal controls, and/or financial reporting system

4. Various problems with the company's employees

a. Incompetent

b. Lazy, rude, not "team players", etc.

c. Unproductive

5. Changes in technology

a. Keep up or get left behind

6. Changes in the legal environment

a. New laws or regulations

b. Lawsuits

c. Regulatory compliance

d. Investigations

7. Adverse political or economic developments

8. Various problems with the company’s suppliers and/or customers

9. Financial restraints

    a. Lack of access to capital

    b. Declining profit margins

    c. Debt load

    d. Cashflow problems

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Exhibit "A"

I. Business Plan

A. Businesses should exist for a reason

1. Why does the company exist?
2. What problems does the company solve?
3. What benefits does the company provide?
4. Does the company meet a need **or** does it provide a "nice to have" product or service?

B. Honest Self-Assessment

1. Market assessment
   a. What markets does the company operate in?
   b. Are such markets growing or declining?
   c. What is the company's position within the market?
2. What are the company's strengths?
3. What are the company's weaknesses?
4. Who is the competition?
   a. What are the strengths and weaknesses of each competitor?
   b. What can the company learn from its competitors and incorporate?
   c. What advantages does each competitor have over the company?
   d. How can the company counteract the competitor's strengths?
5. Key questions:

a. Where is the company today?

b. Where does it want to be 1 year from now? 3 years? 5 years?

c. How will it get there?

d. What is needed to achieve the plan?

C. Why have a Business Plan?

1. Consider the alternative – no written business plan

a. Is there really a plan?

b. Who knows the plan? Do the employees know the plan?

2. A business plan should guide management

a. Each aspect of the business should be examined

b. Is there a viable business?

c. “Plan your work and work your plan.”

3. To obtain financing – the plan should answer basic questions

a. What does the company do? The problem & the solution

b. What market does it address? Size of the market?

c. How much time and money will be needed?

d. What are the risk factors?

D. Key Attributes of a Business Plan

1. The plan is consistent, it make sense

2. It demonstrates that the company has “done its homework”

3. Statements in the plan are supported (important to have footnotes or sources of information)

4. The plan addresses potential risks and explains what the company plans to do to address each risk

5. Makes the reader want to read more

6. The plan is succinct and concise

E. Developing the Strategy

1. A company's strategy should be tailored based upon its analysis of:

a. The company's strengths and weaknesses

b. What opportunities are available to the company?

(i) Does the company have what is needed to take advantage of the opportunity?

(ii) Prioritize opportunities – consider the size of each opportunity in terms of revenue, profit, cash flow and whether it will lead to new opportunities.

(iii) Also consider how much time, money, and the number of people who will be needed to pursue each opportunity.

(iv) Impact of changes on the company's infrastructure.

c. Threats to the company

(i) The competition – what are they doing?

(ii) Expected changes in the marketplace

d. Other potential threats to the company

(i) New legislation or regulations?

(ii) New technology?

(iii) Changing demographics?

2. How will the company be different?

3. What should the strategy be?

a. Low margin, but high volume?

b. High margin, but low volume?

c. Specific niche?

d. Broaden the company's products and services?

4. Create an action plan

   a. Set forth the specific action steps

   b. Set an expected completion date

   c. Identify the individual who is responsible

F. Execution of the Strategy

1. Plans are nice but they must be executed!

   a. Employees must know the strategy to execute it!

2. Execution is not theory, strategy, or sexy.

3. Execution is often difficult, time-consuming, boring, etc.

4. Is the action plan being followed?

5. Attention to details is required.

6. Monitoring progress and making adjustments is necessary.

   a. Must ask the hard questions

   b. Determine what the obstacles are – what is needed to overcome them?

   c. Must continually review and adjust appropriately

G. Time

1. The one constant in life – it is the same for everyone

2. How efficiently or effectively do we use time?

   a. Meetings are often a waste of time

   b. Why have meetings?

3. There is a conflict between rushing to get things done and taking the time to get them done right.

4. Adages to consider:

   a. Time is money

b. Haste makes waste

c. Measure twice, cut once

d. Rome wasn't built in a day

e. Patience is a virtue

