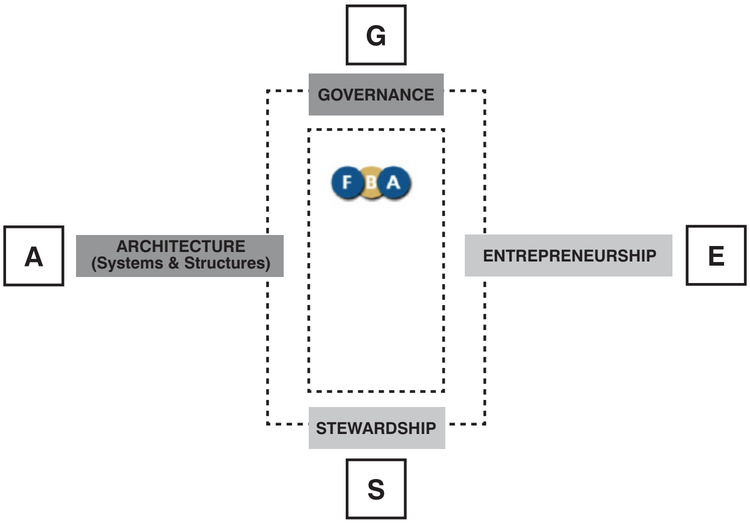
Family Business:
Holistic Business Valuation



Source: Professor Ken Moores & Dr Justin Craig, Australian Centre for Family Business at Bond University

Business valuation can be an important issue for families who work in and on their businesses. Even with effective ARCHITECTURE and GOVERNANCE in place business valuation is a key question when families need to make strategic financial decisions, such as the allocation of capital to new ENTREPRENEURIAL ventures.

The old paradigm: Short Hand valuation methods leave a lot of gaps and can result in misinformed decision making.

Short hand or simple valuation methods focus on using general industry multiples. Common examples are multiples of EBIT (Earnings Before Interest and Tax), EPS (Earnings Per Share) and ROE (Return On Equity).

The problem with this style of valuation is that it is backwards looking or concerned only with the present, and desperately limited in its ability to gauge the true worth of the future performance of a business. It predominately focuses on lag financial information and rarely takes into account the lead indicators. Last year's earnings can never be a real indication of the dynamic revenue opportunities the future may hold. Last year's return on equity is unlikely to be a gauge of the impact that new products or services may have on the family brand value.

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Traditional valuation models are generally used to establish a value either for the sale or restructuring of a business. It is often very questionable whether this approach works in favour of the owner(s). In fact, in many instances, the process outcome is an under or over valuation of the business. This, of course, can impact important family and business decisions.

The new paradigm: Holistic Valuation means looking to the future

Holistic Valuation goes to the very core of what valuation really means. It is based on the principle that the real value of a business comes not solely from performance statistics, but rather from a complete understanding of the DNA of a business and how it operates, including the family dynamic, whether this is positive or even negative. To do this, you have to determine a company's cash flow and balance sheet at a high strategic level.

How?

By completely understanding everything from its management style to its competitive position in the marketplace... from its products to distribution systems... from market opportunities to new products and services being developed... from its customer base to its management and employee stability... from supplier relationships to technological currency...and of course the inter-action of the family with the business, whether as owners or management, positive or negative... anything and everything that makes the business what it is.

In fact, Holistic Valuation means determining a dollar figure largely through non-financial considerations. It follows that if all manner of business management and family factors actually determine value, then the improved interaction of the dynamics of the Family, Ownership of the business and Management of the business can have a material impact on the value of a family business. By continually seeking improvements both the family and management can drive improved business value.