

the value equation

integr8 group business tools

the integr8 group consulting philosophy is based around the value equation and also ensuring that your business is **sale/investment ready** at all times

value of your business = ebit x multiple



ebit (annual profit)

a business' annual earnings before interest and taxes

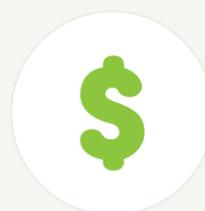
x



multiple

the multiple ebit that a purchaser will pay for your business

=



value

total sale or investment value of your business

for example

let's take a look at "creative consulting". this business is a consulting agency who currently employs one consultant. the figures below are a representation of their current position and three year projected position.

creative consulting current position

ebit	multiple	value
\$150,000	x 1	\$150,000

figures based on:

single consultant

current rates (per hour):

\$250 / 2 hours / \$100 per hour = \$175 per hour (average rate)

maximum capacity on current mode:

5 days per week x 8 hours per day = 40 hours per day (80% productive)

32 hours x \$175 = \$5,600 per week (\$5,600 x 45 weeks = \$252,000)

creative consulting desired position

year	ebit	multiple	value
1	\$266,000	x 2	\$532,000
2	\$463,000	x 3	\$1,389,000
3	\$640,000	x 5	\$3,200,000

process for reaching the desired position

creative consulting leveraged sources of income

creative consulting has a wide range of intellectual property including electronic questionnaires and tipsheets which can be sold online and utilised by consultants



digitise and host existing IP online

intellectual property being sold on website
year one = \$100,000
year two = \$200,000
year three = \$300,000



sell digital material to clients



grow a base of consultants

creative consulting has plans to build a on their base of consultants each year. the consultants will pay an annual licence agreement fee



take licence fee from consultants

consultant fee = \$2,000 per month
year one = \$96,000 (3-4 consultants)
year two = \$168,000 (6-7 consultants)
year three = \$240,000 (5-10 consultants)



leveraged annual income

year one = \$70,000
year two = \$95,000
year three = \$100,000

the theory behind the value equation

for a business to reach the "desired position" they must take advantage of the leveraged sources of income, create a strategy for increasing sales and decreasing expenses and clearly define it's key focus areas. take a look below at how our example company "creative consulting" has defined each of these

creative consulting focus for growth

ebit (annual profit)

creative consulting sources of profit

client session with consultant
((\$250 web questionnaire / one hour consultation = 100% increase in profit)

extra income from digitised ip sold on website
(commodifying existing intellectual property, time management, resume templates, job interview tips etc)

licence fee from consultants
a licence agreement fee of \$2,000 is payable by consultants each month

multiple

multiple equals

2-3 strong accounting and reporting systems
building brand equity/marketing
human resources talent
documented systems and procedures

3-4 signed supplier contracts
signed customer/client contracts
up-to-date, categorised client database
market and product extensions

5-6 future income pipeline
sales management system
erp system
strength of supply and distribution channels

7+ documented strategic marketing plans
documented operations plans
organisational culture of innovation
specialised and registered ip
level of competitive knowledge
level of core competency

key focus areas

area focus

equity increase equity value of the business
build wealth inside and outside the business
manage people within and across the business

profit right number of people (productivity)
right skills (maximise output)
right jobs (productivity/output potential)

revenue find new opportunities
convert existing opportunities
service your customers (lifetime value)

growth culture to allow for and cope with growth
growth across all aspects of the business
building on components that grow multiples