

The value chain is where your Finance Business Partner looks to create value



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When you are looking to improve financial performance and create value quickly where do you start? Well, put simply, it's your business's value chain. Do you have **"Optimum Value"** across your value chain? The majority of SMEs are not recognizing their full potential. This could be due to a number of reasons: Employees just not looking, lack of commercial finance knowledge to evaluate the value potential, cognitive bias of managers, misaligned goals across functions, constantly changing environment...



The value chain - where are you not optimising value?

		VALUE DRIVERS			
		Revenue	Profit	Assets usage	Risk
VALUE CHAIN	Suppliers	Contract value & Trading terms	Contract Management	Creditor Management	Supplier Health
	Materials	Production Optimisation	Cost	Buy-in or Make	Operational flexibility
	Labour	Engagement	Employment Optimisation	Buy-in or Make	Labour flexibility
	Processes	Revenue Realization & Management	Activity Based Costing	Supply chain Optimisation	Process management
	Products	Portfolio Analysis	Product Profitability	Product ROI	Portfolio Analysis
	Customers	Price elasticity & Life-time-value	Customer Profitability	Debtor Management	Customer Health
	Shareholders	ESG (Environment, Social, Governance)	Distribution policy, Control Optimisation	Capital structure Optimisation	Financial Health

The Value chain matrix above represents the typical key activities that any company goes through to create value (engage **Suppliers**, buy or make **Material** and **Labour** , develop **Processes** to develop **Products** and services (and run the company), which are then sold to **Customers** (businesses or end consumers), the revenue from which creates value for **Shareholders** (equity owners).

The Value drivers are the key financial metrics that show the amount of value being created by those key activities. For example, if your desired outcome is to increase revenue growth, how do you do this? The model above shows the areas to understand and evaluate, to ensure that the activities in your company are both efficient and effective (the two ingredients for “Value” creation).

Supplier - How well do you know your top Suppliers and Business Partnerships? – Trading terms, profitability, Life time value (LTV), financial health (i.e. if one goes in liquidation), operating risk (disruption to my business if one fails)

Material – Just-in-Time ordering for manufacturing companies has come unstuck in the current covid-19 and Brexit environment, what is an optimized model? How price sensitive are your raw material costs and Supplier orders?, It is more profitable to make certain components as opposed to Buy-in, with less Supply chain disruption?

Labour - How productive are your work force? How engaged are your employees at each customer touchpoint (Sales calls, call centre etc, to help develop relationships and more customer orders, share insight), i.e. be more of a profit centre not a cost to your company? How flexible are your labour costs to changes in the environment, legislation, market forces? Is it cheaper to Buy-in the product or service as opposed to create it, and add value through customer experience, Branding?

Processes – are my internal processes aligned and working together? How effective are they at delivering the objectives for which they were created? How long is your time to market for your products; too long and your competitor have moved in ahead of you are stolen market share, or even worse the product is redundant before its even launched!

Products – What does my product portfolio look like, how many poor performing products do I have? What Products are profitable or generating cash? Do I have the right mix of mature and new products?

Customers – How well do you know your top Customers? Trading terms, profitability, Life time value (LTV), financial health (i.e. risk if one

goes in liquidation), operating risk (disruption to my business if one fails). How well do you meet your Customer's expectation? – Covid-19 has not changed Customer needs, but it has changed their expectation – are your competitors meeting Customer expectations more than you, and so can charge a higher price? How sensitive are Customers to price increases or decreases? What is the price elasticity of your Products and Services? (if I reduce my price by 10% will my volumes increase more than 10%, elasticity >1)

Shareholders – are my equity holders receiving their desired investment return for the risks they are taking? Is the company creating enough value? Is there an optimum balance between investing in the company for the future and dividends now?

Review the key drivers across your company's value chain today and make sure your business achieves its optimum value!

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At Optimum-Value our Finance Business Partners, aim to fully understand your business in terms of these value drivers. We then evaluate and recommend a prioritised list of actioned activities that deliver value; focusing on quick wins initially; leading to more medium term projects. Start your journey to value creation today!