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Scoping business review in an uncertain market economy

The business investment cycle tends to respond to macro-economic growth and not lead it.



Enterprises seeking expansion funding from equity investors or bank lenders in a Brexit-uncertain environment are more likely to be successful if they can demonstrate a sustainable business advantage, despite the limited macro-economic pull from the current national economy. A competitive advantage which underpins earnings confidence within a defined market space can be achieved from a differentiated business offering, especially

where trade is protected by high market barriers which help to both tie customers in and keep competitors out. In truth, these are goals common to all businesses, but they become even more relevant in times of political and economic uncertainty.

In practice, business managers are not always able to hold a mirror to their own activities in an accurate self-analysis of their business performance and competitive position. Some business functions can be appraised with greater efficiency and zest than others; equally, general obfuscation in the management and running of the business may mask important operational issues. 'Agency risk' may also be a problem in situations where there is a misalignment of key objectives between managers (as executives) and equity owners (as principals).

The solution maybe an independent business and market review carried out by independent due diligence consultants which is designed to help executive management, equity investors and bank lenders better understand where both value and value creation opportunity rest within the enterprise.

Phased review

The scope and approach of an independent business review should consist of a number of clearly articulated project phases or steps agreed with company management and the business's backers.

Independent Business Review Structure



Particular attention in the first instance should be directed towards the central question of true business direction and strategy within the business. This is done by examining the rationale and logic of the management team and how they act in concert to take the enterprise down a selected route to market.

A second process step will then drill down into the financial numbers in an examination of the main sources of income and cost across a historical and forward timeline meaningful to the trading environment and in the context of the investment horizon. Due diligence will most usually trend average compound growth rates for business volumes, values and costs which helps to highlight the peaks and troughs of trading activity across products, customers and geographical sales regions.

Observations about key growth drivers from internal business information and analysis should also be cross-referenced with external market information, such as references from customers and other supply chain participants. This can provide reliable testimony to the wisdom, benefit and risk associated with any alignment of trading activity to specific customer groups in possible competition with third party market rivals.

Of course one person's risk is another's opportunity. The trick for the reporting advisor is to view the strategic scenarios that are open to the business through the eyes of the company's management and backers; whilst remaining aware of what will make each party comfortable or nervous.

Emerging themes

A well-developed business and market review will typically pull out several key themes for strategic reporting purposes; for example:

- *Leadership*: is management direction rational/logical – are objectives and resources aligned?
- *The business forecast*: is it reasonable – are revenue/profit flows sustainable?
- *Business synergy*: are business units evenly matched – and with prospective bolt-ons?
- *Market channels*: are routes-to-market clear, efficient and effective?
- *Customers*: are procurement threshold criteria satisfied – is substitution a threat?
- *Competitive advantage*: are strengths/weaknesses favourably balanced vs market rivals?
- *Supply chain*: how does supplier/buyer pricing power compare – who holds the 'whip hand'?

With demand constrained by an uncertain Brexit climate, business stakeholders considering investment options in support of additional growth and expansion might be advised to first seek to understand where they are in order to plan where they could be going over the coming years.

Business review carried out in conjunction with an independent firm of due diligence reporting advisors can bring additional gravitas to the question of how to select the most appropriate plan for the coming post-Brexit dawn.

Carlton Strategy Advisors is firm of commercial due diligence consultants working in the field of corporate finance transaction services. To find out how we can help you to assess business and market attractiveness, please contact: carlton-advisors.co.uk