

# BUSINESS STRATEGY & FINANCE MANAGEMENT

Presentation to  
Small & Medium Enterprises

# STRATEGY

- Person, Corporation or Nation
  - Who or where they are
  - Where they want to be
  - How to get there

# DEVELOPMENT OF STRATEGIC PLAN

- Vision
  - Values
  - Purpose
  - Future Direction
  - Core Ideologies
    - Why it exists/what it stands for
  - What it aspires to be, achieve / create

# MISSION

- 8 Key components
  - Target customers & markets
  - Main Products / services
  - Geographic Domain
  - Core Technologies
  - Commitment to survival
  - Commitment to growth
  - Commitment to profitability
- Long term financial goals to represent its commitment to a strategy that is
  - Innovative
  - Updated
  - Unique
  - Value driven
  - Superior to those of competitors

# ANALYSIS

## ANALYSIS OF BUSINESS

- Business Trends
- External Opportunities
- Internal resources
- Core competencies

# INTERNAL ANALYSIS

- Take Off
  - Technology
  - Product quality
  - Product performance features
- Rapid Growth
  - Driving costs down
  - Pursuing product innovation
- Early Maturity & Slowing Growth
  - Cost reduction
  - Value services
  - Aggressive tactics to maintain or gain market share

# INTERNAL ANALYSIS...

- Market Saturation
  - Elimination of marginal products
  - Continuous improvement of value-chain activities
- Stagnation or Decline
  - Redirection to fastest-growing market segments
  - Efforts to be a low-cost industry leader

# SWOT

- Both Internal & External
  - To set priorities
  - Fully utilise the firm's competencies & capabilities to exploit external opportunities
  - Determine critical weaknesses that need to be corrected
  - Counter existing threats



# STRATEGY FORMULATION

To aim at competitive advantages like

- Low-cost leadership
  - Product is a commodity
  - Buyers are price-sensitive
  - There are few opportunities for differentiation
- Differentiation
  - Buyers' needs and preferences are diverse and there are opportunities for product differentiation

# STRATEGY FORMULATION

- Best-cost provider
  - Buyers expect superior value at a lower price
- Focused low-cost
  - Market niches with specific tastes and needs
- Focused differentiation
  - Market niches with unique preferences and needs

# STRATEGY IMPLEMENTATION AND MANAGEMENT

- Need to have effective implementation & monitoring program
  - To align strategy with expected performance
- Establish financial goals for
  - Employees
  - Functional areas
  - Business units

# Implementation...

- Translate strategy into
  - Objectives
  - Operational actions
  - Financial goals
- Focus on key dimensions
  - Financial factors
  - Employee learning & growth
  - Customer satisfaction
  - Internal business processes

# ROLE OF FINANCE STRATEGY

- Free cash flow
  - Measure of firm's financial soundness
  - Shows the efficient utilisation of financial resources to generate additional cash for future investments
- Net cash available after deducting the investments and working capital increases from the firm's operating cash flow
- This should be used when we anticipate substantial capital expenditures in near future.

# CAPITAL BUDGETING

- Aim at optimal capital structure (debt ratio or leverage) to minimise the firm's cost of capital
- This will also determine the firm's reserve borrowing capacity (short & long term) and also to cover risk of potential financial distress
- Need to ensure that cost of capital does not rise above that of direct competitors

# WORKING CAPITAL

- Efficient management of current assets
  - Cash
  - Receivables
  - Inventory
- Current liabilities
  - Payables
  - Accruals
- Enhanced management of working capital and cash conversion cycle

# PROFITABILITY RATIOS

- To measure the operational efficiency of a firm
- To indicate inefficient areas that require corrective actions by management
- Relationship of profits with
  - Sales
  - Total assets
  - Net worth



# GROWTH INDICES

- To evaluate sales and market share growth and determine acceptable trade-off of growth with respect to reduction in cash flows, profit margins and return on investment.
- Growth usually drains cash and reserve borrowing funds and in such cases, aggressive working capital management is required to ensure sufficient cash and limited borrowing.

# RISK ASSESSMENT & MANAGEMENT

- Identifying
- Measuring
- Controlling all kinds of risks & uncertainties in corporate governance and regulatory compliance, the likelihood of their occurrence and their economic impact.
- A process to be implemented to mitigate such risks.

# Tax Optimisation

- Performance of a unit always to be based on post-tax profits

# Questions