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A strong operating model is an x-factor in business valuations

For business owners and entrepreneurs, your company is often your biggest asset. It's also what you put most of your time and effort into. That's why it is important to understand how to improve your business's valuation.

One way to achieve this is by strengthening the operating model. A strong operating model not only enhances operational efficiency but also improves your business valuation. In this blog, we will explore how a strong operating model can improve business valuations and provide some examples to illustrate its importance.

Firstly, what is an operating model? An operating model describes how a business organises itself to deliver value to its customers. It is the blueprint of how a business operates, from the design and development of products and services, to the organisation of people and effort. A good operating model will also describe supporting processes, systems and technology.

The most important function an operating model performs is to align your company's resources to the capabilities that will differentiate you in market, as described by your business model and strategy. This alignment will help you achieve your objectives effectively and efficiently. Sometimes, it can be the difference between whether you achieve your objectives at all. Businesses that fail, and in particular, M&A that destroys value, can often be pinpointed to "execution failures".

A strong operating model can enhance the value of your business in several ways:

1. Improved financial performance

A strong operating model can improve financial performance by reducing costs, increasing revenues, and improving margins. By optimising operations and improving efficiency, a business can reduce costs and increase profitability. By delivering better value to customers, a business can increase revenues and market share, which can lead to higher valuations.

2. Better risk management

A strong operating model can help businesses better manage risks. By implementing robust processes and controls, a business can minimise the likelihood of errors and fraud, reducing the risk of financial loss, reputational damage, or loss of capability. A strong operating model can also ensure that a business is compliant with regulations and industry standards, reducing the risk of legal penalties or fines.

3. Enhanced growth prospects

A strong operating model can enhance growth prospects by building repeatable, scalable capabilities. This



enables a business to expand into new markets, develop new products and services, and improve customer satisfaction. By aligning capabilities, people and resources to the business model, a business can achieve its growth objectives more efficiently and faster than competitors, leading to higher valuations.

Making it happen:

Little Spoon is a baby food delivery service that uses a strong operating model to deliver fresh, organic baby food to customers across the US. Little Spoon's operating model allows it to manufacture its products in-house, reducing costs and ensuring quality control. Tapping into a direct-to-consumer model (this is one aspect of Little Spoon's business model), the business has oriented its internal process design to deliver products quickly and efficiently to customers, improving customer satisfaction and loyalty. Little Spoon's operating model has helped it achieve high growth rates and market share, resulting in strong valuation.

OzForex Group Limited is an Australian-based financial technology company that has developed a strong operating model by focusing on technology innovation and customer service. The company provides online foreign exchange services to individuals and businesses, and their platform is built on a proprietary technology platform that delivers fast, secure, and cost-effective transactions. OzForex Group Limited has a strong focus on customer service, and their platform is supported by a highly skilled and dedicated team of customer service representatives. The company's strong operating model has helped them achieve a high valuation and establish a strong reputation in the financial technology industry.

