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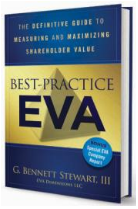
Turbo-Charge your Business Value with *Best-Practice* EVA



By Bennett Stewart, CEO, EVA Dimensions LLC, Author of Best-Practice EVA

Health elixirs and fountains of youth are the stuff of fantasy. But here is a claim you can bank.

Put your company on a strict diet of the best practices in EVA, and you'll see muscle replace fat, and you'll add speed and agility that can make a huge difference in how your company performs.

The quality of decisions will sharpen, plans will become more strategic, capital conscientiousness will take root, teamwork will spread, and a resolute commitment to achieve real operational improvements and innovative and profitable growth will become all pervasive.

In short, you'll set the stage for generating a far higher shareholder return and growing a healthier, more robust company that is a more rewarding place to work.

It comes down to this: Make increases in real economic profit, or what I call EVA, for economic value added, your most important financial goal and decision rule. Use it for setting goals, grading and improving plans, measuring decisions, and motivating the team with bonus pay.

Introducing EVA

EVA is just a way to measure profit, but one that is better than all others.

It measures profit net of a charge for the full weighted average cost of capital on net business assets. It converts the balance sheet into an understandable, and manageable, operating cost like any other.

Most important, a forecast for EVA automatically discounts to the exact same net present value as discounted cash flow, which means you no longer need to use cash flow analysis, and you no longer need ROI. It's all already in EVA.

There's nothing simpler or more effective. EVA is the Zen of corporate value-based financial management.

Cut the clutter. Focus on EVA. Use it to choose the most valuable decisions and plans, to monitor, diagnose and benchmark actual performance, and in bonus plans that stimulate managers to think and act like owners by paying them like owners.

Increase EVA

The world's best athletes combine speed, strength, agility, and a single-minded will to win. They're balanced, with all parts in synch, like a champion pole-vaulter. And when you ask your team to concentrate on *increasing* EVA, that's what you get—an all-out attack on all the levers that drive value. You don't win battles and lose the war. You make better decisions that maximize the whole value.

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It's Economic Profit Growth that Counts

EVA-focused firms strive for operational excellence. They streamline costs, get prices in line, and manage capital assiduously. They develop leaner business models, get sourcing right, and dispose of assets worth more to others because they factor the precise value of turning capital faster right into their decisions.

But EVA is more than just a capital cop—it's pro-profitable growth. It motivates managers to pursue *all* investments that will earn above the cost of capital. They don't become sitting ducks for disruptive upstarts. They exploit *all* products, *all* initiatives, *all* markets that will keep their EVA growing, even if that means their existing margins or returns come down.

Put simply, EVA optimally combines a carrot with a stick. It puts speed and agility, and raw horsepower, in one score. It's the only truly balanced measure of performance, because it is the only one that discounts to net present value and owner wealth. It is the only measure where more is better than less, and bigger always better, which makes it by far the best metric to determine incentive rewards.

How? Simply pay managers for *increasing* it. That motivates them to use EVA to help make the very best decisions, it decouples pay from budget goals and enhances collaboration and strategic thinking, and it automatically ties pay to the performance that the market really values. In short, it's *the* answer for the corporate governance challenges of the day.

For all its virtues, EVA used to suffer handicaps that made it harder to understand and apply than it should have been.

The biggest was that EVA was always just a money measure of profit, when *ratios* are far better suited to target, analyze, and help improve business results, and grade pay plans.

Introducing Best-Practice EVA

No more. EVA has been transformed into a set of headline ratio statistics, with a way to take them apart and trace them to all of the gears that are moving EVA. It's now firmly tied to the blocking and tackling levers managers manage, like gross margin, working capital days, plant turns and R&D yield, and market share and growth.

The linkage is gaining EVA a lot more buy-in from line teams. They really get it now. It gives them practical tools to quickly and confidently analyze and improve the value of their plans, projects, and decisions of all kinds.

The most important new ratio is called ***EVA Momentum***. It's the *change* in EVA divided by *prior* sales. It's an EVA growth rate, a turning point indicator, a spanning measure over all business lines, and the *only* ratio statistic where bigger is always better, because more Momentum is more EVA, NPV, and TSR. It's the one measure to maximize, to analyze and to pay for to enlighten your business management and infuse it with exceptional value.

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