

FL Reserves Valuation

The easiest flexibility (FL) reserves to value are cash reserves. They may simply require consolidation and conversion into a common currency.

Other FL reserves require conversion into a financial value first. Real options and financial options can be valued using options investor values at auction (how much an arm's length bidder will offer for the option, at a point in time). With real options, suggest acquiring in advance one more peer option than is needed, in order to value its peers in the portfolio. Then, in the market, keep lowering the price of the real option being sold, until an arm's length investor is prepared to purchase. That gives you an indicative and verifiable market valuation.

What about Integrated human-digital systems, another form of FL reserve? Conversion value might be one way to value the FL reserve held. To elaborate, how much would a peer company be prepared to pay to purchase and adapt the integrated human-digital system for its own uses? If the price is a negligible value, then the 'market value' of the FL held by the seller is also minimal. This isn't to say it has minimal value to the seller, who may have an advanced understanding of how to utilise the system to strategic advantage. On a related note, how can the current owners increase the value of the human component of the system, which could resign from employment at any time? Introduce incentives to remain, but also to be as productive as possible.

What about valuing FL reserves such as title to IP? For example, patents to commercial processes. Conversion value or offer price by a real options investor are some ways to value the FL reserves held.

What about valuing FL reserves represented by multi skilled teams? The real options value of the team could be represented as the economic saving from risk management. In a crisis, if some members of the team can rapidly be redeployed to fix a problem, the resulting financial savings expressed in net present value teams is arguably the FL value of that FL reserve.

What about valuing FL reserves represented by goodwill banks? These are the equivalent of favours owed by others to the owner of the organisation. Firstly, they only form FL reserves to the organisation, if can be deployed by the owners to benefit the organisation. Until then they are personal FL reserves held. If it's important to value the goodwill bank on the organisation's balance sheet, suggest doing a series of conversion transactions into items with verifiable, objective financial value (turn the goodwill bank into cash reserves). Trade with those people owing the favours, to reap above average sales margins. Calling in the favours may, because of timing, diminish their value. However, it also realises that value in cash, thus reducing the risk that the favour will never be repaid.

What about valuing FL reserves represented by large, attribute-rich databanks? The same valuation methods as for title to IP would apply.

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