6 DETERMINANTS OF
BME

Business Maintainable Earnings are determined by a number of factors. Here are some of the major ones:

1. How much fuel is in the tank?

Does the business have contracts and work in the pipeline, and are they transferable?

2. Business assets and management systems

How does the business manage its contracts and schedule its work to ensure there is no break in the chain where customers are not serviced appropriately?
Does the business have sufficient plant and equipment and capability to deliver and what is the utilisation rate?

3. Is the business reliant on one key person?

Even though there are contracts, does the owner do the most of the work, or is the owner a co-ordinator and there is an experienced 2-I-C and/or team to assist?

4. Does it have 'quality' BME?

You could have two businesses each with Business Maintainable Earnings of $500,000 a year.
One business has done $500,000 a year every year for the last five years, and is projecting the same for next year.
The second business did $500,000 this year, had a negative $200,000 the year before, a positive $150,000 the year before that, and the year before that they had a break even.
Clearly the former business has a greater ability to repeat performance and consistently deliver BME.

5. What is the state of the market?

A business could have very positive BME that has grown steadily from $200,000 to $500,000 over the past few years, but it's in a market that is suddenly becoming ultra-competitive.
There is massive consolidation and big players are entering the market, which will affect the business' ability to extract earnings into the future.

6. How much cash does it generate?

Cash earnings help fund business operating requirements and contribute to profits.
If a business generates positive cash earnings that's a good sign there is sustainable value in the business.

If you would like to learn more about calculating BME, contact the JPAbusiness team on 02 6360 0360.

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