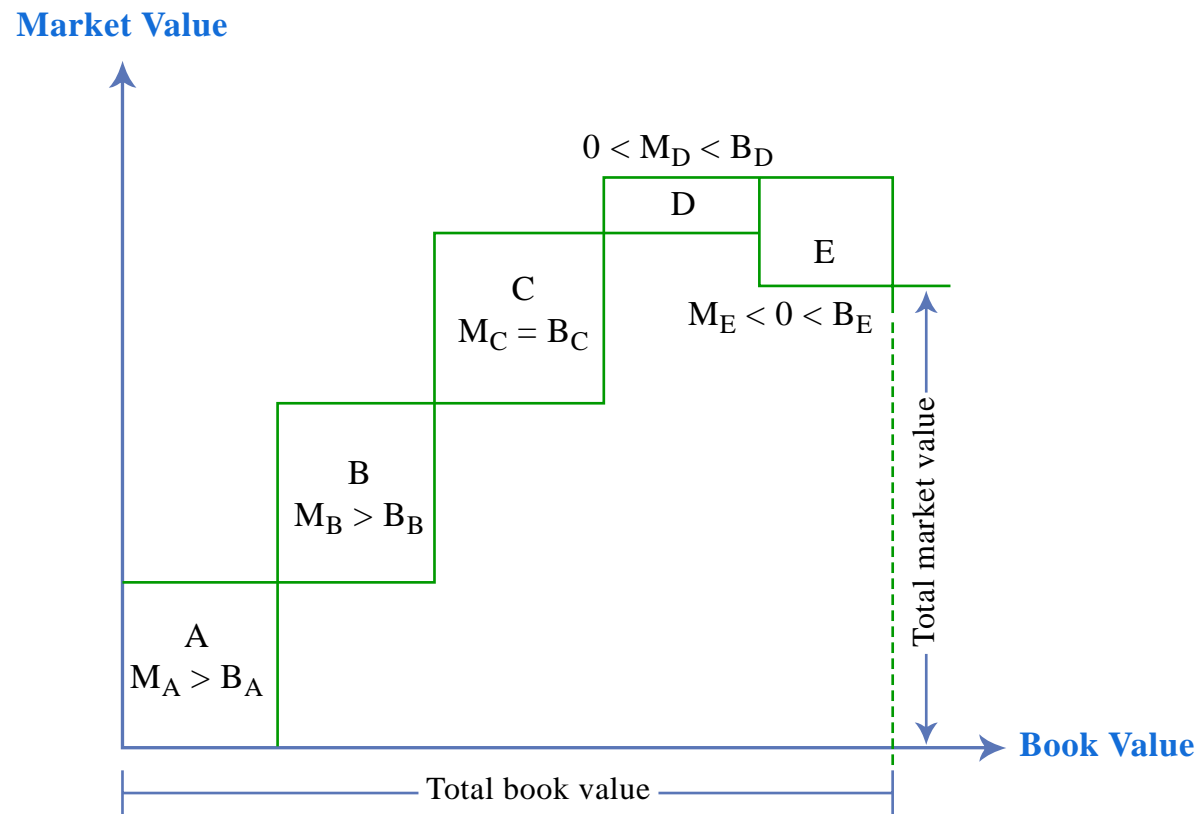


Example of Contribution to Market Value of Each Business of a Hypothetical Firm



Total Book Value

$$B = B_A + B_B + B_C + B_D + B_E$$

Total Market Value

$$M = M_A + M_B + M_C + M_D + M_E$$

M/B for the overall firm is less than 1

Selecting the Best Strategy for a Business Unit: Evaluation of Alternative Strategic Thrust Options

For each business unit, characterize the strategic options in terms of market share thrust as:

- Build (aggressively, gradually, or selectively)
- Maintain (aggressively or selectively)
- Harvest
- Divest

Project the equity cash flow associated with each strategic option, & compute the corresponding M/B ratio.
M represents the present value of cash flow and B the existing book value of the equity base.

Summarize the M/B values for the different strategic options, for all of the business units of the firm.

Business unit	Build	Hold	Harvest	Divest
1	1.0	1.6	1.4	1.2
2	2.1	1.5	0.9	1.8
3	0.8	1.2	1.4	1.1
4	0.3	0.5	0.7	0.8
5	2.2	2.5	1.8	1.9
6	0.5	0.7	0.6	0.5

Green values represent the M/B ratios under the optimum strategy for each business unit.

Select, for each business unit, that alternative that takes into account the optimum economic performance, as well as that host of additional impacts that the business positioning might have on the overall competitive standing of the firm.

Principles for Resource Allocation

1. The principle of zero-based resource allocation

A zero-based resource allocation process evaluates the use of all resources, sunk as well as incremental, to assure that they are contributing to value creation.

2. The principle of funding strategies, not projects

A business strategy can be regarded as a bundle of projects. The resource allocation process should concentrate on the value created by this entire bundle, rather than looking at individual projects in isolation.

Principles for Resource Allocation (cont'd.)

3. The principle of no capital rationing

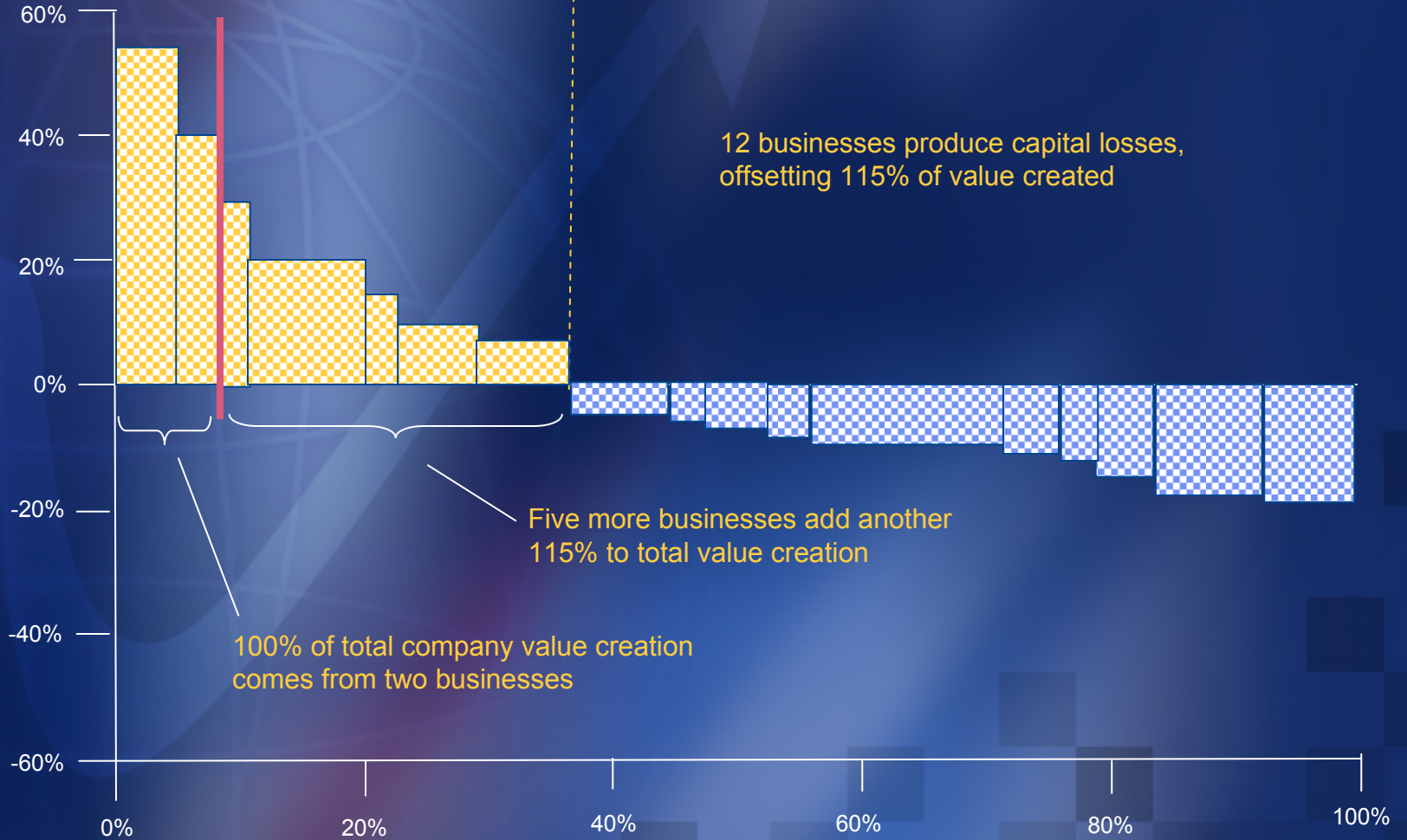
The assumptions imbedded in most processes of resource allocation is that capital is scarce but free. Exactly the opposite is true: capital is plentifully available, but is expensive.

4. The principle of zero tolerance for bad growth

This principle makes the redeployment of resources from unprofitable or bad-growth businesses to value creating ones. It helps to minimize bad growth, and maximize good growth.

Value Concentration in Typical Portfolio

Percent of Company's Total Value Creation from Each Business



Percent of Equity Invested in Each Business

Who creates value?

The 200 companies with the biggest market caps are listed below by MVA rank in a field of 1,000 large-cap companies.

MVA RANK¹

What market value added means to you

MVA, in effect, shows the difference between the capital investors have put into a company and the money they can take out.

Wealth Predictor

EVA is after-tax net operating profit minus cost of capital. A growing EVA is good sign that a stock will soar.

The Real Story

Does the return on capital exceed the cost of capital? If so, then the company is using investor's money wisely.

1998	1997 ²	1993 ²	Company ³	Market value added (\$ millions)	Economic value added (\$ millions)	Capital (\$ millions)	Return on capital	Cost of capital
1	2	5	General Electric	\$195,830	\$1,917	\$59,251	17.3%	13.8%
2	1	2	Coca-Cola	\$158,247	\$2,615	\$10,957	36.3%	12.1%
3	3	12	Microsoft	\$143,740	\$2,781	\$8,676	52.9%	14.2%
4	5	4	Merck	\$107,418	\$1,921	\$23,112	23.2%	14.5%
5	4	24	Intel	\$90,010	\$4,821	\$21,436	42.7%	15.1%
6	8	9	Procter & Gamble	\$88,706	\$587	\$24,419	15.2%	12.8%
7	7	11	Exxon	\$85,557	\$(412)	\$88,122	9.4%	9.9%
8	11	16	Pfizer	\$83,835	\$1,077	\$15,220	19.9%	12.1%
9	6	3	Philip Morris	\$82,412	\$3,524	\$43,146	20.2%	11.9%
10	10	5	Bristol-Myers Squibb	\$81,312	\$1,802	\$14,627	25.3%	12.5%
11	9	7	Johnson & Johnson	\$71,433	\$1,320	\$19,803	20.2%	12.9%
12	14	1	Wal-Mart Stores	\$69,678	\$920	\$33,890	13.5%	10.5%
13	18	27	Eli Lilly	\$67,204	\$199	\$13,049	14.3%	12.8%
14	12	77	Cisco Systems	\$50,422	\$1,472	\$5,221	50.9%	14.3%
15	13	26	Gillette	\$50,209	\$518	\$9,724	18.8%	12.0%
16	26	1000	IBM	\$49,101	\$(1,561)	\$66,420	10.5%	12.8%
17	49	39	Bell Atlantic	\$48,414	\$1,429	\$51,343	13.4%	9.6%
18	20	15	Walt Disney	\$46,869	\$(968)	\$32,707	9.0%	12.0%
19	42	35	SBC Communications	\$45,136	\$2,234	\$41,259	16.2%	9.3%
20	19	32	Du Pont	\$42,631	\$975	\$42,077	13.8%	11.1%
21	16	48	Hewlett-Packard	\$42,615	\$152	\$26,507	15.6%	15.0%
22	15	13	Abbott Laboratories	\$42,443	\$1,200	\$10,639	23.2%	10.9%
23	33	28	Schering-Plough	\$41,143	\$960	\$4,970	36.0%	14.0%
24	17	10	Pepsico	\$40,743	\$(218)	\$18,507	11.5%	12.5%
25	32	*	Lucent Technologies	\$39,767	\$146	\$25,057	12.9%	12.3%
26	39	319	American International Group	\$39,697	\$(834)	\$36,590	9.9%	12.3%
27	21	17	American Home Products	\$38,920	\$503	\$19,462	13.8%	11.1%
28	38	14	Home Depot	\$35,818	\$462	\$9,583	16.8%	10.8%
29	93	8	AT&T	\$35,214	\$(2,892)	\$70,408	5.6%	9.9%
30	31	45	Bellsouth	\$34,189	\$448	\$35,860	10.8%	9.4%

THE TOP WEALTH CREATORS