

# Entrepreneurship questions

[Business](#)



Introduction The value of a company depends on various issues and conditions. To begin, this factor relies heavily on the state of the economy as well as the overall performance of the economy. It is imperative to note that company owners are usually not advised to perform the valuation of their own companies. This is due to the fact that business owners may not determine the objective of their valuation.

There are different approaches that are usually applied to facilitate the valuation of any company in regard to the objective of the valuation for instance: Liquidation asset-based valuation approach and earning based approach among others. This discussion shall focus on the earning based approach together with its strengths and weaknesses. Moreover it will focus on factors that may affect franchising over the next ten years.

#### Earning Based- Valuation Approach

This mode of business valuation is based on the concept of predicting the probability of a business to make profits and more wealth in future. In this case, the valuator may undertake various forms of calculation majorly based on determining future income cash flows by using a company's records indicating past earnings as well as other records indicating general information of past performance. This is specifically done by creating a normalcy of expected revenue and the multiplying it with a specific capitalization factor.

#### Strengths and Weaknesses of this Approach

One of the strengths of the earning-based approach is the fact that it involves the use of simple computing methods such as the Price Multiple Earnings. Moreover, this method has been considered relatively more accurate as compared to other methods like asset based approach. One the

other hand, it is quite challenging to attain 100% accuracy with this method making its greatest weakness.

#### Key Trends that will Affect Franchising over the next Decade

Increasing business competition is one imperative factor that will affect franchising over the next ten years. This is due to the fact majority of upcoming businesses are exposed to high rates of competition with already established businesses thus compelling them to use business models of these already established businesses. Moreover, varying economic factors i. e. fluctuation of prices that majorly affects new small scale businesses may affect franchising over the next decade; this may compel such enterprises to franchise with already established and financially stable businesses.

#### Work Cited

" EARNINGS VERSUS CASH BASED VALUATION TECHNIQUES." EARNINGS VERSUS CASH BASED VALUATION TECHNIQUES. N. p., n. d. Web. 17 Feb. 2014. .