SIMULATION OF BUSINESS GROWTH WITHIN THE FRAMEWORK OF THE COST-ORIENTED MANAGEMENT

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For a company of any industry and sphere of economic activity the most important thing in business is to provide a balance between the income and the use of cash. Positive cash flow (CF) serves as a criterion for success of the business, and its negative value leads to financial instability. The presence of outgoing cash flow (CF_{out}) is caused by the structure of the business: functioning or nonfunctioning parts of it. Structural accordance of these parts determines not only the volume of CF_{out}, but also the rate of business growth . The existence of such a growth of CF_{out} causes a requirement of additional capital investments, so there is a lack of capital investments (LCI) in business. Thus, the growth of CF_{out} is accompanied by the growth of capital, which substantially influences on the value of the WACC.

Forecasting the growth of business is based on simulation of future CF and valuation of its present cost. Among the methods applied to define the growth of CF_{out}., are: a method of adjusted present value (APV) and a discounted cash flow method (DCF). The change of the WACC value due to the changes in the structure and volume of the capital caused by the growth of CF_{out}, does not allow using the method of the DCF with fixed value of the discount rate.

The method of APV separates CF_{out} into two components: free CF (not counting debt) and the benefits and cost of borrowing money. These parts of CF_{out} are discounted at different rates: the un-leverage cost of equity and the rate of the debt capital. In this case the change of WACC leads to a change of contributions of these two components to the current cost of CF.

In the proposed model the present value of the total CF_{out} was estimated using two methods considered and taking into account the change of the cost of capital. The calculation results have shown that the higher value of the current cost of CF, received by the method of APV, can be adjusted by changing the capitalization rate, which is calculated by taking into account the increase of the cost of capital due to emerging LCI in the business.