Quarter 5: Making Plans for the Future
Agenda

What is new?
Venture capital opportunity
What goes into a business plan?
Venture capital presentations
Learning points
What’s New In Quarter 5?

Feature R&D // Licensing // Debt
Control charts // More quality control
Extended pro forma planning // Tactical plan
Making Plans for the Future
Your Goal is to Speed Up the Adoption Rate

New brand features, sales offices, and plant capacity will push you into the growth phase.
Business Challenge

Costs to setup and grow the business
Business Challenge

- Costs to setup and grow the business
- Revenue

Profit

Time
Business Challenge

Time

Profit

Revenue

Costs to setup and grow the business

Cash shortfall

You are here

You are trying to get here

Free cash flow
What do you do when cash and net income from current operations are not sufficient to fund new business development?

Expand owners’ equity (bring in new investors)

Leverage your investment (borrow money from others)
New Funding Options

• Sell part of the company to venture capitalists
  venture capitalists are willing to invest up to $5,000,000
  venture capitalists may ask for up to 60% of the company in exchange for their investments

• Borrow money
  short-term bank loans
  long-term bank loans
The Venture Capital Community Is Willing to Invest 5,000,000

Demand is up for the entire industry.

Your firm has established itself as a viable competitor.

New sales outlets would greatly expand distribution, drive up unit volume, and thereby reduce unit costs.

New brand features could be brought on the market if you invest in R&D. These brand features will increase customer satisfaction, and thereby demand.

New production capacity and quality improvements will allow substantial market expansion.
Venture Capitalists Want a Plan
Strategic Planning

Objectives
Results to be attained before a certain date

Strategy
Set of carefully selected / integrated business priorities to achieve objectives

Tactics
Actual actions and operations that are necessary to execute strategy
The Best-planned Strategies Will Not Survive the Test of Battle

- Gen. George Patton
Plans Are Worthless, But Planning is Everything

- Gen. Dwight D. Eisenhower
The Devil is in the Details

- Adm. Rickover
It is Better to Have a Class A Team with a Class B Plan than to have a Class B Team with a Class A Plan

- Almost any venture capitalist
Venture Capitalists Want a Plan

- Strategic analysis
- Corporate strategy
- Marketing strategy
- Manufacturing strategy
- Human resource strategy
- Financial strategy
- Tactical details
- Pro forma financial statements
- What is in it for the investors?
Tactical Plan Follows From the Strategy

A tactical plan is a series of interconnected tactics purposely organized to be executed in a particular order in time and space for the purpose of achieving specific strategic goals.
# Tactical Plan

<table>
<thead>
<tr>
<th>Q5</th>
<th>Q6</th>
<th>Q7</th>
<th>Q8</th>
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<tbody>
<tr>
<td><strong>R&amp;D</strong></td>
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<tr>
<td>23” High Res Monitor</td>
<td>Touch Screen</td>
<td>Ultra fast Computing power</td>
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<td>High speed Networking</td>
<td></td>
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<tr>
<td><strong>New Brands</strong></td>
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<tr>
<td>LA, Toronto, Mexico City</td>
<td>Paris, Warsaw, London</td>
<td>Moscow, Tokyo, Sydney</td>
<td>Mumbai, Shanghai</td>
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<tr>
<td><strong>Sales Offices</strong></td>
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<td></td>
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<tr>
<td>Penetrate Sand 2800 Ham 2000</td>
<td>Penetrate Sand 2700 Ham 1800</td>
<td>Premium new brand Sand II 3200</td>
<td>Premium new brand Ham II 3100</td>
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# Project Revenue

<table>
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<tr>
<th></th>
<th>Quarter 1</th>
<th>Quarter 2</th>
<th>Quarter 3</th>
<th>Quarter 4</th>
<th>Quarter 5</th>
<th>Quarter 6</th>
<th>Quarter 7</th>
<th>Quarter 8</th>
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<td><strong>Beginning Cash Balance</strong></td>
<td>0</td>
<td>13,680</td>
<td>12,130</td>
<td>311,966</td>
<td>616,106</td>
<td>2,345,341</td>
<td>4,390,904</td>
<td>10,037,753</td>
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<td><strong>Receipts from Operating Activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Revenues</td>
<td>0</td>
<td>0</td>
<td>671,100</td>
<td>2,542,480</td>
<td>5,325,162</td>
<td>12,681,800</td>
<td>20,706,000</td>
<td>25,228,000</td>
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<tr>
<td>+ Licensing Income</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>+ Other Income</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>+ Interest Income</td>
<td>13,680</td>
<td>6,450</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td><strong>Total Receipts from Operations</strong></td>
<td>13,680</td>
<td>6,450</td>
<td>671,100</td>
<td>2,542,480</td>
<td>5,325,162</td>
<td>12,681,800</td>
<td>20,706,000</td>
<td>25,228,000</td>
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<tr>
<td><strong>Disbursements from Operating Activities</strong></td>
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<td></td>
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<td>Production</td>
<td>0</td>
<td>0</td>
<td>595,215</td>
<td>1,160,403</td>
<td>2,383,428</td>
<td>5,682,588</td>
<td>8,639,400</td>
<td>10,812,000</td>
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<td>+ Research and Development</td>
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<td>120,000</td>
<td>125,000</td>
<td>185,000</td>
<td>2,451,927</td>
<td>400,000</td>
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<td>+ Quality Cost</td>
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<td>273,799</td>
<td>595,811</td>
<td>326,567</td>
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<tr>
<td>+ Licensing Fees</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>+ Advertising</td>
<td>0</td>
<td>0</td>
<td>104,516</td>
<td>299,814</td>
<td>417,078</td>
<td>735,148</td>
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<tr>
<td>+ Sales Force Expense</td>
<td>0</td>
<td>0</td>
<td>182,803</td>
<td>373,663</td>
<td>478,180</td>
<td>1,005,190</td>
<td>1,235,943</td>
<td>1,087,193</td>
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<tr>
<td>+ Sales Office and Web Center Expenses</td>
<td>0</td>
<td>270,000</td>
<td>480,000</td>
<td>400,000</td>
<td>723,404</td>
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<td>770,213</td>
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<td>+ Rebates</td>
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<td>0</td>
<td>0</td>
<td>24,250</td>
<td>76,850</td>
<td>224,900</td>
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<tr>
<td>+ Marketing Research</td>
<td>88,000</td>
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<td>69,000</td>
<td>92,000</td>
<td>92,000</td>
<td>115,000</td>
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<tr>
<td>+ Shipping</td>
<td>0</td>
<td>0</td>
<td>16,325</td>
<td>61,957</td>
<td>102,732</td>
<td>227,216</td>
<td>428,400</td>
<td>540,600</td>
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Venture Capital Presentations
Procedure

Each team is given 12-15 minutes to present its business plan to 2-3 investors.
The Venture Capitalist group will then ask questions for 5 to 10 minutes in order to better understand the plan, the team and the risks and rewards of investment.
Procedure

Each venture capitalist will quickly assess the risk of an investment in each team and decide the amount to invest and the price at which he/she is willing to buy stock.

Each venture Capitalist can invest up to 2,500,000.

Investors are encouraged to consider a stock price between 70 and 120 per share.

The venture capitalists are independent investors, they do not have to agree.
The venture capitalists may not give you all the money that you request if they are worried about the balance of the risk and reward of your plan.

To make up the difference, the Fast Eddy Venture Capital Fund will be contacted.

Fast Eddy will invest the balance of what is needed at $10/share less than the lowest share price in the industry.
Additional Details

The business plan is a Power Point presentation, plus the tactical plan and pro forma financial statements.

The 5,000,000 in common stock currently in your firm is only for planning.

Your Business Coach will adjust the amount of stock and stock price paid by each investor after they have made their decisions.

Quarter 5 decisions will be due a little later in order to give you time to review your financial options and let your Coach enter the correct investment amounts.
Procedure

Complete Q5 by Friday, March 4th.

Next, prepare the tactical plan and pro forma financial statements through Quarter 8 and have them ready to review by your Business Coach on March 9 at 3:00 pm.

Meet with your Business Coach on March 11 to review your tactical plan and pro forma statements during your normal executive briefing.

Then prepare your Power Point presentation and submit it to your Business Coach on March 23 by noon for review and feedback.

Your instructor may adjust the schedule.
How to Proceed

Complete Q5
MARCH 4

Work on Tactical Plan & Pro Formas

Review with Business Coach Normal EB Time
SUBMIT TO COACH MARCH 9 BY 3 PM

Work on Business Plan Presentation

Present Business Plan to VCs
MARCH 25

Receive Final Equity Investment
Wrap up Q5
MARCH 26

SUBMIT TO COACH MARCH 23 BY NOON

Ask Business Coach for Review
MARCH 25
Mechanics

President owns the presentation.

VP of Finance/Accounting owns the tactical plan, pro forma financial statements and stock price negotiations.

Have a stock price and investment amount in hand before you meet with the VCs.
Learning Points for Quarter 5

Manage the future (taking the initiative now by expending resources that will shape the events and opportunities of the future).
Learning Points for Quarter 5

Strategic and tactical planning

Specify objectives
Perform strategic analysis
Evaluate strategic options
Choose strategic direction
Select strategic thrusts
Time phase tactics into the future
Work investment money and debt to support tactical plans
Project cash flows
Evaluate feasibility and attractiveness of strategic plan
Learning Points for Quarter 5

Understanding cash flows
    cash is king
    how is profit different from cash?

Knowing how to value of the firm
    and estimate ROI

You can not go to Hawaii on market share (at the end of the day, wealth creation is the goal)
Competitive Thinking

Competition or cooperation - strategic alliances with competitors
  • multiplying resources
  • developing markets more quickly
  • versus helping the competition

Game theory and prisoner’s dilemma
  (if I do this and they do that, then ……?)

Negotiations
Mental Discipline of Marketplace Live

ENVIRONMENTAL ANALYSIS

Assessment of Business Conditions

Market conditions
Market assessment
Manufacturing conditions
Manufacturing assessment
Human resource conditions
Human resource assessment
Financial conditions
Financial assessment

STRATEGY

Business Strategy

Market objectives
Marketing strategy
Marketing tactics
Manufacturing objectives
Manufacturing strategy
Manufacturing tactics
Human resource objectives
Human resource strategy
Human resource tactics
Financial objectives
Financial strategy
Financial tactics

FEEDBACK

Business Performance

Market performance
Manufacturing performance
Human resource performance
Financial performance
Quarter 5: Making Plans for the Future
Ideas for Business Plan Presentation


Business Plan

Strategic analysis
Strategic Plan
  Corporate
  Each function
Tactical plan through Q8
Pro forma financial statements through Q8
Strategic Analysis

Nature of business opportunity
Performance to date
Competitor Assessment
SWOT (strengths, weaknesses, opportunities and threats)
Nature of Business Opportunity

Market potential
  Total potential
  Segment
  Region
Demand served to date
Where best opportunities lie
Firm’s Performance After 1 year

Market position
  Segments
  Geography
Market performance
  Demand and market share
  Customer satisfaction (brands, prices, reliability)
Financial performance
  Cash
  Profitability
Corporate Strategy

Mission
Corporate objectives
Basis of Competitive Advantage
Target segments
Key performance goals by end of second year
Functional Strategies

Strategic thrusts

Tactics to support strategic thrusts
  List key decisions to be made over next four quarters
  Link key decisions to strategic thrusts

Key performance goals by end of second year
Marketing issues to consider

Portfolio of brands

New brands
- R&D investments in new features
- Timing of introduction of new brands

Pricing
- Skim the cream versus penetration
- Margins

Advertising
- Volume
- Themes
Sales Channel Issues

- Emphasis on sales offices versus web
- Rate of geographic market expansion
  - timing and order of new markets
  - sales offices // regional web centers
- Expansion of sales staff
- Expansion of web traffic and productivity tactics
Human Resources Issues

Minimize expense or maximize productivity?

Be industry leader or follower?

Planned employee compensation over time
Manufacturing Issues

Projected demand by quarter

Plant expansions
  – when
  – how much
  – size of investment

Productivity improvements
  – changeover
  – quality
Financial Issues

Cash flow requirements
Sources of capital
  – venture capital
  – debt
    short-term
    long-term
Profitability and asset projections
Return on investment