



Ongoing Business and Financial Modeling

Know your business and make it work for you

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Former Workshop Chair – SCORE Chicago

May, 2016

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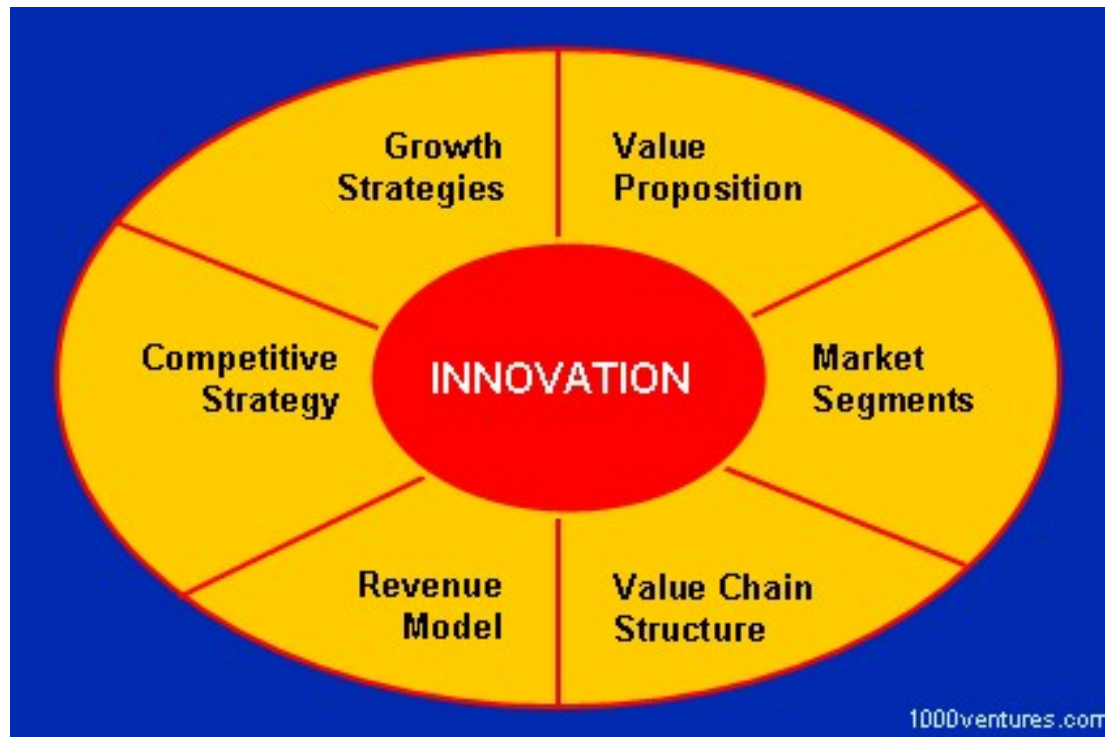
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What is a Business Model?

A design for the successful operation of a business, identifying revenue sources, customer base, products, and details of financing.



Strategic Modeling

1. How do you manage your business?
2. What are your key metrics? 
3. What models do you use to improve your business?
4. What do you talk about when discussing your performance with your banker?

Some models to improve your business

- 1) Lean Planning Model
 - 2) Business Model Canvas
 - 3) Selling Model
 - 4) Financial Model
- Approaches you can use when working with an advisor

The Lean Planning Model

- **Strategy:**

- Business Identity
- Problem
- Solution
- Market
- Competition

- **Tactics:**

- Sales Channels
- Marketing Activities
- Partners and Resources
- Team

- **Schedule:**

- Tasks, or milestones, with dates, responsibilities, and budgets

- **Business Management:**

- Sales Forecast
- Expense Budget
- Cash Flow Forecast



What makes you different?



US Consumers' Drivers of Satisfaction With Companies

based on a survey of 2,003 US end customers who evaluated companies across 11 industries

March 2016

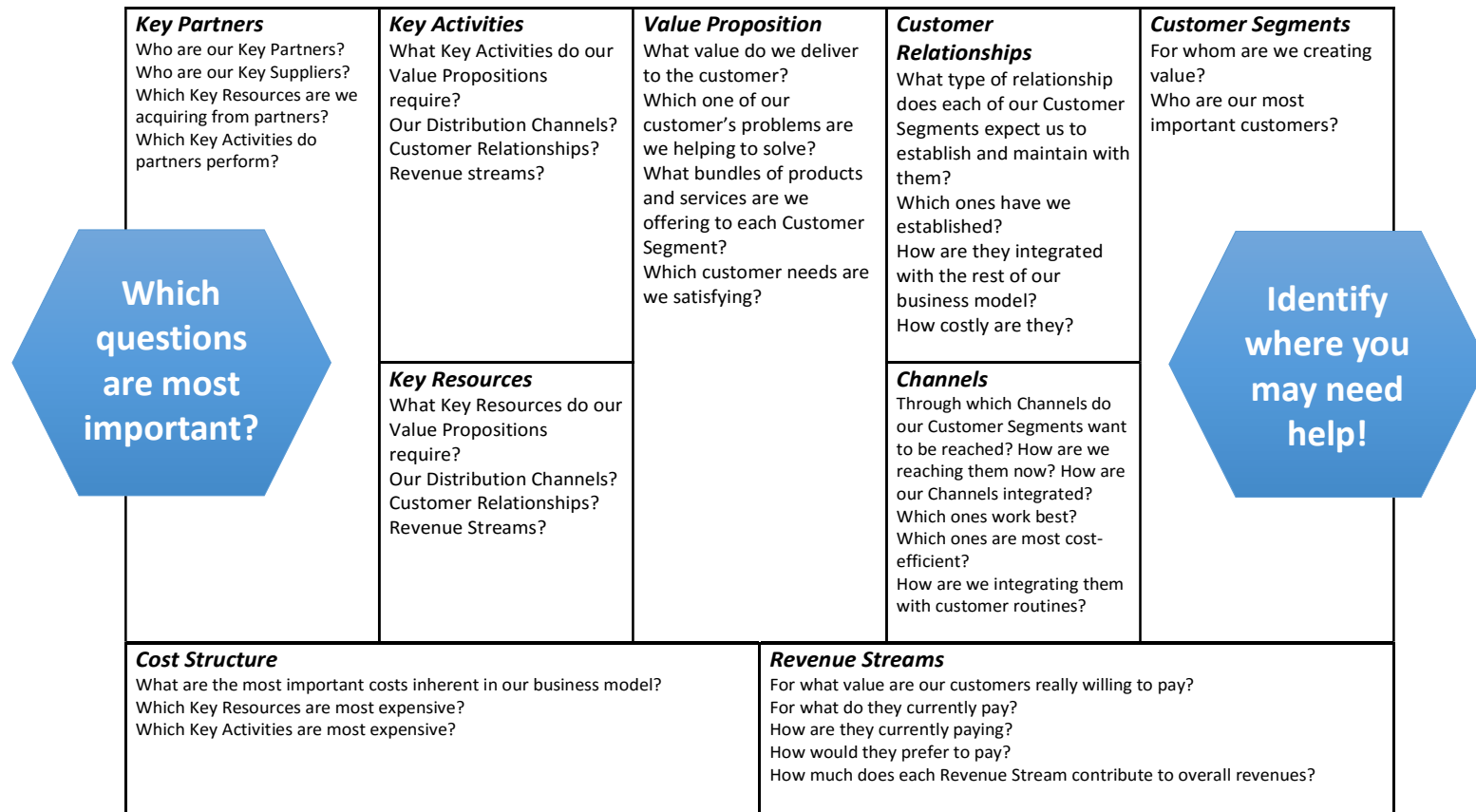
How important are each of the following factors to you when doing business with companies in each of these industries?
(1-10 scale: 1-"Not important at all"; 10-"Absolutely critical." Figures represent average values)



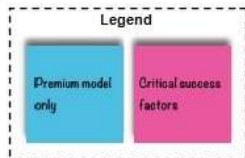
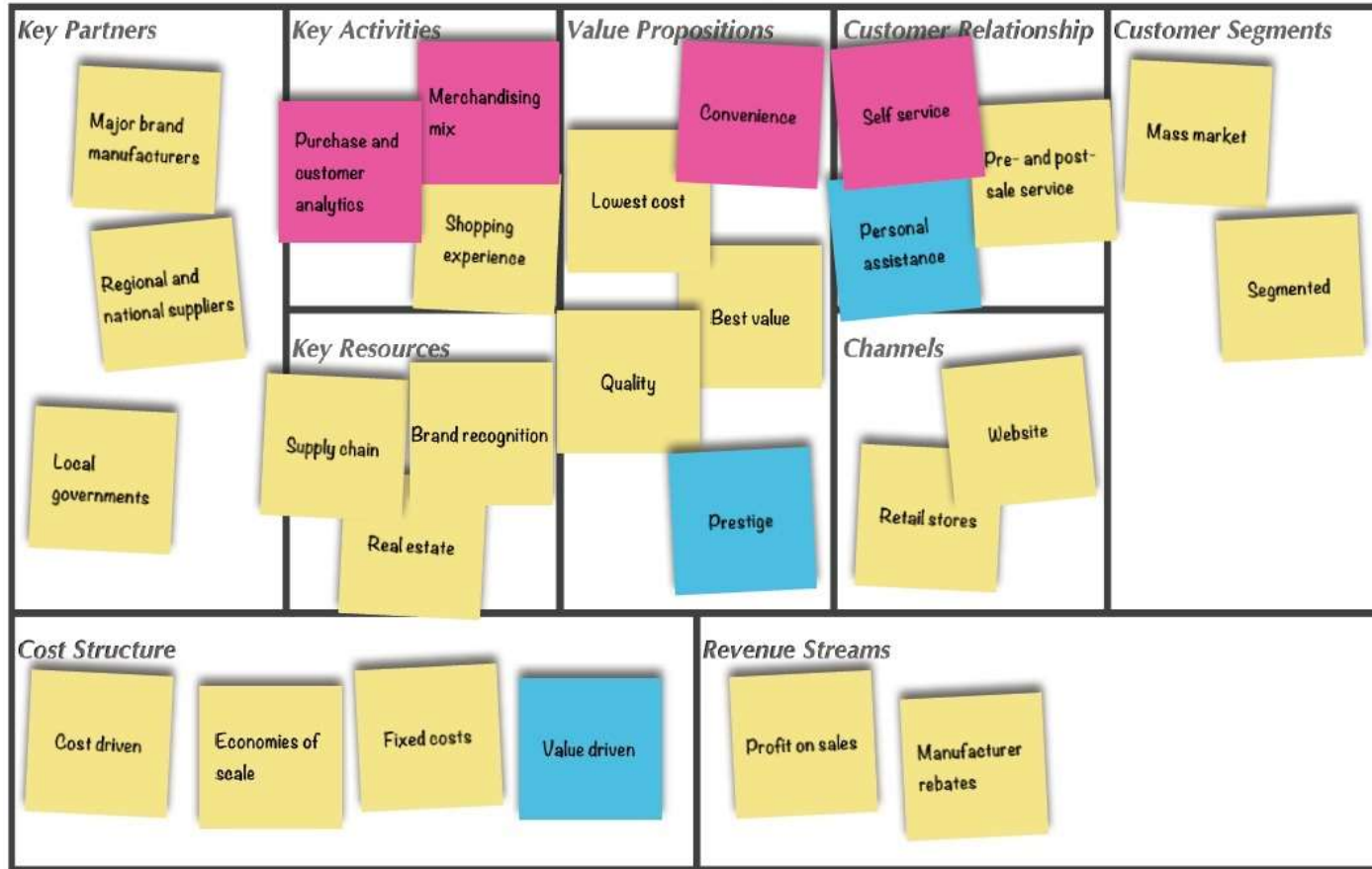
MarketingCharts.com | Data Source: Accenture Strategy

May, 2016

Business Model Canvas – 30 questions



Business Model Canvas: Traditional Retail



DigitalBusinessModelGuru.com

4 Steps in the Selling Process

- **Awareness** - Finding out about your solution
- **Education** - How can you solve the problem
- **Consideration** – Overcoming objections
- **Decision to Purchase** – Closing the Sale



Selling Process

personal marketing & selling

e-marketing & selling

Awareness	<ul style="list-style-type: none"> • Expos • Signs • Purchased Lead lists • Cold Calling • Networking Events • Referrals • Direct Mail 	<ul style="list-style-type: none"> • Google Adwords • SuperMedia Ads • Google + Group • QR Codes on Signs • Posting on Somebody else's Facebook • Retweets
Education	<ul style="list-style-type: none"> • Follow up on purchased leads • Follow up calls on networking • Presentations 	<ul style="list-style-type: none"> • Testimonials • Facebook • Website information • Targeted web pages that complement sales process • PDF's on website • Video's linked to prospect questions • YouTube Channel • Email Newsletter
Consideration	<ul style="list-style-type: none"> • Follow up Sales Call • Sample or Evaluation Offer • Special One Time Pricing 	<ul style="list-style-type: none"> • Request a Quote that generates a quote (might offer a lower price option based upon day or time of the year) • Targeted page with an offer
Purchase	<ul style="list-style-type: none"> • Referrals 	<ul style="list-style-type: none"> • Confirm a quote on line • Connect with a Sales Person from the Website

Financial Model

<p>Income Statement Inputs</p> <ul style="list-style-type: none"> • Gross Receipts or Sales • Cost of Goods Sold • Net Profit • Business Interest Expense • Depreciation / Amortization • Cash Balance from Prior Yearend • Distributions to Owners • Total Annual Debt Service 	<p>Balance Sheet Inputs</p> <ul style="list-style-type: none"> • Cash • Average Monthly Accounts Receivable • Average Monthly Inventory • Average Monthly Accounts Payable • Current Assets • Current Liabilities • Credit Card Maximum Limit • Total Assets • Long Term Liabilities • Total Liabilities 	<p>Personal Inputs</p> <ul style="list-style-type: none"> • Personal Credit Score (within 90 days) • Adjusted Gross Cash Income • Total Annual Debt Service 	<p>External Ratings</p> <ul style="list-style-type: none"> • D&B • D&B PAYDEX • SBSS • Bank Balance Rating • BBB • Experian • Equifax
<p>Liquidity Ratios</p> <ul style="list-style-type: none"> • Current Ratio • Quick Ratio • Sales/Receivables • Days' Receivables • Cost of Sales/Inventory • Days' Inventory • Cost of Sales/Payables • Days' Payables • Sales/Working Capital 	<p>Coverage Ratios</p> <ul style="list-style-type: none"> • EBIT/Interest • Net Profit + Depreciation, Depletion, Amortization/ Current Maturities Long-Term Debt 	<p>Leverage Ratios</p> <ul style="list-style-type: none"> • Fixed/Worth 	<p>Operating Ratios</p> <ul style="list-style-type: none"> • % Profits Before Taxes/Tangible Net Worth • % Profits Before Taxes/Total Assets • Sales/Net Fixed Assets • Sales/Total Assets
<p>Partners and Resources</p> <ul style="list-style-type: none"> • Accounting and Tax • Legal • Advisory 		<p>Personal Ratings</p> <ul style="list-style-type: none"> • Personal Credit Score • Debt / Income Ratio 	

The Financial Model - Deliverables

- Income Statement / Cash Flow Key Measures
 1. Is the company profitable?
 2. Distributions as a % of net profit
 3. Sales Trend
 4. Margins Trend
 5. Margins compared to industry average
- Balance Sheet
 1. Does your company have a positive cash balance?
 2. Is working capital positive?
 3. Are all debt payments current?
 4. Are all tax obligations current?
 5. Do you have a positive tangible net worth?

Financial Modeler Input

Year	2014	2015	2016
INCOME STATEMENT	Prior Year	Prior Year	Previous Year
Gross Receipts or Sales	550,500	575,000	627,500
Cost of Goods Sold	155,000	166,800	199,800
Net Profit	325,000	355,000	395,000
+ Business Interest Expense	3,500	3,850	3,850
+ Depreciation / Amortization	50,000	50,000	50,000
+ Cash Balance from Prior Yearend	9,500	10,000	8,500
- Distributions to Owners	15,000	17,500	20,000
Total Annual Debt Service			78,000

Financial Modeler Input

	2016
BALANCE SHEET	
Cash	8,500
Average Monthly Accounts Receivable	12,000
Average Monthly Inventory	12,000
Average Monthly Accounts Payable	5,000
Current Assets	25,600
Current Liabilities	78,000
Credit Card Maximum Limit	25,000
Total Assets	850,000
Long Term Liabilities	565,000
Total Liabilities	655,000

Financial Modeler Input

Personal Financial Information

Personal Credit Score (within 90 days)

540


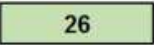


Adjusted Gross Cash Income

76,500


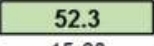
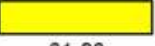



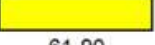


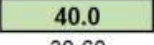
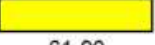










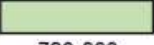
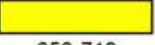



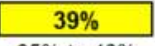

Total Annual Debt Service

30,000

Baseline Business Results

	Excellent	Good	Caution	Focus
Initial Business Risk Rating Score	 28-32	 26 21-27	 14-20	 8-13

How might you use these results?

Balance and Income Statement Ratios				
Accounts Receivable Turn in Days	 <15	 52.3 15-60	 61-90	 >90
Inventory Turn in Days	 16.7 <30	 30-60	 61-90	 >90
Accounts Payable Turn in Days	 <30	 40.0 30-60	 61-90	 >90
Total Liabilities / Net Worth (Leverage Ratio)	 <1.5:1	 1.5:1 to 3:1	 3.4 >3:1 to 4:1	 >4:1
Debt Service Coverage Ratio (DSCR)	 5.8 >2.6x	 >1.25x to 2.6x	 1x to 1.25x	 <1x
Personal Financial Information				
Personal Credit Score	 >800	 720-800	 650-719	 540 <650
Personal Debt / Income ratio	 <30%	 30% to <35%	 39% 35% to 40%	 >40%

Which models best work for you?

- 1) Lean Planning Model
 - 2) Business Model Canvas
 - 3) Selling Model
 - 4) Financial Model
- Would you like to work with SCORE on refining the Financial modeler?

Tips on going forward

- Pick 3 numbers that you are going to use to track your business. *Why these 3?*
- Communicate these numbers to your – employees – suppliers – customers – stakeholders. *How are you going to do this?*
- Revisit your model and your numbers on a periodic basis. *What has changed and what are you going to do about it?*