**Financial Model (SLO3)**

**SBE 100 Assessment**

**Spring 2016**

This assignment addresses the following Course Student Learning Outcome (SLO) and Program Outcome (PO).

SLO #3: Create a financial model forecasting sales and capital requirements for a new business.

PO # 2: Make business decisions using a systematic, evaluative, information-based approach.

##### Financial Model: Is Your Business Financially Feasible?

##### The financial model will require you to assess the estimated cost of your startup, taking into account both initial setup costs as well as the operating costs of running the business, and comparing that to the estimated revenues. We have broken up the assignment into three parts:

##### Requires you to estimate the cost of the startup;

##### Requires you to estimate (1) the operating cost and (2) the revenues;

##### Requires you to consider how you will finance your business.

##### Estimating the Cost of your Startup (5+5 points)

**5 points for adapting the table to meet the needs of your specific type of business. 5 points for explaining how you arrived at the estimate.**

Because the costs of starting a business are often underestimated, new entrepreneurs should consider completing, at a minimum, a few basic pro forma financial statements even before they attempt to estimate how much money they will need. Prepare the following estimates for initial setup and projected monthly costs based on research. If you are not sure how much these costs would be, talk to an entrepreneur – ideally someone with a business similar to yours. Explain how you arrived at estimate. Use the following worksheet to prepare an itemized estimate of how much it will cost to get your business set up. Given below are some typical pre-opening expenses. Modify for your situation/type of business.

|  |  |  |
| --- | --- | --- |
| Schedule A: Initial Setup Costs | | |
| Category of Expense | $ | Explanation of the expense and how estimated |
| Advertising | $ | Promotion for opening the business |
| Beginning inventory | $ | The amount of inventory needed to open |
| Building construction | $ | The amount per contractor bid and other |
| Cash | $ | Requirements for the cash register |
| Decorating | $ | Estimate based on bid if appropriate |
| Deposits | $ | Check with the utility companies |
| Fixtures and equipment | $ | Use actual bid on all F and E |
| Installing fixtures and equipment | $ | Use actual bids |
| Insurance | $ | Bid from insurance agent |
| Lease payment | $ | Bid from real estate agent |
| Licenses and permits | $ | Check with city or state offices |
| Miscellaneous | $ | All other |
| Professional fees | $ | Include CPA, attorney, engineer, etc. |
| Remodeling | $ | The amount per contractor bid |
| Rent, equipment | $ | Amount to be paid before opening |
| Services | $ | Cleaning, accounting, etc. |
| Signs | $ | The amount per contractor bid |
| Supplies | $ | Office, cleaning, etc. supplies |
| Unanticipated expenses | $ | Amount for unexpected costs (10 percent of total) |
| Other | $ |  |
| Other | $ |  |
| Other | $ |  |
| Total Setup Dollars Needed | $ | Total Schedule A (Pre-Opening Costs) |

1. **Estimating Revenue and Operating Costs (10 points)**

**B1. Estimated Sales/Revenue for the first 90 days (5 points)**

Prepare a conservative estimate of the number of units you will sell each month for the first three months using a sales estimation method suggested by Terry Elliot (2015)[[1]](#footnote-1).

If you offer, for instance, three types of goods plus two types of extra cost services, you have potentially five revenue streams. Estimate sales revenues for each of the five revenue streams. Make an estimate of where you think you'll be in three months (such as "we should be selling five of these items a day, plus three of these, plus two of these.") and calculate the gross sales per day.

Then multiply by 30 for the month.

Now scale proportionately from month one to month three; that is, build up from no sales (or few sales) to your three month sales level.

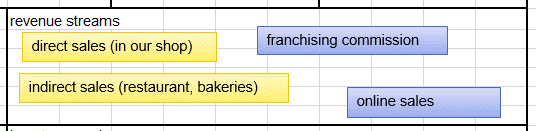
### Understanding Revenue Streams

Retrieved from http://www.excelmadeeasy.com/business-model-revenue-streams.php

It would seem obvious that revenue or income is coming from your customers. This is nowadays an **incorrect** assumption. As mentioned before, you might have customers or visitors or users that do not pay anything for the services you provide.

Your revenues can come different sources like advertisement, and sponsoring. But this is of course not true for all the businesses far from it. This applies to Internet site, online services for example.

If you sell cupcakes, your main revenue stream will be from the sales of cupcake or from your franchise business which has become a huge success. The important here is to list properly all the revenue streams in order to be able later to define actions related to them. Here we have direct sales, indirect sales from restaurants and bakeries, online sales and franchising commissions. This is already quite a lot for such a small business.



**Here are the questions you have to ask yourself about the Revenue Stream:**

* What value are our customers willing to pay?
* How do they pay?
* Do we know what percentage of our revenues come from different revenue streams?

**Also what type of revenue** will it mainly be? It is quite often a mix but there is always a clear main stream for a type of product.

Piece price: for material or immaterial products

Usage fee: for example ATM machine charge you every time you withdraw money. So you could provide some apparatus for free to your customers and they would be charged only when using it.

Licensing: if you have a patent on something and people want to use it. Then you get some income every time they use your invention

Commission: if you sell stuff that is produced by someone else, then getting him a customer will bring you a percentage of what he will be earning.

Advertising: if you rent a space on your land, house to put advertising, or if you put ads on your website (Google Adsense for example)

Lending: if you rent stuff for example a lawnmower, car etc.

Subscription fee: if you publish a newspaper for example or if you are a super successful blogger then you could let your reader pay to read your daily blogs.

Setting your pricing right is of utmost importance: how do you set your price? Will you be deciding the price to pay (let us say because you are the only one on the market) or are there similar products on the market that define the general pricing range?

Volume dependent: is your price decreasing with volume, if I buy 110100 pieces will it be the same price or staying constant?

Segment dependent: if you sell to less price sensitive people will you charge more than if you sell to more price sensitive people?

Negotiation: are you selling your product to a big chain or other company? Then surely they will try to reduce and negotiate the price. DO NOT FORGET: price is not the only component of your product offering (you can negotiate warranty, service, delivery, quality, packaging)

Market price: is your product competing against other products on the market, then probably you cannot play so much on the price (except if you offer other services with it)

**B2. The First 90 Days Projected Monthly Operating Costs (5 points)**

Prepare an itemized statement identifying the anticipated monthly costs of operating the business for the first three months. Modify for your individual situation/type of business.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Schedule C: Business Operating Costs (First 90 Days)** | | | | | |
| *Estimated business income* | *Month 1* | *Month 2* | *Month 3* | *Total* | *Notes* |
| Total Income | $ | $ | $ | $ |  |
| *Monthly expenses* | *Month 1* | *Month 2* | *Month 3* | Total | Notes |
| Advertising | $ | $ | $ | $ |  |
| Bank service charges | $ | $ | $ | $ |  |
| Business insurance | $ | $ | $ | $ | Exclude the amount from Schedules A or B |
| Credit card fees | $ | $ | $ | $ |  |
| Delivery charges | $ | $ | $ | $ |  |
| Dues and subscriptions | $ | $ | $ | $ |  |
| Health insurance | $ | $ | $ | $ | Exclude the amount from Schedules A or B |
| Inventory | $ | $ | $ | $ |  |
| Lease payments | $ | $ | $ | $ | Exclude the amount from Schedules A or B |
| Loan payments | $ | $ | $ | $ | Principal and interest payments |
| Miscellaneous | $ | $ | $ | $ |  |
| Office expenses | $ | $ | $ | $ |  |
| Payroll other than manager | $ | $ | $ | $ |  |
| Payroll taxes | $ | $ | $ | $ |  |
| Professional fees | $ | $ | $ | $ |  |
| Rent for business | $ | $ | $ | $ |  |
| Repairs and maintenance | $ | $ | $ | $ |  |
| Salary of owner or manager | $ | $ | $ | $ | Only if applicable first 90 days |
| Sales tax | $ | $ | $ | $ |  |
| Supplies | $ | $ | $ | $ |  |
| Telephone | $ | $ | $ | $ |  |
| Utilities | $ | $ | $ | $ |  |
| Personal Living expense | $ | $ | $ | $ |  |
| Other | $ | $ | $ | $ |  |
| Total Expenses | $ | $ | $ | $ |  |
| Net Cash Remaining (Needed) | $ | $ | $ | $ | Total Schedule B |

|  |  |  |
| --- | --- | --- |
| **Recap of Costs (IA6B)** | | |
| Initial Business Setup Dollars Needed (from Schedule A): | $\_\_\_\_\_\_\_\_ |  |
| Operating Dollars Needed for First 90 Days (from Schedule B): | $\_\_\_\_\_\_\_\_ |  |
| Total Dollars Needed for Setup and First 90 Days (sum of A + B): | $\_\_\_\_\_\_\_\_ | $\_\_\_\_\_\_\_\_ |
| Cash Needs for Business Survival during Startup and First 90 Days: |  | $======= |

**C. Financing the Business (5 points)**

1. Indicate how you will get the cash needed to fund your business for the first 90 days.

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1. How much would be debt and how much would be equity?

Debt: $ \_\_\_\_\_\_\_\_\_\_\_\_\_\_ Equity: $\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. What would be the interest rate for the debt? \_\_\_\_\_\_%
2. How much of the debt do you plan to payback monthly? $\_\_\_\_\_\_\_\_\_
3. How much would be the interest per month on the debt? $\_\_\_\_\_\_\_\_
4. What is the total amount of payback + interest on debt (D + E)? $\_\_\_\_\_\_\_\_\_\_\_\_
5. What are the terms of the equity? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
6. Adding the monthly payback on your debt including interest (F) to the operating dollars needed for the first 90 days (from the table above), how much cash would you need every month? $\_\_\_\_\_\_\_\_\_\_\_\_\_\_
7. Comparing the average monthly cash outflow (from H above) to the monthly cash inflow from sales would you say that your business is financially feasible? Explain your answer.

1. Elliott, T. (2015). Three Sales Forecasting Method. Small Business: Canada. Retrieved from http://sbinfocanada.about.com/od/cashflowmgt/a/salesforecast.htm [↑](#footnote-ref-1)