

BU121
Lecture 1
Business Planning

Key Concepts

- * *Why Write a **Business Plan**?* – a formal written document that explains the entrepreneur’s vision and how it will be converted into a profitable, viable business
 - * model of business planning
- * *Components of a Business Plan*
 - * key questions answered
 - * characteristics of a well-prepared plan
 - * the executive summary
 - * critical risks
 - * price cutting by competitor, who refuse to roll over and play dead for the new venture
 - * unforeseen industry trends that make the new venture’s product/service less desirable – or less marketable
 - * sales projections that are not achieved for a variety of reasons, thus reducing cash flow
 - * design, manufacturing, or shipping costs that exceed estimates. Product development or production schedules that are not met
 - * milestones
 - * seven deadly sins (avoid)
 1. The plan is poorly prepared and has an unprofessional look
 2. The plan is far too slick (uses flashy graphics)
 3. The executive summary is too long and rambling – it doesn’t get right to the point
 4. It’s not clear where the product is in terms of development – does it exist or not? Can it be readily manufactured?
 5. No clear answer is provided to the question: Why would anyone ever want to buy one?
 6. There is no clear statement of the qualifications of the management team
 7. Financial projections are largely an exercise in wishful thinking
- * Useful for the project/not for exam purposes...
 - * other sections of a business plan
 - * intangibles
 - * Making an Effective Business Plan Presentation

The most important things an entrepreneur must accomplish are:

1. Make meaning
2. Make mantra
3. Get going
4. Define a business model

5. Weave a MAT (
 - a. milestones,
 - b. assumptions,
 - c. tasks (day to day tasks ie. buying furniture))

The Art of Writing the Business Plan

Write for the right reasons

- * Due-diligence stage of courting an investor
- * Forces the founding team to work together
- * Makes the team consider issues it glossed over in the euphoria
- * Uncovers holes in the founding team

The process is more important than the destination

Write deliberate, act emergent (act as if experienced)

Pitch then Plan

- * 10/20/30 rule (10 slides, 20 minutes, 30 pt font)
 - o Title
 - o Problem
 - o Solution
 - o Business Model
 - o Underlying Magic
 - o Marketing and Sales
 - o Competition
 - o Management Team
 - o Financial projections and key metrics
 - o Current status, accomplishments to date, timeline and use of funds

1. Try it out on people – do it 10x
2. Fix the pitch
3. Write the Plan

Report → Presentation → Elevator Pitch

Elevator Pitch → Presentation → Report

Executive Summary

1. Background, product and purpose – describing your idea and the current state of business
2. Marketing – describing the market for the new venture’s product/service, why there is a need for the product and why anyone would want to buy it, plus info on the existing competition and how it will be overcome, and pricing
3. Competition – info on the existing competition and how it will be overcome, pricing, and related issues
4. Development, production, and location – where the product is, in terms of development, how it will be produced, and info on where the business will be located

5. Management team – describing the experience skills, and knowledge of the new venture’s management team
6. Financial section – provides info on the company’s current financial state, and offers projections for future needs, revenues, and other financial measures, as well as a *breakeven analysis* (an analysis indicating the level of sales and production required to cover all costs)
7. Risk factors – discusses various risks the new venture will face, and the steps the management team is taking to protect against these threats
8. Harvest or exit – how will they gain if company is successful
9. Scheduling, milestones – info on when each phase of new venture will be completed, so that potential investors will know just when key tasks will be completed (start of production, time to first sales, projected breakeven point)
10. Appendices – detailed financial info & detailed resumes of top management team should be presented

* Focus on the Executive Summary

- * the 10 slides provide the framework for the business plan
 - * The exec summary takes the place of the title slide
 - * Clear, concise description of the problem, solution, business model and underlying magic
 - * Don’t explain the entire business plan – convey it’s essence and it’s energy
 - * 2-3 pages max
 - * **Most important part of business plan**
 - * 80% of the effort
 - * Job is to sell, not to describe – first impression

Business Plan 20 pages MAX

BUSINESS COMMUNICATION

Key concepts

- 4 principles of business writing
- 3x3 Writing Process
- Adapting to the Task and Audience...
 - audience focus, “you” view, conversation but professional, positive vs negative, courteous, bias-free language, plain language and familiar words, precise and vigorous words
 - (Creating cluster diagrams – not tested but useful for writing and studying)
 - (Organizing Ideas – direct vs indirect pattern – not tested but useful for writing)
 - Creating Effective Sentences
 - (common sentence faults), preferring short sentences, emphasizing Important ideas, active and passive voice, (dangling and misplaced modifiers)

- Drafting Powerful Paragraphs
 - Different paragraph plans, paragraph coherence
- Revising for Conciseness
 - Flabby expressions, long lead-ins, unnecessary fillers, redundancies, empty words
- Revising for Clarity
 - Short and simple, trite phrases, clichés and slang, buried verbs, excessive exuberance (enthusiasm)
- Designing Documents for Readability
 - (White space, margins and text alignment, typeface, capitalizing), numbering and bulleting, headings
 - (Proofreading)
 - (Evaluating)

Made to Stick

- “Sticky = understandable, memorable, and effective in changing thought or behaviour”
- Urban legends
 - Are ideas born interesting or made interesting?
- CSPI and movie popcorn
 - Interesting but not sensational, truthful but not mind-blowing, and important but not ‘life or death’

SUCCESS MODEL

SIMPLICITY

- ❖ **Simple = core + compact**
- ❖ **Find the “core” of the message**
 - “Command’s Interest”
 - Matter of forced prioritization
 - **Don’t ‘bury the lead’**
- Communicate the core
 - **Use proverbs**
 - **Simple but profound**
 - Use existing schema (leverage; using your knowledge)
 - The way you ALREADY think
 - **Use analogies**
 - **Use generative metaphors** – Disney world called cast members, and at subway they call them sandwich artists

UNEXPECTEDNESS

- Get audience to pay attention
- Need surprise and interest
- Violate expectations

- Be counterintuitive – uncommon sense
 - **Nordstorm’s – example**
- Generate interest and curiosity
- Open gaps in knowledge
 - Give context
- Fill those gaps
- Football – gave people context

CONCRETENESS

- Make ideas clear
- Fill with concrete images
 - **“Sour grapes”**
 - **Brown eyes, blue eyes (discrimination)** – predigest to children said brown eyes are better than blue eyes then the next day she changed it
 - **Hamburger helper** – took toys to homes and identified based on what they saw

CREDIBILITY

- Make them believe
- External credibility – Authorities
 - Experts
 - Celebrities
 - ‘Anti-authorities (inferior, regular human being)
- Internal credibility
 - Vivid details
 - Statistics
 - Relationship, human terms
 - Testable credential
 - NBA

EMOTIONS

- Get people to care
- Make them feel something
 - For ppl vs. abstractions or statistics
 - Mother Theresa
- Power of association
 - Appeal to self-interest
 - Emphasize benefits vs features
 - “imagine”
 - Appeal to identity

STORIES

- Get ppl to act
 - Need simulation and inspiration
- Mental flight simulators

- Inspiration
 - Subway
- Spotting a story
 - Challenge plot
 - Connection plot
 - Creativity plot

Jared vs “7 under 6”

- Simple
 - Eat subs and lose weight – “subway saved my life”
- Unexpected
 - Lose weight by eating fast food
- Concrete
 - Oversized pants
- Credible
 - Anti-authority
- Emotional
 - Individual vs mass, reaching potential
- Story
 - Inspiring

Lecture 2

Business models made easy

GEL Factor Analysis

- G= great customers
 - **Characteristics** –
 - number (high) – businesses need a large enough customer base to cover their cost of running the business
 - ease of finding (easy) -
 - spending patterns(prolific/high)
 - **Value to you** –
 - \$ value of sale(high),
 - repeat sales(many),
 - ongoing sales support(low) - On going sales support should be low because you don’t want to spend a lot of money on advertising for new customers
 - Large population
 - Easy to find
 - Willing to spend
- E= easy sales
 - **Value to customer** –
 - how important(important),
 - competitive advantage(high),
 - price/value relationship(low)
 - **Customer acquisition cost** –

- entry points(many), - ways you can buy products (ex. Internet, catalogue, at the market)
 - sales support required(little) - depends on product
 - promotional activities(low) - how do you get your customers to buy your products
- **High value of sales because sales create revenue**
- **Customers keep coming back – repeat sales**
- **Promotional activity –Value to the customer** – what makes your product better
- L= long life
 - **Profit per sale** – margins(high), up-selling and cross-selling(much), ongoing product costs(low) – production cost to be low, and margin (difference between cost and value price) to be high
 - **Up selling** – enhancing that one product (extended warranty on a product)
 - **Cross selling** – also work hours
 - **Investment required** –
 - to enter business 10x sales(low),
 - to keep market share(low),
 - to stay on the cutting edge(low)

Why its important/ when it's a key concern/ how to compensate

What is a Business Model?

- Describes the rationale of how an organization creates, delivers, and captures value
 - how a company intends to make money
 - how your idea actually becomes a business that makes money

Different companies can have similar offerings but different business models

Model affects strategy/ways of operating

CUSTOMER SEGMENTS

- ❖ Mass market
 - ❖ Niche market
 - ❖ Segmented
 - ❖ Diversified
 - ❖ Multi-sided
- Which customers and users are you serving?
 - Which jobs do they really want to get done?

VALUE PROPOSITIONS

- ❖ Newness
- ❖ Performance

- ❖ Customization
- ❖ “Getting the job done”
- ❖ Design
- ❖ Brand/status
- ❖ Convenience/usability
- ❖ Accessibility
- ❖ Price
- ❖ Risk reduction
- ❖ Cost reduction
 - What are you offering them?
 - What is that getting done for them?
 - Do they care?

CHANNELS

- ❖ Awareness – do people know you exist?
- ❖ Evaluation – evaluate you against competitors
- ❖ Purchase – how do you purchase
- ❖ Delivery - (ex. Internet, delivery etc.)
- ❖ After sales
 - How does each customer segment want to be reached?
 - Through which interaction point?

CUSTOMER RELATIONSHIPS

- ❖ Personal assistance
- ❖ Dedicated personal assistance – ex. Wedding planner
- ❖ Self service
- ❖ Automated services
- ❖ Communities – bring customers together
- ❖ Co-creation
 - What relationships are you establishing with each segment?
 - Personal?
 - Automated?
 - Acquisitive?
 - Retentive?

REVENUE STREAM

- ❖ Asset Sale
- ❖ Usage fee
- ❖ Subscription fee
- ❖ Lending/renting/leasing
- ❖ Licensing
- ❖ Brokerage fees - banks
- ❖ Advertising
 - What are customers really willing to pay for?
 - How?
 - Are you generating transactional or recurring revenues?

Pricing Mechanisms

- ❖ Fixed “Menu” Pricing
- ❖ Dynamic Pricing

KEY RESOURCES

- ❖ Physical
- ❖ Intellectual
- ❖ Human - people
- ❖ Financial - bank?
 - Which resources underpin your b.model?
 - Which assets are essential?

KEY ACTIVITIES

- ❖ Production
- ❖ Problem solving
- ❖ Platform/network – ebay
 - Which activities do you need to perform well in your b.model?
 - What is crucial?

KEY PARTNERS

- ❖ Optimization and economy of scale – cost effective as possible
- ❖ Reduction of risk and uncertainty
- ❖ Acquisition of resources and activities – specific activities – human, financial
 - Which partners and suppliers leverage your model?
 - Who do you need to rely on?

COST STRUCTURE

- ❖ Cost driven
- ❖ Value driven – value of what your providing to your customers, balance with cost
- ❖ Fixed costs – costs you can’t change (mortgage, car payments)
- ❖ Variable costs – flexible costs (shopping)
- ❖ Economies of scale
- ❖ Economies of scope
 - What is the resulting cost structure?
 - Which key elements drive your costs?

LECTURE 3

EI (Emotional Intelligence) - is a set of emotional and social skills that influence the way we perceive and express ourselves, develop and maintain social relationships, cope with challenges, and use emotional information in an effective and meaningful way.

IQ (Intelligence Quotient) - a score derived from one of several standardized tests designed to assess intelligence

Personality – a way of organizing and grouping how an individual reacts to situations

EQi Model of Emotional Intelligence

- Intra-personal – Self awareness + Self expression
 - Inter-personal – Social awareness and interaction
 - Stress Management – emotional management and control
 - Adaptability – change management
 - General Mood – self motivation
- = Effective Performance

Critical Leadership Factors



EI skills of primary importance for flagging possible derailment

EI skills of primary importance in distinguishing successful from unsuccessful leaders

Human Potential = (IQ + TQ) * EQ

- IQ – Innate intelligence
- TQ – Technical skills
- EQ – Emotional intelligence

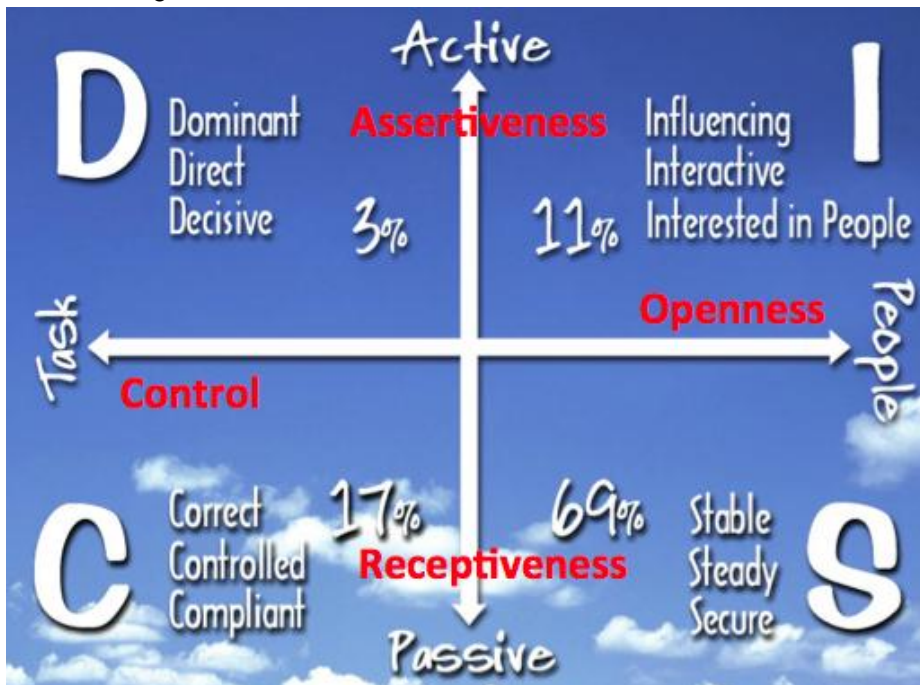
Impact of EI on Human Resources

Two Decades of research show that emotional intelligence contributes to bottom line performance because it leads to:

- More successful hiring
- Decreased attrition rates
- Reduced training costs
- Higher levels of productivity and success
- Greater individual performance
- Better leaders and managers
- Stronger relationships with employees and customers

Case 1

- American Express
 - **Purpose** – predict key characteristics associated with top performance in order to develop selection criteria
 - **Impact** – EQi predictive model accounted for 48% of the difference between high and low performing sales reps = almost half of the skill set required for success
- US Air Force
 - **Purpose** – to determine the differences between successful and unsuccessful recruiters to increase retention
 - **Impact** – developed a pre-employment screening system = 92% reduction in 1st year turnover, \$2.7 million in training cost savings in 1st year alone, Air Force recruiters twice as productive than in other branches of armed forces
- CIBC
 - **Purpose** – to determine key EI characteristics that define successful sales representatives
 - **Impact** – found that EI scores accounted for 32% of booked sales and 71% of pipeline sales– now used for selection and leadership development
 -



Elevator pitch: Term used for 2 min presentation

- 2 key elements
 - PAIN statement
 - VALUE PROPOSITION

Characteristics of a good pitch:

- Succinct
- Easy to understand
- Greed inducing (Profitable)
- Irrefutable

Trust Model

- Arena
 - Open communication
 - I know, you know
- Mask
 - Hidden
 - I know, you don't know
- Potential
 - The unknown
 - I don't know, you don't know
- Blind spots
 - What other people see in yourself that you don't see
 - Self discovery
 - I don't know, you know

TEAMS Styles

- * **Theorist** – Visionary, idea person
- * **Executer** – Makes it happen, doer
- * **Analyzer** – Refines, finds problems and solutions
- * **Manager** – Ties it all together, balances needs of team
- * **Strategist** – Sets goals, moves team forward

LECTURE 4

CRITICAL THINKING

Claims

- “the major conclusion of a piece of writing that the author is trying to persuade you to accept”
 - Look for cues/indicator words
- Uncontested vs Contestable claims
 - Uncontested: Conditions in which people may accept a claim without challenge
 - Contestable: Examine and evaluate the evidence given to justify the claim
- Application
 - Present ideas with clarity and emphasis; use visuals
 - Put your claim up front and use cue words
 - Use headings and subheadings to make your logic transparent

Evidence

- “a statement in response to the question: Why is this true?”
 - Examples of evidence
 - Cue/indicator words
- Argument = claim + evidence
- Quality of evidence
 - Accuracy, precision, sufficiency, representativeness, authority, clarity
- Application
 - Clearly state the meaning/significance of the evidence
 - Present arguments in form of claim and supporting evidence
 - Treat evidence as claims – provide evidence to show soundness
- Read the passage and state the major claim that is being made. Identify and evaluate the evidence presented on the basis of:
 - Accuracy – make sure its accurate (quality of evidence)
 - Precision - precision of information
 - Sufficiency – of evidence
 - Representativeness – how representative is information?
 - Authority
 - Clarity of expression
 - Credibility of source
- Your claim comes from your own thinking about a topic BUT evidence comes from the outside
- Readers should accept your evidence as factual or true
- Must locate the evidence before you can evaluate an argument
 - “because” “as a result” Etc.

Underlying Assumptions

- “a logical link that fills the gap between the evidence and the claim”
 - Underlying assumptions are **implicit, unstated**
 - Need to be examined explicitly
 - What the writer must believe to have written that
 - What must be true for the claim to follow from the evidence?
- Reality assumptions vs Value assumptions
 - Reality assumption: Assume that just because it may have happened it its true
 - Value assumption: Assume the argument is valid because “everyone” agrees with, or values it
- Application
 - Make it clear that each piece of evidence is relevant by articulating your underlying assumptions and reasoning explicitly
 - Question your assumptions
 - Ask yourself:
 - What did the writer believe to draw this conclusion?
 - What must be **true** for the claim to follow from the evidence?
 - What beliefs might I expect from this type of person?
(the missing link ‘x’)

Casual Claims

- arguing “that certain events or factors (*causes*) are responsible for bring about other events or situations (*effects*)”
 - Cause and effect relationships are an important aspect of understanding – basis of cases
- May be multiple or Rival causal explanations due to:
 - differences between groups, correlation between characteristics, *post hoc ergo propter hoc* fallacy (after this therefore because of this)
- Application
 - Think through all possible causes – address them explicitly
 - Examine soundness of causal argument

Identifying Casual Claims

- Use your creativity to suggest several possible causes for the given effects in the following statements:
 - *You’ve overslept three times in the past week.*
 - *Although overall industry sales are down, your product is exceeding projected sales figures.*

Techniques of Persuasion

- Factors that affect persuasiveness:
 - Quality of evidence presented + evidence omitted
 - Soundness of causal argument
 - Extent to which reader/listener agrees with underlying assumption(s)
 - Language and writing style
 - *Rhetoric* - use of language to convince
- Must know and consider your audience
 - Anticipate and counter objections
 - Negative evidence, rival causes, debatable assumptions
 - Limit your claims when you have no rebuttal

Use of Rhetoric

- “the use of language to persuade”
- Be complete
 - Present your reasoning in full and clear detail
- Use an appropriate tone for the audience
- Use vivid and precise language
- “The intelligent use of rhetoric... goes hand-in-hand with the development of a sound, logical argument.”
- “You must expose and criticize the bare bones of the argument – the claims, evidence, and assumptions, independent of the rhetorical devices... added for impact and readability.”
- Replace each of the *italicized* words with a precise number that seems appropriate:

- “A *middle-aged* acquaintance of mine recently decided to leave a *high-paying* job in a *large city* to take instead a *low-paying* job in a *small town*.”
 - Middle-aged = __ years
 - High-paying = ____ as an annual salary
 - Large city = _____ residents (or examples)
 - Low-paying = ____ as an annual salary
 - Small town = ____ residents (or examples)

MARKETING

- The integrated system of activities, filling the need and finding the need, want satisfying

Critical success factors

- ▣ Achieving financial performance
- ▣ *Meeting customer needs*
- ▣ Providing quality goods and services
- ▣ Encouraging innovation and creativity
- ▣ Gaining employment commitment

Keys to Success

#1 Key

- Related to providing a *want-satisfying* good or service
- Used to be “sell what you produce”
- Now it’s “produce what you *can* sell”
- Production – Sales – Customer Orientation

The Marketing Concept

- Create customer value
- Deliver customer satisfaction
- Build relationships
- ▣ *Text*
- ▣ BUT the product must not only provide a particular benefit/satisfy a particular want or need, but it must be needed or wanted...
- ▣ it must *provide a unique benefit that the competition does not*

Target Market

- The group of customers to whom you wish to direct your product toward
- A group of customers whose wants and needs have not been met by the competition
- Steps to defining a Target Market:
 - Market Segmentation
 - *Based on demographics*
 - Perceptual Mapping
 - How customers conceive products
 - Preference Analysis

- Ideal product/service, what the customer wants
 - Bases for Segmentation:
 - state-of-being
 - geographic – region, pop'n size, pop'n density, climate
 - demographic – age, gender, lifecycle, income, occupat'n, educat'n, religion, social class, etc.
 - customer type – business, consumer
 - state-of-mind
 - psychographic (personality and lifestyle - AIO)
 - product usage - behaviour
 - volume – usage rate, user status, readiness to buy
 - sensitivity to market factors, occasions
 - loyalty
 - benefits sought – benefits of selling your product
 - Steps:
 - 1. Segment on basis of benefits
 - 2. Describe using other bases
 - 3. Name them last!
 - demographics vs. psychographics...
- Perceptual Mapping & Preference Analysis**
- by finding the biggest gap between how the customer perceives the determine which of the segments will be the target market
 - competition meets their needs – *perceptual map* – and what they really want – *preference analysis*
- ☐ Steps:
- Draw axes that represent the relevant dimensions by which people differentiate between product offerings
 - Locate the positions of competing products on the axes/dimensions according to customer perceptions...
- Perceptual Mapping***
- Locate each segment's ideal product...
- Preference Analysis***
- Determine the target market
- ☐ Positioning
- finding a distinct position for your product in the customer's mind
 - one that communicates that the product provides a *unique benefit*
 - the objective is to position the product as close to the target's ideal as possible
 - 2 approaches:
 - ☐ consumer approach
 - ☐ show costumers on how you're different, why your product is unique compared to other companies
 - ☐ competitive approach

- ▣ No formula – projections based on research and logic = educated guess you can defend
- ▣ Market potential ≠ Sales forecast
 - Forecast depends on plan
- ▣ Top-down forecasting
 - Market potential not just #households
 - with lawns / likely to mow lawn / care about benefits
 - Still doesn't equal sales forecast
 - ready to buy? (lawn mowers/yr/capita – target buy in same proportion?, need new one?, time to adopt / switching costs?)
- ▣ Bottom-up forecasting
 - What you *can* do given capacity and marketing plan
 - #stores that sell mowers / # that will carry / #each must sell to meet target – make sense?
 - Compare to breakeven – what you *have* to do
- ▣ Sensitivity analysis and contingency plan
 - Assumptions to base sensitivity on
 - Breakeven
 - Largest/smallest/average competitor
 - Similar product launch
 - Capacity
 - Milestones – points that increase valuation of business
 - Contingency plan

Top Down Forecast

- ▣ Estimate Market Potential
 - Know the problem you are solving - unique benefit
 - Define for whom you are solving it for – target market
 - Estimate size of target
 - Determine *penetration rate*
 - % will buy – essential vs discretionary
 - Calculate potential market size
- ▣ Determine *Adoption Rate*
 - Speed of adoption
 - Example – mobile phones
- ▣ Predict Market Share
 - 3 factors determine your share of market
 - Strength of your value proposition vs competition
 - Amount of capital vs competition
 - Effectiveness of marketing – “share of voice”
- ▣ Develop Revenue Scenarios

- Market potential x adoption rate x market share
- Develop different scenarios – sensitivity analysis
- Document assumptions

Bottom-up Forecast

- Start with understanding your Sales Funnel
 - Need to know:
 - Length of sales cycle
 - Conversion rate
 - Average selling price

Week 5 – Marketing: Reaching the Customer

Product Classification

***different markets classify products differently**

***important to see your product as your customer does**

Keys to Success

Consumer products = bought by end users - non-durables vs. durables	
Unsought Goods <ul style="list-style-type: none"> - Aggressive promotion, personal selling - Strategic implications: - Examples: 	Convenience Goods/Services <i>Staples – branding, max exposure, shelf position</i> <i>Impulse goods – max exposure, shelf position, P of P</i> <i>Emergency goods – near P of P, readily accessible, gas stations located along the highway</i> <ul style="list-style-type: none"> - Strategic implications: - Examples:
Shopping Goods <ul style="list-style-type: none"> - Homogeneous goods – exposure for price comparison (which is cheaper) - Heterogeneous goods – exposure near similar products (quality of service they provide) - Strategic implications: make prices cheaper compared to other companies, have a quality service - Examples: 	Specialty Goods/Services <ul style="list-style-type: none"> - Selective distribution and advertising important for exclusivity - Strategic implications: - Examples:

#1 Key

- Provide a unique benefit

#2 Key

- **Convince** the customer that the product provides that unique benefit – through your product, pricing, promotion, and distribution/place decisions...
 - Integrated/consistent system of activities

- All parts of organization must have clear idea of unique benefit
 - **Core Benefit Proposition (CBP)**
 - Clear, concise statement of product's unique benefit or value proposition

Total Product Concept

- physical features necessary to support CBP
- **total package of benefits/value package** as seen from the eyes of the consumer
 - Brand
 - Package
 - Service
 - Warranty
 - Delivery
 - Credit
 - Atmosphere
 - Image, Reputation
 - Accessibility
 - **Price**

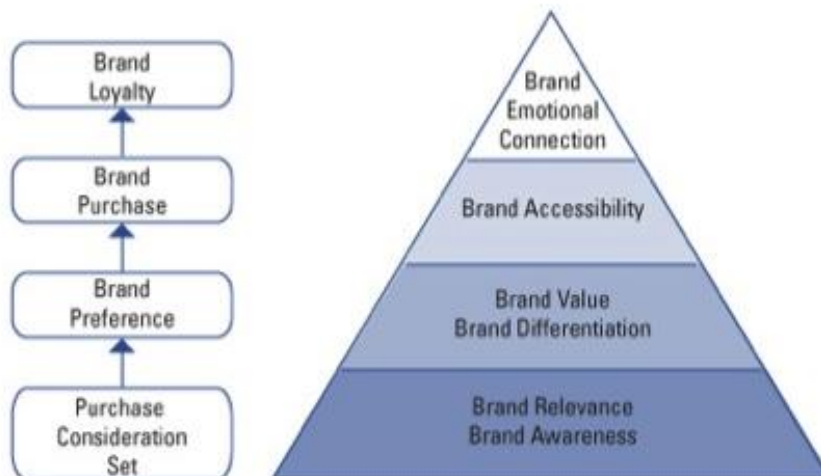
Branding: What is a “brand”?

“... A collection of perceptions in the mind of the consumer”

- Built not only through effective communications or appealing logos – it is built through the **total experience** that the product offers

Building Brand Insistence

- different drivers that move your product to a brand where there are no substitutes



Price

- Objectives (text)
- Approaches

- Cost-based – mark-up (text calculation)
- Competitive-based – market share
- Consumer-based – value
- Most important:
 - Support CBP
 - Test pricing

Specific strategies/tactics (text)

PROMOTION

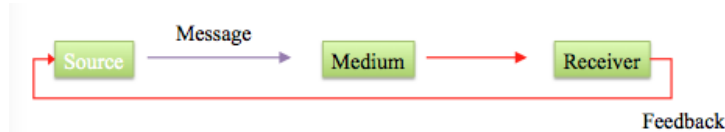
- **IMC (Integrated Marketing Communication) – coordinating all promotional activities**
- **Promotional mix:**
 - **Advertising**
 - **Personal Selling**
 - **Sales Promotion**
 - **Publicity**

Advertising

- **any form paid, provides info about product, directed to public**
- **creates image in customers mind**
- Objectives
 - Create AIDA: (4)
 - Attention
 - Interest
 - Desire
 - Action
 - Communicate CBP

Key is to SELL products

Communication model



1. Increase **credibility of source**
 - Familiarity
 - Spokesperson
 - Pros & cons
2. Develop **clear message**
 - USP – unique selling proposition
 - Tone
3. Use **most effective medium**
 - Must reach consumer with message intended “the medium is the message”
 - At the most effective CPM (Cost Per Mille(\$1000))

- CPM
 - i. A $\$5,000/1,000,000 = \5 CPM
 - ii. B $\$5,000/100,000 = \50 CPM

BUT

- A $\$5,000/10,000$ **target** = \$500 effective CPM!!

Personal Selling

- **one on one relationship, more effective and more expensive (hire people with knowledge)**

- more effective but more expensive
- combine with advertising to:
 - generate leads, decrease cost of sales call, reach 'inaccessibles', maintain image in buyer's mind
- factors to consider in budget decision
 - perceived risk of sale
 - amount of information to convey
 - degree of customizing necessary

Sales Promotion

- **direct incentives, encourage consumers to make a purchase**

- short term incentives to induce purchase
 - free samples, trial period
 - cents off coupons, cash rebates
 - extra volume for same price, bonuses
 - giveaways, contests
 - premiums
 - point-of-purchase displays
- support personal selling and advertising
- support CBP (core benefit proposition)

Public Relations & Publicity

- greater impact due to perceived objectivity
- must be 'newsworthy'
- can be negative
- lack of corporate social responsibility

Place

- purchase is a function of desire and **availability**
 - logistical decisions costly, time consuming and not easily changed
 - choice of location must fit with CBP
 - critical decision
 - use of marketing intermediaries/channel of distribution
 - manufacturer → agent → wholesaler → retailer → consumer

Place: Implications

- Implications

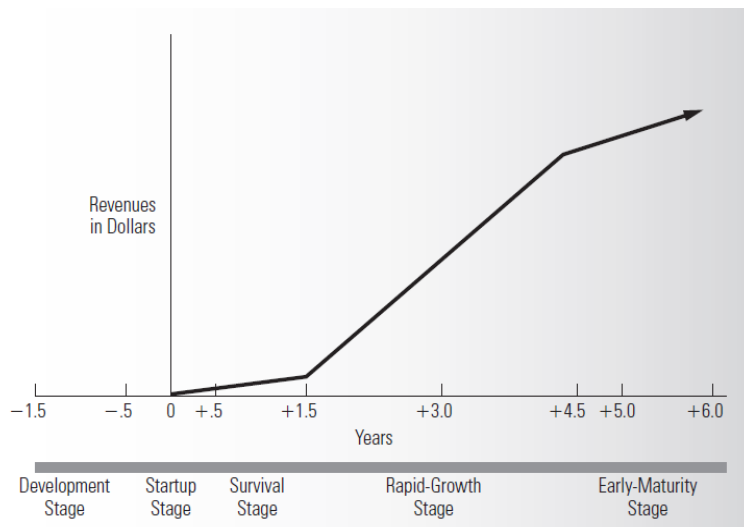
- Demand backward pricing
 - $\$4.99 - 1.50 - 1.00 = \2.49 to wholesaler
 - $\$2.49 + 1.00 + 1.50 = \4.99 to consumer
= lower profit margin?
- Push vs. Pull

Week 6: Entrepreneurial Finance (Part 1)

7 Principles of Entrepreneurial Finance

1. Real human, and financial capital must be 'rented' from owners.
2. Risk and expected reward go hand in hand
3. While accounting is the language of business, cash is the currency
4. New venture financing involves search, negotiation, and privacy
5. A venture's financial objective is to increase value
6. It is dangerous to assume that people act against their own self-interests
7. Venture character and reputation can be assets or liabilities

Financing through the Venture Life Cycle



- Revenues pay some expenses at 0
- growth slows most value realized – consider exist

1. VENTURE FINANCING		
LIFE CYCLE STAGE	TYPES OF FINANCING	MAJOR SOURCES/PLAYERS
Development stage	Seed financing	Entrepreneur's assets Family and friends
Startup stage	Startup financing	Entrepreneur's assets Family and friends Business angels Venture capitalists
Survival stage	First-round financing	Business operations Venture capitalists Suppliers and customers Government assistance programs Commercial banks
Rapid-growth stage	Second-round financing Mezzanine financing Liquidity-stage financing	Business operations Suppliers and customers Commercial banks Investment bankers
2. SEASONED FINANCING		
LIFE CYCLE STAGE	TYPES OF FINANCING	MAJOR SOURCES/PLAYERS
Early-maturity stage	Obtaining bank loans Issuing bonds Issuing stock	Business operations Commercial banks Investment bankers

Measuring Financial Performance

- Why maintain a record of operations?
 - Provide feedback for internal decision-making
 - Provide information for creditors and investors to make decisions
 - Reflect the venture's initial and developing assets and ownership
 - Record the sales and costs and whether making a profit
 - Gain understanding of how cash is generated and depleted
 - Interpret financial situation and project when reach breakeven
- Where recorded?
 - Balance Sheet (statement of financial position)
 - Records ASSETS including cash
 - Records financing obtained by owners (OWNERS' EQUITY) and lenders (LIABILITIES)
 - Provides a 'snapshot' of the venture's financial position on a specific date
 - Built on premise that:
 - $ASSETS = LIABILITIES + OWNERS' EQUITY$
 - Ex: buy a car for \$15,000 with \$5,000 of own money and \$10,000 loan
 - Sell the car for \$12,000 shortly after
 - Income statement
 - Statement of Cash Flows

Balance Sheet: PSA Company as of June 30, 2012

ASSETS		LIABILITIES AND EQUITY	
Cash and marketable securities	\$30,000	Payables	\$10,000
Receivables	0	Accrued wages	0
Inventories	10,000	Bank loans	0
		Other current liabilities	0
Total current assets	40,000	Total current liabilities	10,000
Gross equipment	20,000	Long-term debts	10,000
Less: Accumulated depreciation	0	Capital leases	0
Net equipment	20,000	Total long-term liabilities	10,000
Building	0		
Other long-term assets	0	Owners' equity	40,000
Total assets	<u>\$60,000</u>	Total liabilities and equity	<u>\$60,000</u>

- If venture is incorporated, Owner's (Shareholders') Equity looks more complicated:
 - Common stock (paid-in capital)
 - Preferred stock (paid-in capital)
 - Retained earnings
 - $\text{Earned Capital} = \text{Profit} - \text{Dividends}$

Income Statement: PSA Company for the period ended Dec 31, 2012

Net sales	\$120,000
–Cost of goods sold	<u>–78,000</u>
Gross earnings	42,000
–Marketing expenses	–12,500
–Administrative expenses	–18,000
–Building rental	–6,000
–Depreciation expense	<u>–1,000</u>
Earnings before interest and taxes	4,500
–Interest	<u>–500</u>
Earnings before taxes	4,000
–Taxes (@ 25%)	<u>–1,000</u>
Net income	<u>\$ 3,000</u>

Balance Sheet: PSA Company as of Dec 31, 2012

ASSETS		LIABILITIES AND EQUITY	
Cash and marketable securities	\$ 1,000	Payables	\$15,000
Receivables	50,000	Accrued wages	3,000
Inventories	26,000	Bank loan	0
		Other current liabilities	<u>25,000</u>
Total current assets	77,000	Total current liabilities	43,000
Gross equipment	20,000	Long-term debts	10,000
Less: Accumulated depreciation	<u>1,000</u>	Owners' equity	<u>43,000</u>
Net equipment	19,000		
Building	0		
Other long-term assets	<u>0</u>		
Total assets	<u>\$96,000</u>	Total liabilities and equity	<u>\$96,000</u>

Cash Vs Profit

- Can a company that is profitable go bankrupt? (Yes, might not have enough cash flow)
- Sales Revenue – Accounts Receivable
- Expenses – Accounts Payable
- Depreciation/Amortization – *not cash, accounting item*
- Owners' Equity – cash to use for business?
- Remember **Principle 3** of entrepreneurial finance:
 - While accounting is the language of business, cash is the currency.

Statement of Cash Flows

PSA Company for the period ended Dec 31, 2012

CASH FLOW FROM OPERATING ACTIVITIES

Net income	\$ 3,000
+Depreciation	1,000
–Increase in receivables	–50,000
–Increase in inventories	–16,000
+Increase in payables	5,000
+Increase in accrued wages	<u>3,000</u>
Net cash flow from operations	–54,000

CASH FLOW FROM INVESTING ACTIVITIES

–Increase in gross equipment	<u>0</u>
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CASH FLOW FROM FINANCING ACTIVITIES

+Increase in other short-term liabilities	<u>25,000</u>
Net change excluding cash account	–29,000
Beginning cash and marketable securities	<u>30,000</u>
Ending cash and marketable securities	<u>\$ 1,000</u>

Statement of Cash Flows

- Impact on Cash
 - Operating Activities:
 - Start with Net Income
 - Add back Depreciation/Amortization
 - + Decrease / - Increase in Receivables
 - + Decrease / - Increase in Inventory
 - + Increase / - Decrease in Payables
 - + Increase / - Decrease in Accrued Liabilities
 - Investing Activities:
 - + Decrease / - Increase in Gross Fixed Assets
 - Financing Activities:
 - + Increase / - Decrease in Loans
 - + Increase / - Decrease in Stock
 - - Cash Dividends paid

Survival/Cash Flow Breakeven

- Some new ventures show profitability during the startup stage, but...
- It is more common for a new venture to have losses – **survival stage**
- need to know level of sales necessary to cover costs – **break even**
- Therefore need to compare revenues to cash operating and financing costs...

Two types of expenses/costs

- **Variable**
 - Costs of directly providing a product or delivering a service – therefore vary with sales
 - For example – *cost of goods sold*
- **Fixed**
 - Expected

Survival/cash flow breakeven if when EBDAT = 0

- How do you find EBDAT?

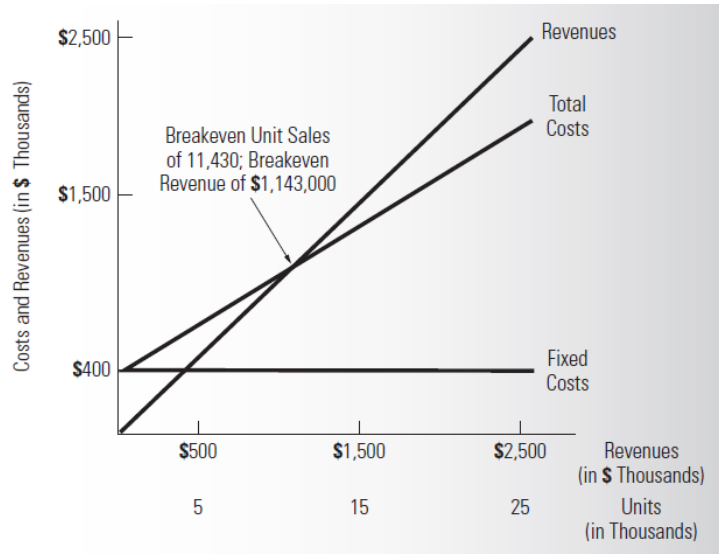
	YEAR 1	YEAR 2	YEAR 3
Number of units sold	5,000	15,000	25,000
Revenues	\$500,000	\$1,500,000	\$2,500,000
–Cost of goods sold*	<u>-325,000</u>	<u>-975,000</u>	<u>-1,625,000</u>
Gross profit	175,000	525,000	875,000
–Administrative expenses	-200,000	-200,000	-200,000
–Marketing expenses	<u>-180,000</u>	<u>-180,000</u>	<u>-180,000</u>
EBITDA	-205,000	145,000	495,000
–Depreciation	<u>-25,000</u>	<u>-25,000</u>	<u>-25,000</u>
EBIT	-230,000	120,000	470,000
–Interest expenses	<u>-20,000</u>	<u>-20,000</u>	<u>-20,000</u>
Earnings before taxes	-250,000	100,000	450,000
–Taxes**	<u>75,000</u>	<u>-30,000</u>	<u>-135,000</u>
Net income	<u><u>-\$175,000</u></u>	<u><u>\$ 70,000</u></u>	<u><u>\$ 315,000</u></u>

- We can see that it has achieved breakeven in year 2 but when and what level of sales is needed to breakeven?

	YEAR 1	YEAR 2	YEAR 3
Number of units sold	5,000	15,000	25,000
Revenues	\$500,000	\$1,500,000	\$ 2,500,000
-Cost of goods sold (65% of revenues)	<u>-325,000</u>	<u>-975,000</u>	<u>-1,625,000</u>
Gross profit	175,000	525,000	875,000
-Administrative expenses	-200,000	-200,000	-200,000
-Marketing expenses	-180,000	-180,000	-180,000
-Leasing and interest expenses	<u>-20,000</u>	<u>-20,000</u>	<u>-20,000</u>
EBDAT	-225,000	\$ 125,000	\$ 475,000
Percent of revenues	-45.0%	8.3%	19.0%

- Breakeven is when EBDAT = 0
 - $EBDAT = \text{Revenues (R)} - \text{Variable costs (VC)} - \text{Cash Fixed costs}$
 - $R = VC + CFC$

Breakeven



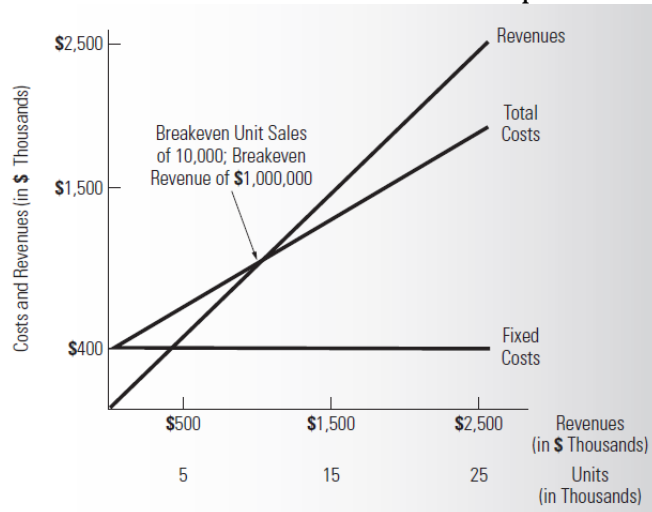
Breakeven Calculation

- Looking for volume of sales where total revenue = total costs
- $R = VC + CFC$
- $\text{Price (volume)} = VC (\text{volume}) + CFC$
- $\text{Price} - VC (\text{volume}) = CFC$
- Breakeven volume =

Breakeven Drivers

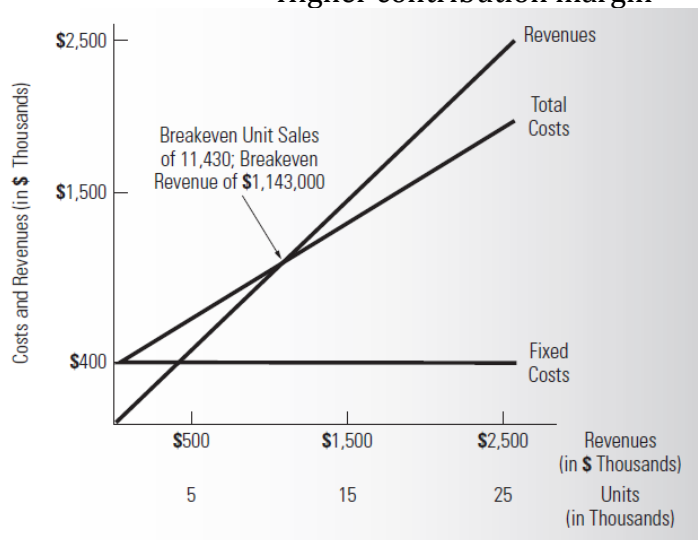
- Most important influence/driver on venture breakeven is its variable cost revenue ratio (VCRR) and hence its contribution margin
 - For example, let's say that in year 2, due to volume discounts, PSA could lower production costs to \$60 per unit (60% of \$100 revenue per unit)
 - Survival revenue (SR)

- At higher contribution margin of 40%, the level of survival revenue needed to breakeven drops to \$1 million or 10,000 units



Leverage

- A highly leveraged venture can turn a small increase in revenues into a major increase in EBDAT
 - For example, a firm can choose to pay higher up-front fixed costs to gain lower variable costs
 - Each additional unit of revenue will result in a higher EBDAT once FC are covered, because VC per unit is lower
 - Higher contribution margin



- With greater leverage, the contribution margin is higher and therefore the return (EBDAT) is higher *above* breakeven
 - 40% contributes from every sale to cover fixed costs vs 35%
- But, breakeven is higher and therefore you have to sell more to reach it – the risk of not meeting it is greater...
- Principle 2 of entrepreneurial finance:
 - Risk and expected reward go hand in hand

Cash Budgeting

Beginning Cash Balance

+ Receipts*

Total Cash Available

- Disbursements *

Cash Excess / (Deficiency)

Minimum Cash Balance Desired

Borrowing Req'd / Surplus or Repayment

Ending Cash Balance

*Worksheet based on historical measures of amounts and timing of cash flows / what is typical in industry

Example

- *you need to prepare a cash budget for the months of June, July and August*
- *minimum cash balance requirement = \$6,000*
- *beginning cash balance in June = min. cash balance*
- *assume that sales are forecasted at \$10,000, \$20,000, \$30,000, \$15,000, \$25,000, and \$20,000 from April to September respectively*
- *assume also that you expect to collect 30% in month of sale, 60% in month following sale, and 10% in the 2nd month after sale*
- *assume that purchases are 75% of the next month's sales*
- *assume also that you pay for 20% of purchases in the month of purchase, and 80% in the month following*

Cash Budget Outcomes

- Keys:
 - 3 possibilities (besides excess = balance req'd)
 - 1. Deficiency
 - » borrow for deficiency + minimum
 - 2. Excess > Minimum
 - » surplus available to repay borrowing
 - » if do...
 - » if don't...
 - 3. Excess < Minimum
 - » borrow to = minimum req'd

----- **Reading Week** -----

Midterm

- text and readings in m/c
- lecture material in short answer and problems
- material assessed already will not be examined

topics:

- business planning
- made to sick

- GEL business model canvas (not on midterm)
- DISC and EQi (overall concepts)
- Art of the Pitch (not on it)
- Business writing (m/c)
- Critical thinking
- Marketing
- Finance (up to reading week)

SI session

1. One of the functions of distribution channels is the flow of good. This includes sorting. Sorting includes:
 - Allocating, sorting, and accumulating (breaking similar products into smaller parts)
2. The three primary functions of distribution channels are:
 - reduce the number of transactions, ease the flow of goods, and perform needed functions
3. An internal and external info search is characteristic of:
 - Extensive Decision Making

Limited decision-making

Routine response behaviour

Unsought goods

4. A market has a very large purchase volume, and fewer customers who are geographically concentrated. This is likely an example of consumer market
 - False. It is **business-to-business market**
5. The following is the ratio of benefits to sacrifices necessary to obtain those benefits: **Consumer value**
6. Using a balance sheet, how can a company that is profitable go bankrupt:
 - money that people owe you
 - a lot of expenses, accounts payable
 - advertising (depreciating value)
 - *depreciation has nothing to do with cash flow
7. Your product sells for \$20 each. It costs your company \$5000 annually to build this product and \$15 in variable costs per unit. In 2011 your product earned \$50000 in revenue. Determine the following calculations and their impact on your investors.
 - Contribution Margin = Price per unit – Variable Cost
 - = \$20 - \$15
 - = \$5
 - Contribution prate = (price per unit - variable cost) / price per unit
 - = (\$20 - \$15) / \$20
 - = .25
 - Breakeven Graph (phone)

- What is the survival revenue?
= fixed cost/contribution rate

Prepare a cash budget for the months of June and July based on the transactions below (phone)
Worksheet

Which types of financing are used in the venture financing stage of the business life cycle?

- **Development stage** → seed financing
- **Start-up stage** → business angels, venture capitalists (people who invest)
- **Survival stage** → loans from government, use own money (from your company), commercial banks
- **Rapid growth stage** → stock market, banks, secondary financing on your own business

Identify and explain the 6 principles of stickiness. Be sure to give an example.
SUCCESS model

Define a target market and explain process in identifying one

Explain the concept of positioning and two approaches towards it

- consumer approach
- competitive approach – show customers on how you're different, why your product is unique compared to other companies

Explain 4 types of product classification and explain a strategic implication for each

Explain branding and total product concept

Identify and explain the 5 drivers of Brand Insistence

- Awareness
- Accessibility
- Value
- Relevant differentiation
- Emotional Connection

Explain the 3 approaches to pricing

- cost based approach
- competitive based approach – compare price with competitors
- consumer based approach – high value means higher price

Define IMC and explain 4 elements of the promotional mix that can be integrated under this concept

What are the effects of integrating personal selling and advertising? Additionally, what are factors to consider in budgetary decisions for personal selling.

Effects of combining advertising and personal selling:

1. Reach the inaccessible
2. Maintain image in buyers mind
3. Generate leads
4. Decrease costs

If you use the following distribution channel what price do you charge to the wholesaler?

Manufacturer margin: \$3 → Wholesaler sell for \$20 → Retailer margin \$5 → customer \$25

If a company pursues an IMC that costs \$25,000 and the mediums reach 3,000,000 of which 75% are apart of the target market. What is the CPM?

$25000 / (75\% \text{ of } 3 \text{ million}) * 1000$

Which of the following is an example of price skimming and price penetration (textbook)

Match the following situations with the intensity of the distribution

- Exclusive - select of bran clothing sold at Walmart but not internationally
- Selective – a select brand of shoes is sold in all shoe outlets across Canada