

Think and Talk Like a CFO to Win Funding for Your Product

Presented By:

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Welcome!

Think and Talk like CFO to Win Funding

- What ifs?
- How to?



Objectives:

Gain an understanding of what CFOs want to see and hear in order to approve your financing request.

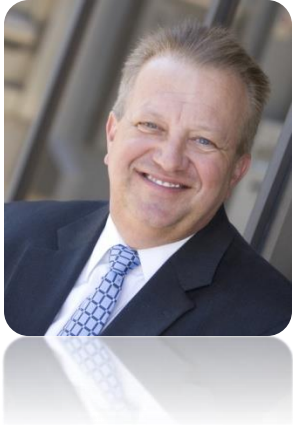


Audience Poll:

Why are you here?

- A. Sole proprietor with idea(s).
- B. Working within an organization and want more “wins.”
- C. Other
- D. A&B

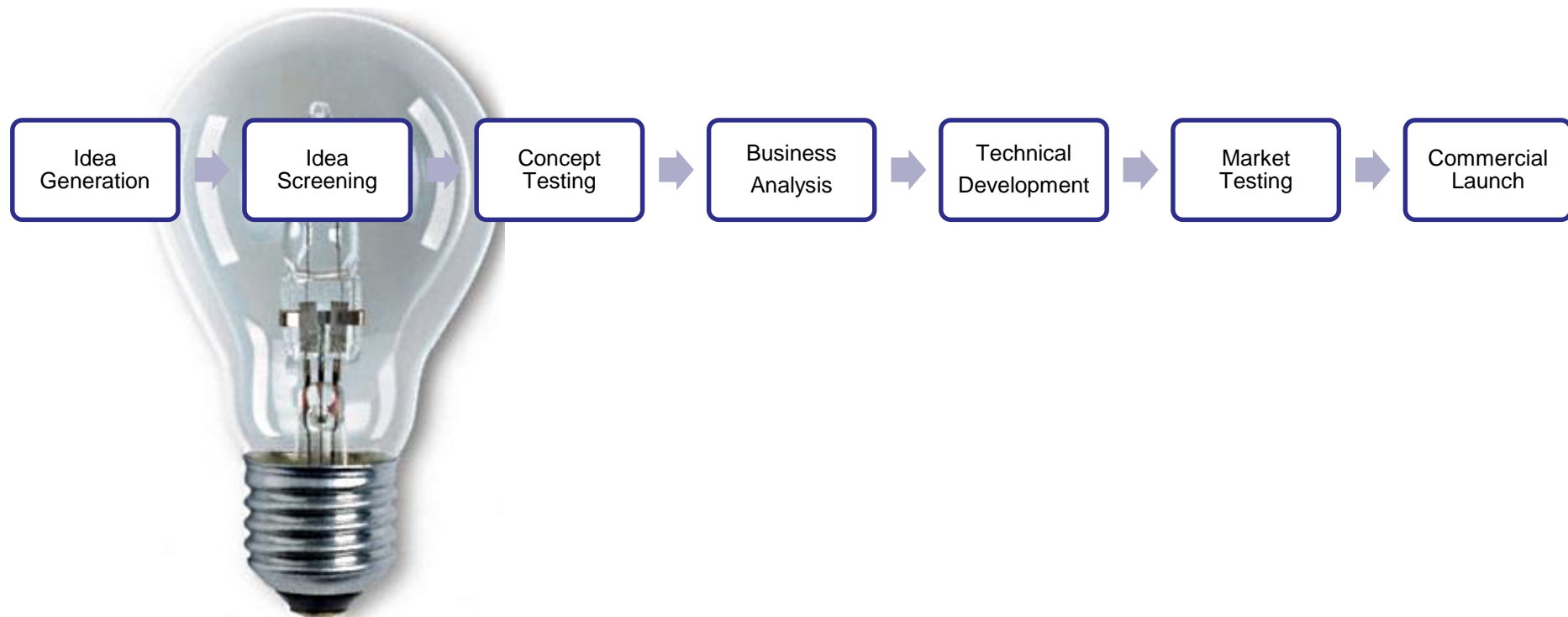
About Your Speaker



- **KPMG** | Middle Market Services
17 years
- **Vi-Jon Laboratories** | COO
5 years
- **CLHC** | CEO
7 years
- **Mueller Prost** | Director of Manufacturing & Distribution
12 years

Overview

Product Development Process



What a CFO or Banker Needs to Know to Support Product Funding

1. One line description of your product
2. Financial model
3. Critical mitigating milestones that will indicate a go or no-go decision
4. Why you are uniquely qualified

Key Information Needed

1. One line description of your product

Example: A powdered product that adds considerable nutrition when mixed with milk.

Concept 1: A snack food for people who, on specific occasions, find that they have insufficient time to consume a full meal.

Concept 2: A food high in energy, protein and minerals capable of effecting rapid recovery in malnourished children as part of a nutrition intervention program.

Concept 3: An easily digested and nutritious food for people whose medical condition prevents them from eating solid foods.

Concept 4: A health food intended for people active in sports.

Concept 5: A food for babies to sustain health and promote rapid growth.

Key Information Needed, cont.

2. Financial Model

Timing of and dollars of:

- a. Development costs
- b. Revenues by market/product
- c. Expenses by market/product
- d. Capital expenditures
- e. Expected returns

Key Information Needed, cont.

2. Financial Model, cont.

This phase typically involves the use of a set of ***pro forma*** **financial statements** showing what future income and expenses would be if a new product idea were fully developed and marketed.

To show the risks, opportunities, cash flows, and payback periods, the following estimates for return on investment (ROI) may be prepared:

- Short-Run (6 months – 1 year)
- Intermediate (1 – 3 years)
- Long-Range (3 – 5 years)

Key Information Needed, cont.

2. Financial Model, cont.

Key issues to be addressed as part of the financial modeling phase in new product development.

Demand for the product rests on.....	Necessity	Weak desire
	●	●
The product's unique ability to satisfy a need is.....	Clearly understood	Vaguely recognised
	●	●
Our product's unique ability to satisfy a need is	Great	Slight
	●	●
The degree to which customers can be attracted by our product's unique features is.....	Great	Slight
	●	●
Competitors can match the unique features of the product with.....	Great Difficulty	Great ease
	●	●
The number of competing products is expected to.....	Decline Difficulty	Grow rapidly
	●	●
Price cutting competitors are expected to be a.....	Minor problem	Major problem
	●	●
The number of customers buying this type of product is.....	Very large	Very small
	●	●
The geographic distribution of customers will be a.....	Marked advantage	Serious disadvantage
	●	●
In relation to customer's annual purchases, this type of product constitute a.....	Large share	Small share
	●	●

Key Information Needed, cont.

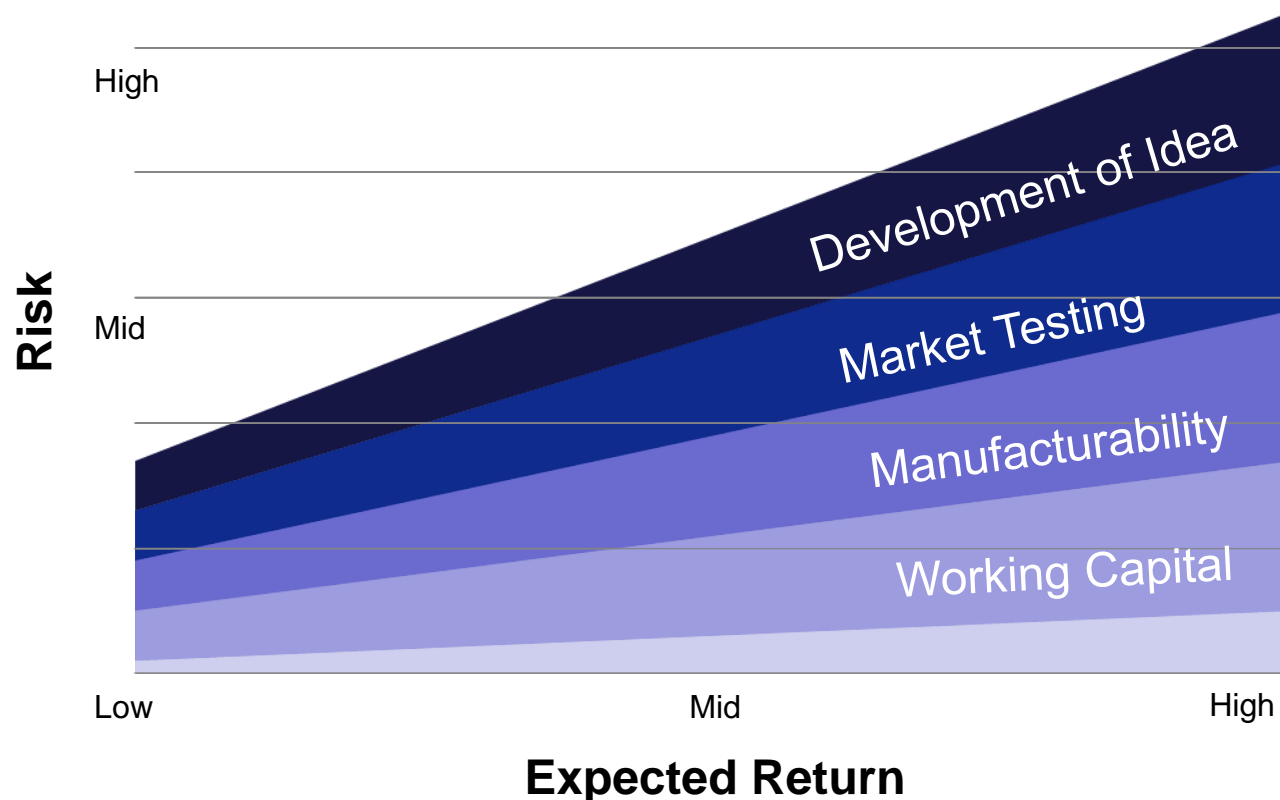
2. Financial Model, cont.

It is absolutely critical the ***pro forma financial statements*** showing what future income and expenses would be if a new product idea were fully developed and marketed ***are believable***.

- No errors.
- Consider good, better, and best.
- Many times don't get second chance.

Key Information Needed, cont.

3. What are your critical mitigating milestones that will indicate a go or no-go decision?



Summary Cash Flow Model Sample

	Year 1				Year 2				Year 3			
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4
Product Design	(130,000)	(130,000)	(130,000)	(130,000)	(10,000)	(10,000)	(10,000)	(10,000)				
Product Testing/Certification			(50,000)									
Tooling				(10,000)								
Production and StartUp				(50,000)								
Marketing and sales				(20,000)	(15,000)	(15,000)	(15,000)	(15,000)	(10,000)	(10,000)	(10,000)	(10,000)
Development cost total	(130,000)	(130,000)	(180,000)	(210,000)	(25,000)	(25,000)	(25,000)	(25,000)	(10,000)	(10,000)	(10,000)	(10,000)
Unit Cost					(550)	(550)	(550)	(550)	(550)	(550)	(550)	(550)
Sales Volume - Units					50	200	300	500	600	900	900	1,000
Cost of Units					(27,500)	(110,000)	(165,000)	(275,000)	(330,000)	(495,000)	(495,000)	(550,000)
Unit Selling Price					1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100
Sales Revenue					55,000	220,000	330,000	550,000	660,000	990,000	990,000	1,100,000
Working Capital												
Accounts Rec. (45 days)					(27,500)	(110,000)	(165,000)	(275,000)	(330,000)	(495,000)	(495,000)	(550,000)
Inventory (90 days)					(27,500)	(110,000)	(165,000)	(275,000)	(330,000)	(495,000)	(495,000)	(550,000)
Accounts Payable (45 days)					13,750	55,000	82,500	137,500	165,000	247,500	247,500	275,000
					(41,250)	(165,000)	(247,500)	(412,500)	(495,000)	(742,500)	(742,500)	(825,000)
Working Capital - Net change					(41,250)	(123,750)	(82,500)	(165,000)	(82,500)	(247,500)	-	(82,500)
Out Flows												
Development Costs	(130,000)	(130,000)	(180,000)	(210,000)	(25,000)	(25,000)	(25,000)	(25,000)	(10,000)	(10,000)	(10,000)	(10,000)
Cost of Units	-	-	-	-	(27,500)	(110,000)	(165,000)	(275,000)	(330,000)	(495,000)	(495,000)	(550,000)
Working capital	-	-	-	-	(41,250)	(123,750)	(82,500)	(165,000)	(82,500)	(247,500)	-	(82,500)
	(130,000)	(130,000)	(180,000)	(210,000)	(93,750)	(258,750)	(272,500)	(465,000)	(422,500)	(752,500)	(505,000)	(642,500)
Inflows												
Sales Revenue	-	-	-	-	55,000	220,000	330,000	550,000	660,000	990,000	990,000	1,100,000
Cash Flow -Qtr	(130,000)	(130,000)	(180,000)	(210,000)	(38,750)	(38,750)	57,500	85,000	237,500	237,500	485,000	457,500
Cumulative Cash Flow	(130,000)	(260,000)	(440,000)	(650,000)	(688,750)	(727,500)	(670,000)	(585,000)	(347,500)	(110,000)	375,000	832,500
NPV												
IRR												
Risk Factor												

Key Information Needed, cont.

4. Why are you uniquely qualified?

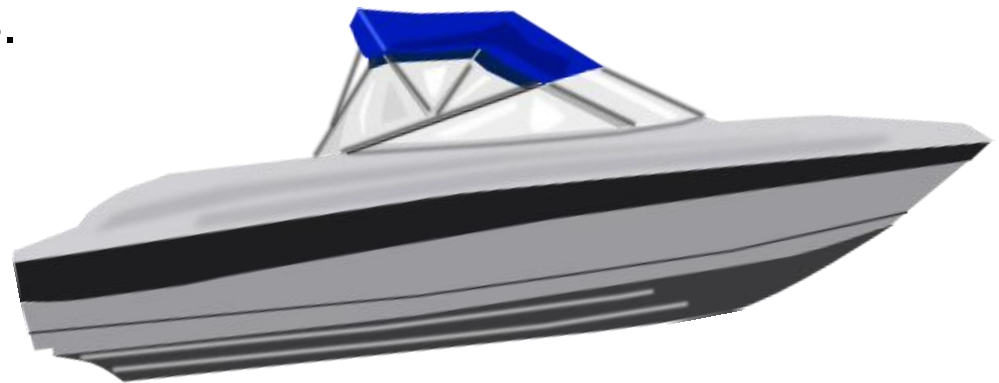
- First-in
- Patent (able)
- Existing distribution channel
- Market is un-tapped
- You are brilliant
- Experienced



CASE STUDIES

CASE STUDY I

- Start-Up Company
- Manufacturer of mid-level inboard/outboard recreational boats of 18' - 36'
- Challenges:
 - Consumer acceptance
 - Design
 - Manufacturability
 - Distribution across U.S.
 - Cost competitiveness
 - Work force experience
 - Market penetration
 - Market cyclicity



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CASE STUDY II

- Existing specialty HBA private label manufacturer
- Develop new product increasingly used by the general population for cleanliness.
- Challenges:
 - Consumer acceptance
 - Packaging size and design (tooling)
 - FDA approval
 - Manufacturing capability
 - Distribution channels
 - Cost competitiveness
 - Work force experience
 - Market penetration/size
 - Existing patents



CASE STUDY II

- Existing specialty HBA private label manufacturer
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CASE STUDY III

- Manufacturer of specialty barbeque charcoal product featuring easy lighting.
- Challenges:
 - Consumer acceptance/awareness
 - Manufacturability/uniqueness
 - Environmental concerns
 - Market dominated by 3 players
 - Distribution channels can be different
 - Seasonality
 - Existing patents
 - Working capital



CASE STUDY III

- Manufacturer of specialty barbeque charcoal product featuring easy lighting.
- Challenges:
 - Consumer acceptance/awareness
 - Manufacturability/unique ness
 - Environmental concerns
 - Market dominated by 3 players
 - Distribution channels can be different
 - Seasonality
 - Existing patents
 - Working capital

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QUESTIONS



APPENDIX: CHECKLIST FOR EVALUATING NEW IDEAS AND VENTURES

CHECKLIST: Technical Evaluation

- ☐ Innovative product, not “me too”
- ☐ Competitive advantages, features, and benefits
- ☐ Barriers to competitive entry (hard to imitate)
- ☐ High quality
- ☐ Third-party test results
- ☐ Ability to deliver a consistent, quality product on time
- ☐ Spin-off, different market applications
- ☐ Environmentally safe
- ☐ No safety/health risks, regulatory control

CHECKLIST: Market Evaluation

- ☐ Competitive advantage
- ☐ Unique Selling Proposition (USP) – differentiate on quality, service, or innovation
- ☐ Market Pull vs. Market Push
- ☐ Solves customer problems
- ☐ Sunrise vs. Sunset market
- ☐ Significant market niche
- ☐ Market plan/strategy
- ☐ Distribution channels available
- ☐ Repeat sales likely
- ☐ Year-round vs. Seasonal demand

CHECKLIST: Market Evaluation, cont'd.

Approaches to differentiation:

- Prestige – Rolex, Mont Blanc
- Quality – Honda, Cadillac
- Top-of-the-Line Image – Ralph Lauren, Cross Pens
- Innovative, technological leadership – 3M Corp.
- Engineering design and performance – Mercedes
- More for your money – McDonald's, Wal-Mart
- Special features – Jenn-air's indoor cooking tops
- Economy – GE's miser light bulbs

CHECKLIST: Economic Evaluation

- ☐ Premium, price possible for quality; Competing on innovation, quality & service – not price
- ☐ Low up-front investment intensity
- ☐ Low overhead
- ☐ High value-added
- ☐ Business plan
- ☐ High productivity
- ☐ Minimum product liability
- ☐ Owners have financial commitment
- ☐ Management paid for performance, not title
- ☐ High Return on Investment (ROI)
- ☐ Realistic financial projections
- ☐ Good margins & profitability
- ☐ Good cash flow

CHECKLIST: Management Evaluation

- ☐ Experienced in industry
- ☐ Entrepreneurial aptitude and attitude
- ☐ Results-oriented, bias for action
- ☐ Business experience and education
- ☐ Visionary leadership – sees “big” picture
- ☐ Business strategy is clear and concise
- ☐ “Team” has experience and depth (production, engineering, finance, marketing, amangement)
- ☐ Experienced consultants and advisors (technical, business, legal, accounting)
- ☐ Outside accountability (board of directors, investors, etc.)

Thank You!

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