

# Developing International Financial Projections

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# Agenda

- Challenges faced by international trade specialists
- Importance of financial projections: approaches and benefits
- Missouri SBDC Financial Projections Tool: functionality and advantages
- Entering data, adaptability and customization
- Developing and validating financial assumptions
- Developing revenue model and projecting expenses
- Presenting financial projections



# Challenges Faced by International Trade Specialists

- New to export companies: critical to show them the potential of international markets in a quantitative manner
- Experienced exporters hesitant to dedicate resources for international market expansion
- A carefully developed budget is critical to show potential returns of investing in overseas markets
- Counseling clients have different needs according to their experience and financial acumen



# Importance of Financial Projections, Purpose and Benefits

- Why and how to develop international financial projections?
- Goal setting, benchmarking, cash flow dynamics are an integral part of business plan for loan application at the domestic level
- Key considerations when entering international markets
- Variable costing vs. full absorption costing (and intermediate option)
- New to export, new to market or strengthening presence in specific market?
- Export price escalation, competitiveness, exchange rates, strategy



# International Pricing Strategies

- Domestic pricing vs. international pricing
- Calculating foreign landed cost
- International price escalation and competitiveness
- Variable costing vs. full absorption costing
- Pricing as a competitive tool

James F. Foley. *The Global Entrepreneur: Taking Your Business International*, 3rd Edition, 2014.

# Foreign Landed Cost Calculation

- Transportation and logistics: ocean or air freight plus domestic and foreign inland shipping (may also include insurance, packaging, broker fees or other logistics related expense)
- Customs: applicable tariffs, customs inspections, and other custom related fees
- Overhead and administrative costs: time and resources relevant to those markets.
- Markup by distributor or retailer plus local taxes
- Develop your own model, add a contingency/buffer and verify/update periodically.
- Some resources:
  - <http://www.exportcompliance.com/landed-cost-calculator.html>
  - <https://en.santandertrade.com/international-shipments/landed-cost-calculator>
  - <https://wwwapps.ups.com/tradeability>

# Cost Implications for Different Export Market Entry Modes

	Indirect	Direct	Direct with FDI	Foreign Manufact.	Licensing	J Venture S Alliance
<b>Allocation to Domestic</b>	→-----Decrease-----→				Depends	Depends
<b>Allocation to Int'l</b>	→-----Increase-----→				Depends	Depends
<b>Fixed Costs of Int'l Oper.</b>	→-----Increase-----→				Lower	Depends
<b>Variable Costs of Int'l Oper.</b>	→-----Decrease-----→				Lower	Depends
<b>Profitability</b>	→-----Increase-----→				Depends	Depends

Adapted from James F. Foley. The Global Entrepreneur: Taking Your Business International, 3rd Edition, 2014.



# What's Involved in Financial Projections

- What is typically included in financial projections.
  - Income statement (P&L)
  - Balance sheet
  - Cash flow statements
- Supplementary information.
- Documentation of assumptions and information sources.
- All must reconcile !!



# SBA Export Business Planner



## Accounting Worksheets: Costing, Financial Forecasting and Product Pricing

<b>I</b> Information	Forecasting Your Sales: First Five Years	Projecting the Cost of Goods Sold	Export Costing
	International Marketing Expenses	Calculating Projected Income	Your Break-Even Analysis
	International Payment Methods	Methods of International Pricing	International Expenses
	Pricing Your Product	Other Pricing Factors to Consider	Setting Terms of Sale

<b>W</b> Worksheets	> Sales Forecasts—First Five Years	> Projected Income—First Five Years in All Markets
	> Cost of Goods Sold—First Five Years	> Setting Your Price
	> Export Costing	
	> Marketing Expense Costs	

<https://www.sba.gov/exportbusinessplanner>

# SBA Export Business Planner

Projected Income—First Five Years in All Markets						
	Year 1	Year 2	Year 3	Year 4	Year 5	TOTAL
<b>Market 1:</b> _____						
<b>Gross Profit</b>						
International Sales Forecast	\$	\$	\$	\$	\$	\$ 0
Cost of Goods Sold	\$	\$	\$	\$	\$	\$ 0
Gross Margin (sales minus cost of goods sold)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>International Operating Expenses</b>						
Accounting	\$	\$	\$	\$	\$	\$ 0
Advertising	\$	\$	\$	\$	\$	\$ 0
Communication Equipment	\$	\$	\$	\$	\$	\$ 0
Insurance	\$	\$	\$	\$	\$	\$ 0
Interest	\$	\$	\$	\$	\$	\$ 0
Legal	\$	\$	\$	\$	\$	\$ 0
Promotional Material	\$	\$	\$	\$	\$	\$ 0
Supplies	\$	\$	\$	\$	\$	\$ 0
Trade Shows	\$	\$	\$	\$	\$	\$ 0
Travel	\$	\$	\$	\$	\$	\$ 0
Other	\$	\$	\$	\$	\$	\$ 0
<b>Total International Operating Expense</b>	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Net projected profit/loss for years 1 through 5 in each market</b>	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>International Division's Domestic Expense Allocation</b>	\$	\$	\$	\$	\$	\$ 0
<b>Net Profit Before Income Taxes</b>	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0



# Overview of the Spreadsheet Tool

- Why a spreadsheet ?
- Functionality and flexibility of Excel and advantages of the template
- SBA Export Planner provides 5 yr worksheets for Sales Forecasts and COGS in multiple markets (3)
- 3 yr Marketing Expense Costs and 5 yr Projected Income for multiple markets (3)
- Export Costing worksheet and Price Calculation Worksheet
- Gaps in the SBA Export Business Planner



# Missouri SBDC International Financial Projections Tool

- Utilizing the functionality and flexibility of Excel
- Advantages of the template:
  - Convenience of minimal data entry, focus on entering the assumptions vs. the dollar figures;
  - Maximum adaptability to different business cases;
  - Integrated worksheet that serves as a hub for user-created sheets



# Adaptability and Customization

- Type of business and stage of development (start-up vs. established)
- Automating calculations and accommodating business specific details
- Expandability (multiple markets, time horizon)
- Linking to integrated standardized master sheet



# Developing Financial Assumptions

- Project cost and uses of funds – international expansion
  - Additional working capital needed to supply those new markets and necessary product modifications
  - Show balance before and after the new international funding is implemented
  - Separate international financial projections become more relevant when overseas markets represent a larger share of revenue
  - Expanding into international markets may or may not require external financing
  - Leverage resources available and design logical entry strategy and progression

# Entering Data

- Entering data as assumptions; “what if” analysis
- Examples:
  - Loan amortization: interest rate, term, start date, original balance;
  - Depreciation: useful life, current age, original cost;
  - Operating capital: days A/R, days A/P, days inventory;
  - Percentages: COGS, payroll tax

64	Long-term Loan 1	70,000	60	7.5%	-57	4,156	2,779	1,394	0	0
65	Long-term Loan 2	80,000	60	7.0%	3	0	0	0	80,000	78,883
66	Long-term Loan 3	0	0	0.0%	0	0	0	0	0	0
67	Other LT Liab					0	0	0	0	0
68	Total Long-term Liab					4,156	2,779	1,394	80,000	78,883



# Revenue Model for International Markets

- Traditional
- Industry specific
- Multiple products
- Specific considerations for international markets:
  - Fiscal: local taxes, government debt/spending, credit rating
  - Monetary: exchange rates
  - Economic outlook: expansion vs recession
  - Political risks
  - Landed price - competitiveness





# Projecting Expenses

- Costs of goods sold and other direct expenses
- Fixed vs. variable and semi-variable (step-wise expenses)
- Key expense categories
- Contingency costs



# Start Time for Projections

- Current time?
- Beginning of calendar year (Jan 1)?
- Beginning of operations (sales) or trade season?
- Expected date of obtaining financing (30-60 days in the future)?
- Other considerations?
- The proposed spreadsheet allows to set the first month (includes both the month of projections and the calendar month)



# Opening Balance

- Setting up the opening balance
- Categorizing start-up and expansion
- Reconciling time gap and assessing balance sheet



# Presenting Financial Projections

- “Elegant” projections
- Sources of information
- Break-even analysis
- Debt-coverage ratio
- Validation of assumptions
- Presenting to bank or upper management



## How Clients Can Get the Most Benefit

- Established accounting and financial system at domestic level
- Market research performed
- Landed price calculation and competitive strategy devised
- Cost assumptions validated
- Market dynamics
- Long term commitment

# Our Contact Information



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