



Developing International Financial

Projections

Day: Friday, March 17th
2:00 p.m.-3:15 p.m.

Time:

Room: Lindell A
Out: VI-A

Break



By:

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Agenda

- **Perspective** – Potential and significance of international trade
- **Challenges** faced by IT counselors and role they play
- **Importance** of financial projections: benefits and what includes.
- **The MO SBTDC Financial Projections Tool**: why is necessary, functionality and advantages
- **Entering data, adaptability and customization**
- **Opening balance**, financial need and start time
- Developing and validating **financial assumptions**
- Developing **revenue model & projecting expenses**
- Editing, analyzing, printing and **presenting**
- How clients can get the most **benefit**
- **Recommendations and conclusions**
- **Questions & evaluations**

Perspective – Potential & Significance of International Trade

- Modest trade growth anticipated for 2014 and 2015 following two year slump. (World Trade Organization)
- Exports and innovation are the two driving forces behind US economic growth. (Brookings Institute)
- Firms engaged in exporting can better deal with economic downturns.
- Overseas 90% of the world's consumers and purchasing power reside outside the US.

Challenges faced by IT counselors and role they play

- New to export companies: critical to show them the potential of int'l markets in a quantitative manner.
- Experiences exporters hesitant to dedicate resources for international market expansion.
- A carefully developed budget is critical as 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 develop budgeting and international financial projections?
- Goal setting, benchmarking, cash flow dynamics and integral part of business plan for loan application at domestic level.
- Key considerations when entering international markets.
- Full costing vs partial costing.
- New to export, new to market or strengthening presence in specific market?
- Interdependence with accounting, marketing, human resources, corporate management and functional areas.
- Export price escalation, competitiveness, exchange rates, strategy.

International Pricing Strategies

- Domestic Pricing vs International Pricing
- Calculating Foreign Landed Cost
- International Price Escalation & 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. Chapter 11.

Foreign Landed Cost Calculation

- **Base Price:** US\$ ExWorks
- **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 & Administrative Costs:** time & 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.

- <http://www.exportcompliance.com/landed-cost-calculator.html>
- <https://en.santandertrade.com/international-shipments/landed-cost-calculator>
- <https://wwwapps.ups.com/tradeability>

- **Dealing with International Price Escalation and Projecting Sales**

Importance of financial projections, what involves?

- 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 !!**

Overview and explanation of spreadsheet tool

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

SBA Export Business Planner

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



Accounting Worksheets: Costing, Financial Forecasting and Product Pricing

I 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

W 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	

SBA Export Business Planner

Projected Income—First Five Years in All Markets

	Year 1	Year 2	Year 3	Year 4	Year 5	TOTAL
Market 1: _____						
Gross Profit						
International Sales Forecast	\$	\$	\$	\$	\$	\$ 0
Cost of Goods Sold	\$	\$	\$	\$	\$	\$ 0
Gross Margin (sales minus cost of goods sold)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
International Operating Expenses						
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
Total International Operating Expense	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Net projected profit/loss for years 1 through 5 in each market	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
International Division's Domestic Expense Allocation	\$	\$	\$	\$	\$	\$ 0
Net Profit Before Income Taxes	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

The MO SBTDC 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

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

40	Accounts Receivable	0	19,000	24,000	29,500
41	Days A/R		15	15	15
42	Inventory	0	68,400	86,400	106,200
43	Days Inv		90	90	90

Adaptability - Customization

- Type of business type & stage in the growth cycle.
- Automating and accommodating details.
- Expandability.
- Linking to integrated standardized sheet.

Opening Balance

- Setting opening balance.
- Categorizing start-up costs for beginning businesses.
- Reconciling time gap and assessing balance sheet for existing business.

Showing Financial Need

- How cash position is affected by additional financing.
- Working capital needs.
- Sufficient lowest projected cash balance?

Start time

- 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)

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.

Developing Revenue Model

- Revenue model for international markets.
 - Traditional
 - Industry specific
 - Multiple products
 - Mathematical
 - Specific considerations for International markets
 - Fiscal: local taxes, gov't debt/spending, credit rating
 - Monetary: exchange rates
 - Economic outlook: expansion vs recession
 - Political risks
 - Landed price - competitiveness

Projecting Expenses

- COGS
- Fixed vs Variable and Stepwise Expenses
- Key Expense Categories
- Contingency

Editing, Analyzing, Printing and Presenting

- Materiality principle
- Break-even analysis
- Debt-coverage ratio
- “Elegant projections”
- Sources of information
- 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 & competitive strategy devised
- Cost assumptions validated
- Market dynamics
- Long term commitment

Any Questions??

Please, complete the evaluations.

Thank you!!



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