

Course title: Creating Innovative Business Models

Lecture 4. Financial Strategy

PhD. Kamoliddin Klichov

Financial Strategy

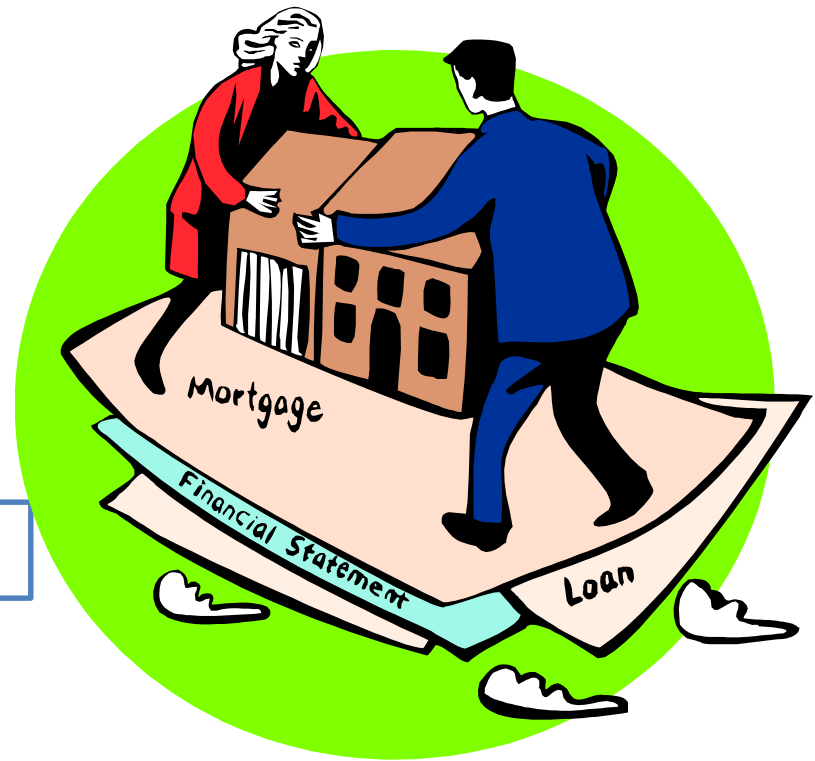
Used to “capitalize”
the venture

- Finance

- $A = L + OE$

- How much Owners Equity?

- How much Debt?



Financial Strategy answers these ?

● How much will it cost to startup?

● How much will it cost to run the venture?

● Short term cash needs when revenue low

● Revenue and Expenses- operations

● Capital (for fixed assets and business expansion), how much and when.

● Sources of capital

● Investors – equity

● Loans - debt

Financial Strategy - Components



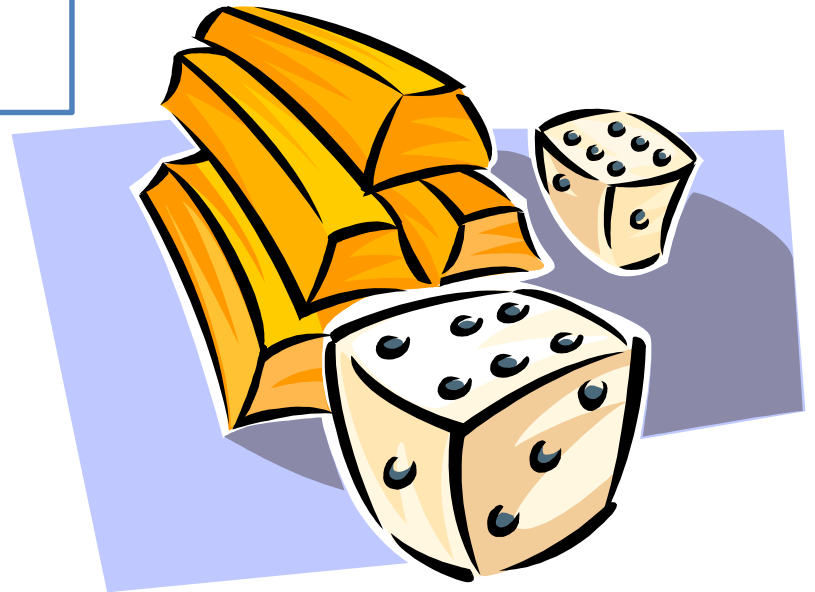
- Sales forecasts
- Selling costs
- Gross profit
- Admin. Costs
- Pre-tax profit
- Balance sheet
- Working Capital
- Return on Investment
- Repayment proposal
- Collateral

Financial Strategy

- Provide specific details about when and how much money is needed

- Provide HI-MID-LO estimates of future performance

- For sales, profits and loan repayments



Financial Planning Process

1. Establish
Financial
Objectives

2. Prepare a
Personal Budget

3. Estimate Revenue
& Expenses

4. Prepare a cash flow
projection

5. Calculate startup costs
and operating expenses

6. Prepare a personal
balance sheet

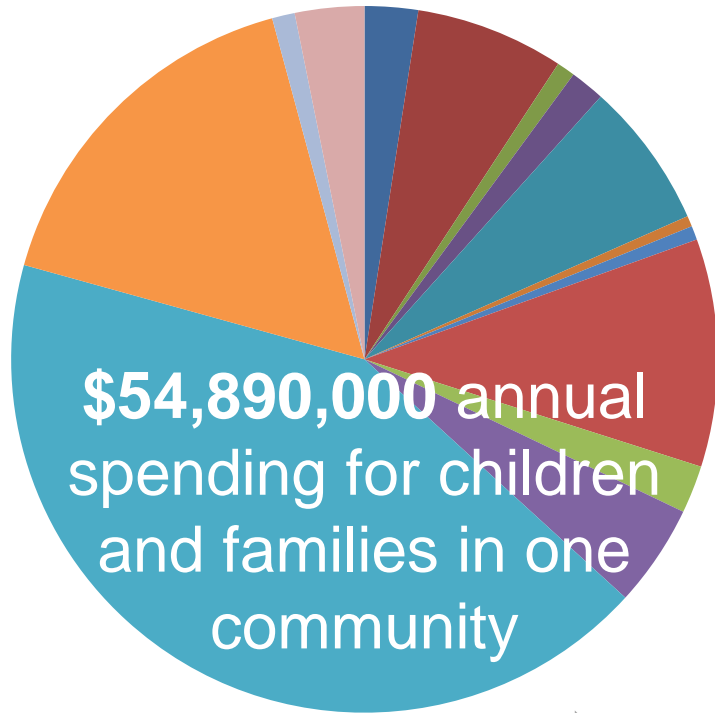
7. Prepare income
forecasts and projected
balance sheets

Objectives for Session 2

As a result of this session, you will be able to:

- Explain the strategic financing process and aims
- Identify common goals of the participating public systems and the focus neighborhoods
- Structure your community board, set up work groups and agree on communications protocols
- Build relationships and work together, launching the work of the community board
- Finalize your vision statement

How Do You Invest Smarter for Greater Returns?



Redirect 1% to tested, effective programs

Program	Total Investment (per year)
Incredible Years BASIC	\$127,386
Promoting Alternative Thinking Strategies	\$50,773 (for 3 years)
Life Skills Training	\$14,280
Functional Family Therapy (FFT)	\$287,100
Nurse Family Partnership (NFP)	\$103,631 (for 2 years)
Total shift in spending	\$583,170

How does Evidence2Success Help You Invest Smarter?

Evidence2Success Works at Two Levels:

1. Supports development of **collaborative strategic financing plan** — scale and sustain selected programs and related infrastructure
 2. Builds capacity of public systems to be **data-driven in their investments** (assess needs, prioritize outcomes, select interventions based on research, measure effectiveness) — scale reliance on tested, effective programs and prevention
-

Who Is Involved in the Strategic Financing Work?

- A local **Finance Lead** who will manage the development of strategic finance plan, train and support the **Public System Finance Leads**
- The Community Board's **Finance Workgroup** will work to develop the financing plan
- The **Community Board** will review and approve a Finance Plan
- Evidence2Success provides coaching and finance technical assistance to the local **Finance Lead**

Developing a Strategic Financing Plan

What are your financing goals?



What financial resources do you need?



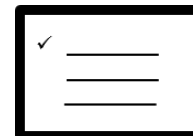
What resources do you have?



What financing strategies will you implement?



How will you implement financing strategies?



Developing a Strategic Financing Plan

What are your
financing goals?



- Survey data
- Stakeholder decision-making process to agree on shared priorities
 - Outcomes, risk and protective factors
 - Tested, effective programs
- Identification of infrastructure needed to support priority programs

Developing a Strategic Financing Plan

What financial resources do you need?



- Project three-year scale targets for programs and infrastructure
- Develop three-year cost estimates for programs and infrastructure

Developing a Strategic Financing Plan

What resources do you have?



- Map key investments in families and children
- Review analyses of spending:
 - How much is spent on each outcome area?
 - How much is spent on prevention? Remediation?
 - How much is spent on particular program areas?
 - How much is spent on programs with strong evidence that they work?

Developing a Strategic Financing Plan

What financing strategies will you implement?



- Finance Workgroup reviews:
 - range of potential financing strategies;
 - fund-mapping analysis;
- Discusses financing opportunities
- Recommends short- and long-term strategies
- Community Board reviews and adopts strategies

Developing a Strategic Financing Plan

What financing strategies will you implement?



Key Financing Strategies to Consider:

- Improving the use of existing public funds
- Allocating state or local general funds
- Maximizing federal funds
- Developing public-private partnerships
- Structuring social impact bonds and debt financing
- Generating new revenue

Developing a Strategic Financing Plan

How will you
implement
financing
strategies?



A rectangular box with a thick black border. Inside the box, on the left side, is a small checkmark. To the right of the checkmark are three horizontal lines stacked vertically, representing a list or a set of items to be checked off.

- Develop work plan
- Continue to convene Finance Workgroup to implement, monitor and update plan

Upcoming Steps in Strategic Financing



Developing a Strategic Financing Plan

1. What are your financing goals?

- Stakeholders identify priority programs and needed infrastructure.

2. What financial resources do you need?

- Finance Lead and Workgroup develop cost estimates.

3. What resources do you have?

- Finance Lead oversees fund map and reviews analysis with Finance Workgroup.

4. What financing strategies will you implement?

- Finance Workgroup identifies financing strategies and Community Board adopts the plan.

5. How will you implement financing strategies?

- Finance Workgroup develops work plan.

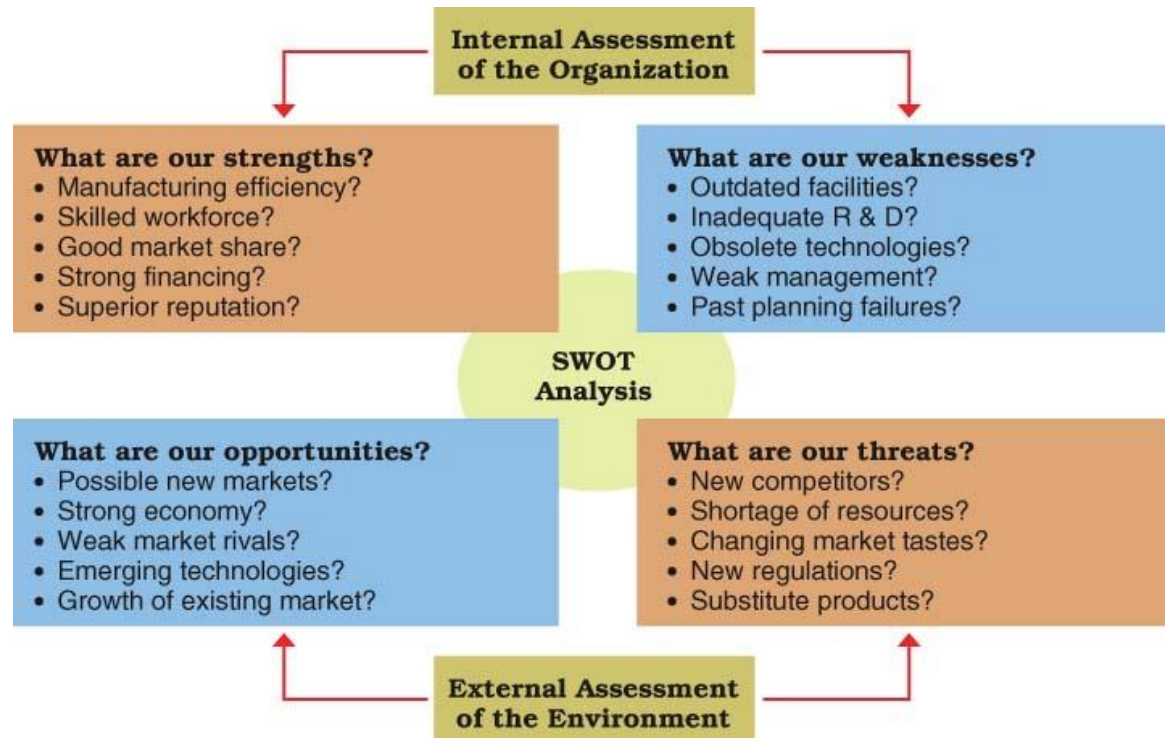
Environmental analysis

- Process of examining the organization's environment to determine:
 - Strengths
 - Weaknesses
 - Opportunities
 - Threats

STRATEGY FORMULATION

SWOT

- SWOT Analysis
 - Identifies Organization's Strengths, Weaknesses, Opportunities, and Threats
- Core Competency
 - A special strength that gives an organization a competitive advantage



Environmental structure

- General environment
 - Social, economic, political, legal, technical
- Operating environment
 - International, supplier, labor, competition, customer
- Internal environment
 - Organizational, marketing, financial, personnel, production

Methods of environmental forecasting

- Expert opinion
- Trend extrapolation
- Trend correlation
- Dynamic modeling
- Cross-impact analysis
- Multiple scenarios
- Demand/hazard forecasting

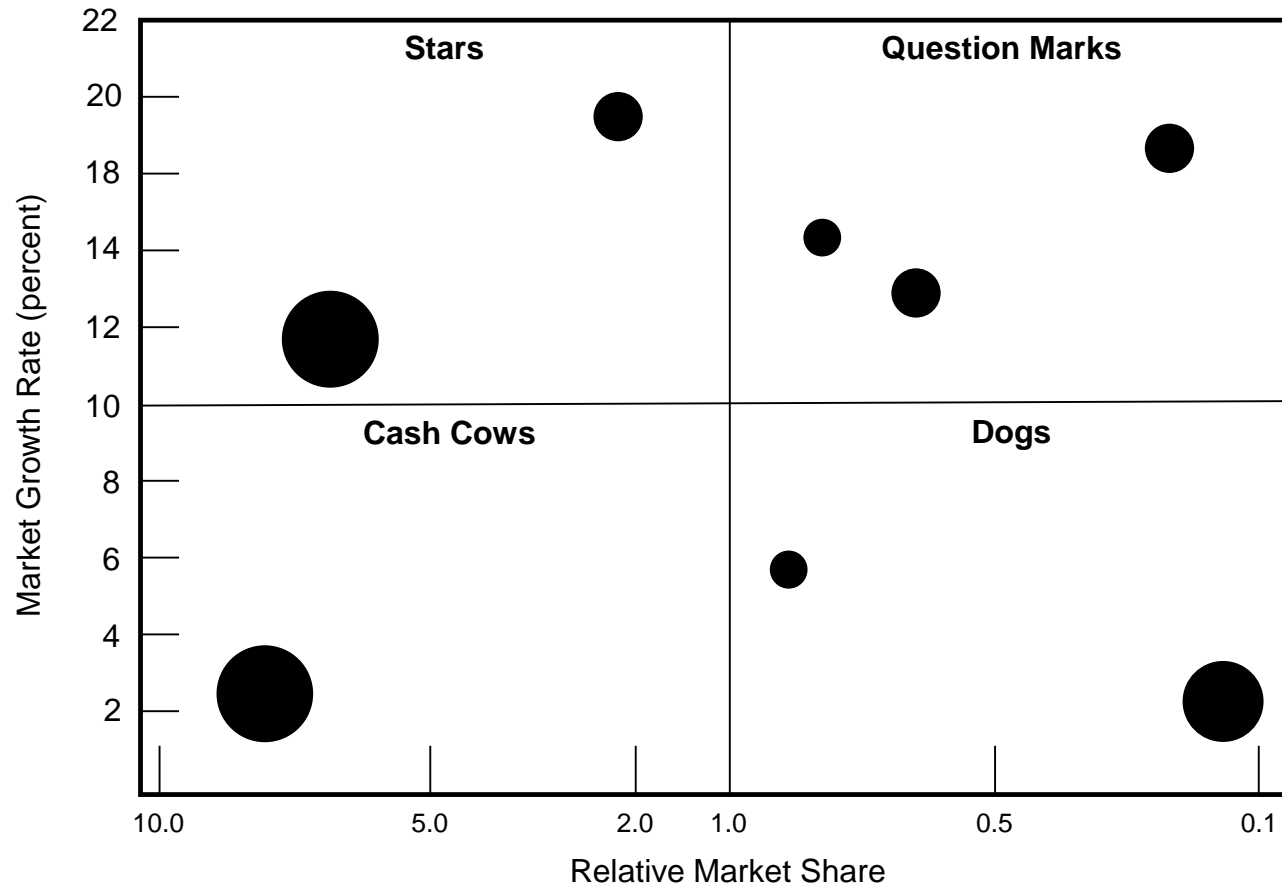
Establish organizational direction

- Establishing an organizational direction for the company involves determining two indicators:
 - Organizational mission – the reason why the organization exists
 - Objectives – measurable targets to track the growth of the business

Strategy formulation

- What are the purpose(s) and objective(s) of the organization?
- Where is the organization presently going?
- What critical environmental factors does the organization currently face?
- What can be done to achieve organizational objectives more effectively in the future?

Growth-share matrix



Formulating business strategies

- Structural analysis of competitive forces
 - Threat of new entrants
 - Bargaining power of suppliers
 - Bargaining power of buyers
 - Threat of substitute products
 - Rivalry among existing competitors
 - Strategic alternatives

Formulating functional strategies

- Operations strategy
- Financial strategy
- Marketing strategy
- Human resource strategy

Strategy implementation

- Commander approach
- Organizational change approach
- Collaborative approach
- Cultural approach

Commander approach

- Manager determines “best” strategy
- Manager uses power to see strategy implemented
- Three conditions must be met
 - Manager must have power
 - Accurate and timely information is available
 - No personal biases should be present

Commander approach

- Limitations
 - Can reduce employee motivation and innovation
- Advantages
 - Managers focus on strategy formulation
 - Works well for younger managers
 - Focuses on objective rather than subjective

Organizational change approach

- Focuses on the organization
- Behavioral tools are used
- Includes focusing on the organization's staffing and structure
- Often more effective than Commander
- Used to implement difficult strategies

Organizational change approach

- Limitations
 - Managers don't stay informed of changes occurring within the environment
 - Doesn't take politics and personal agendas into account
 - Imposes strategies in a "top-down" format
 - Can backfire in rapidly changing industries

Collaborative approach

- Enlarges the Organizational Change Approach
- Manager is a coordinator
- Management team members provide input
- Group wisdom is the goal

Collaborative approach

- Advantages
 - Increased quality and timeliness of information
 - Improved chances of effective implementation
- Limitations
 - Contributing managers have different points of view and goals
 - Management retains control over the process

Cultural approach

- Includes lower levels of the company
- Breaks down barriers between management and workers
- Everyone has input into the formulation and implementation of strategies
- Works best in high resource firms

Cultural approach

- Advantage
 - More enthusiastic implementation
- Limitations
 - Workers should be informed, intelligent
 - Consumes large amounts of time
 - Strong company identity becomes handicap
 - Can discourage change and innovation

Reference

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