Teach yourself how to build a Business Case for a Social Enterprise

2c. Hands On Modelling

Making Your Business Model Intuitive

Building a business case has three stages: -

Step 1: Build a business model in Excel

Step 2: Use the model to evaluate the project

Step 3: Make decisions

Spend only a few seconds on each page

It may contain errors so always check your own work

and have it audited by a competent person

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This module demonstrates how to make your business model **intuitive**

Spend only a few seconds on each page

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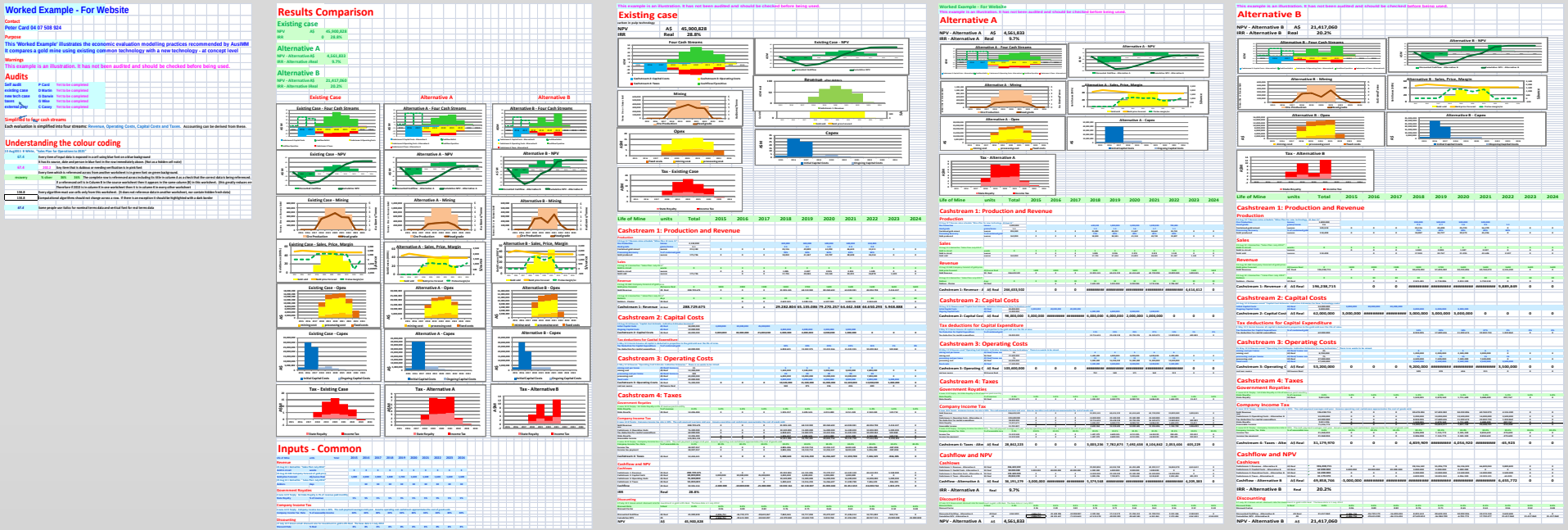
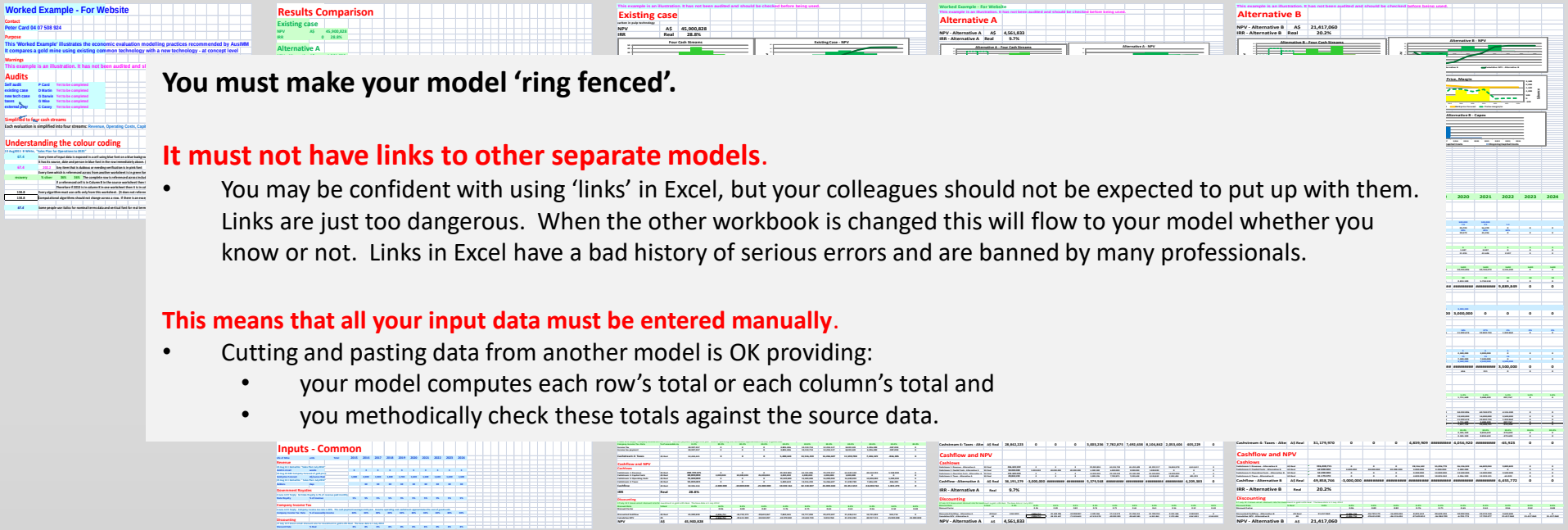
Making your model intuitive #1: Stand Alone



Make it completely self contained!

Anyone receiving your model in an email or memory stick must be able to open it and read through it from beginning to end without needing any supporting documents.

Making your model intuitive #2: No ‘Links’



You must make your model ‘ring fenced’.

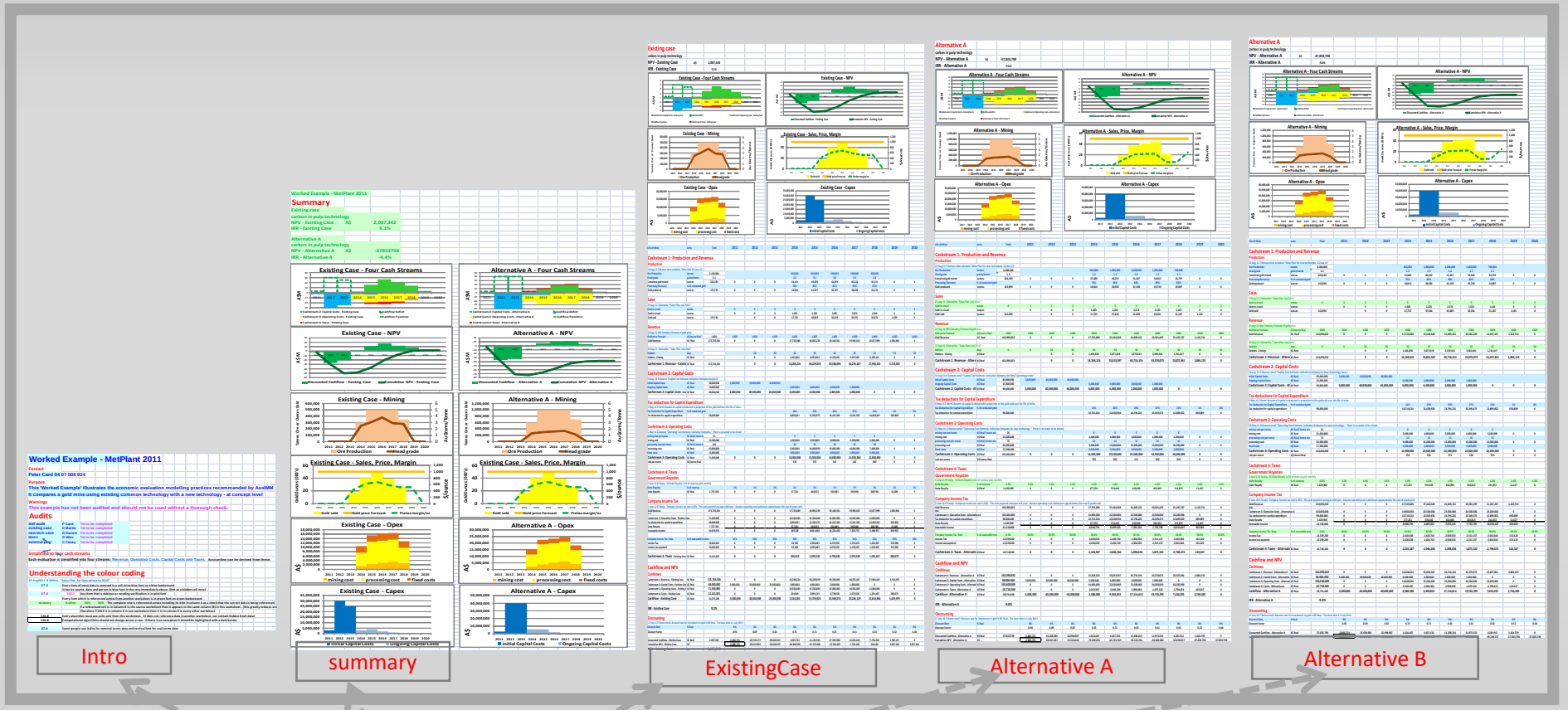
It must not have links to other separate models.

- You may be confident with using ‘links’ in Excel, but your colleagues should not be expected to put up with them. Links are just too dangerous. When the other workbook is changed this will flow to your model whether you know or not. Links in Excel have a bad history of serious errors and are banned by many professionals.

This means that all your input data must be entered manually.

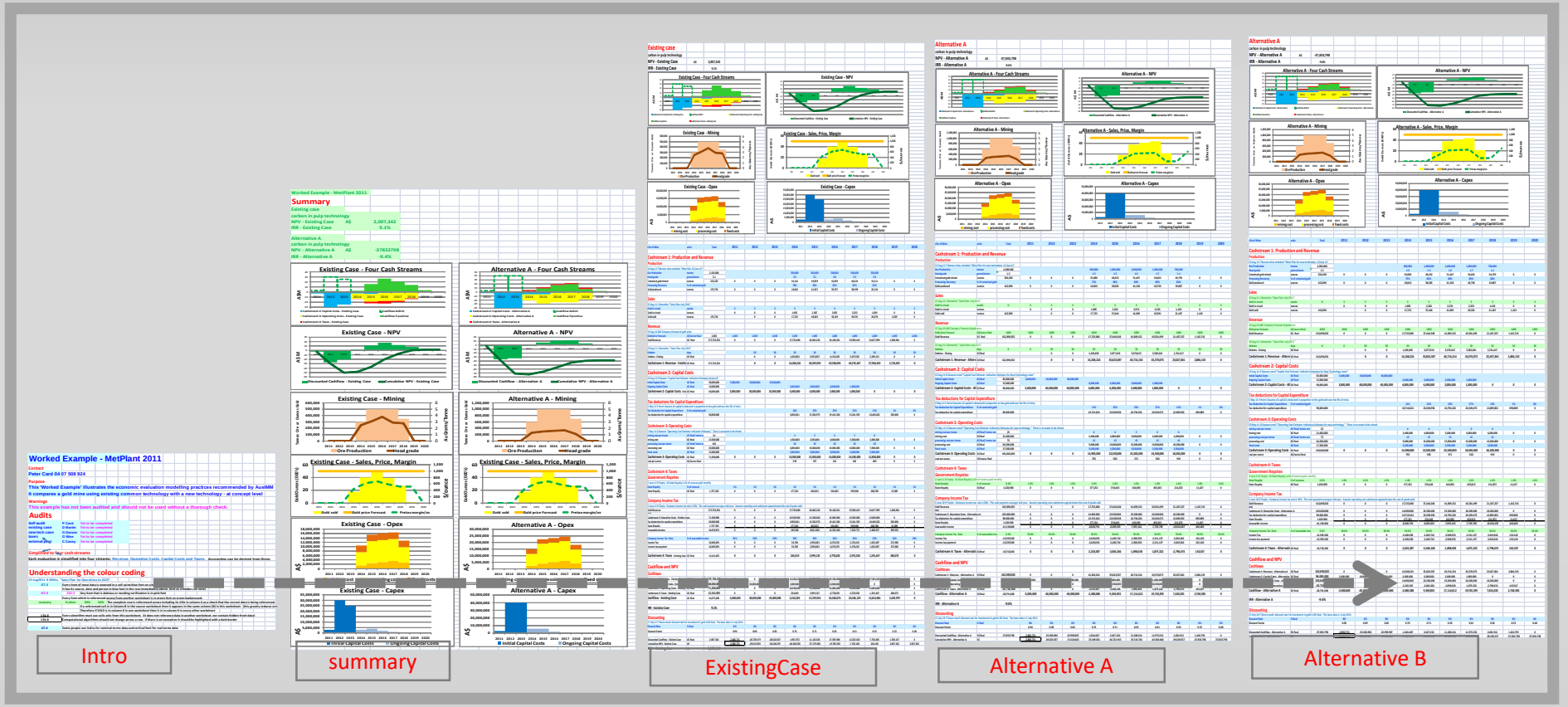
- Cutting and pasting data from another model is OK providing:
  - your model computes each row’s total or each column’s total and
  - you methodically check these totals against the source data.

Making your model intuitive #3: Tabs are named



The tab at the foot of each worksheet is named descriptively

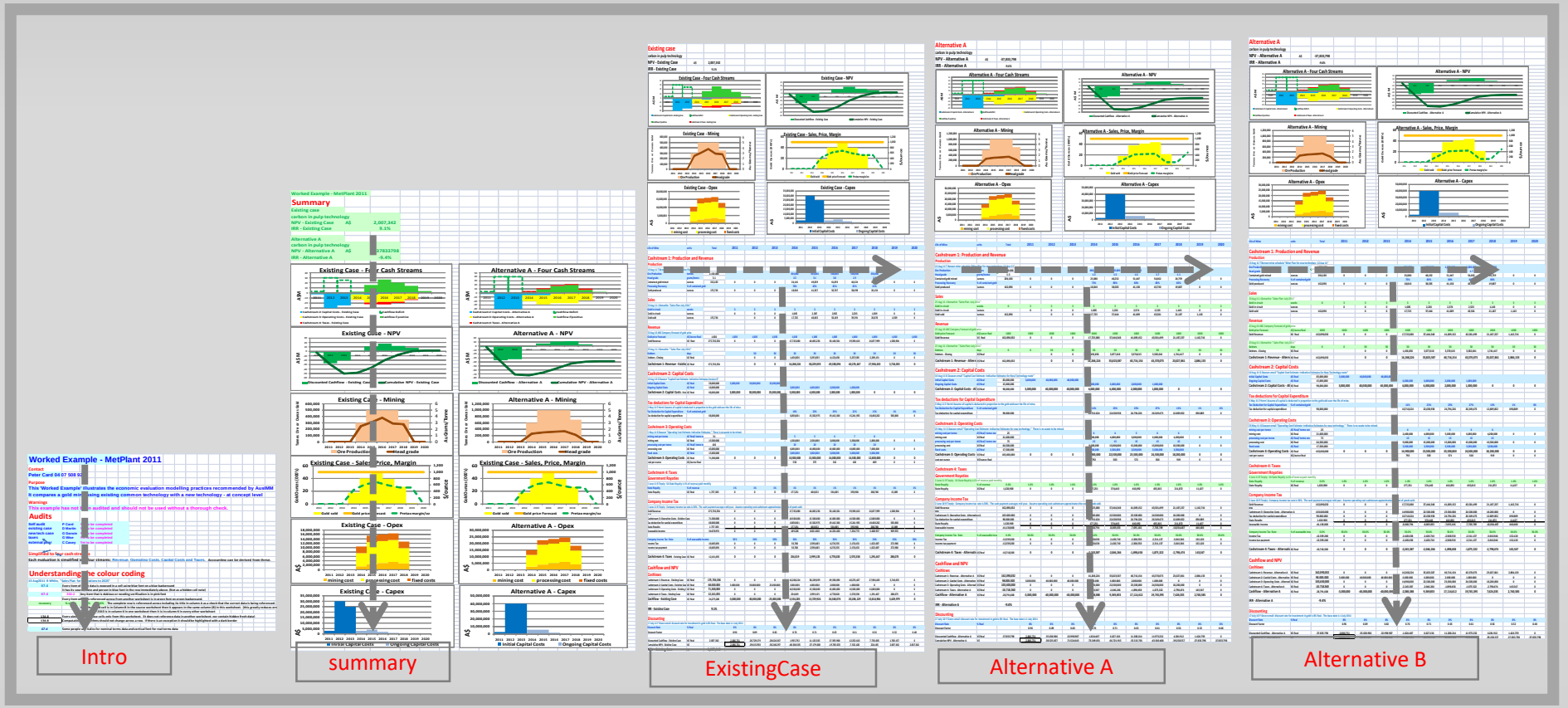
Making your model intuitive #4: Business Model Flow



Inside every business model, the worksheets flows logically from left to right

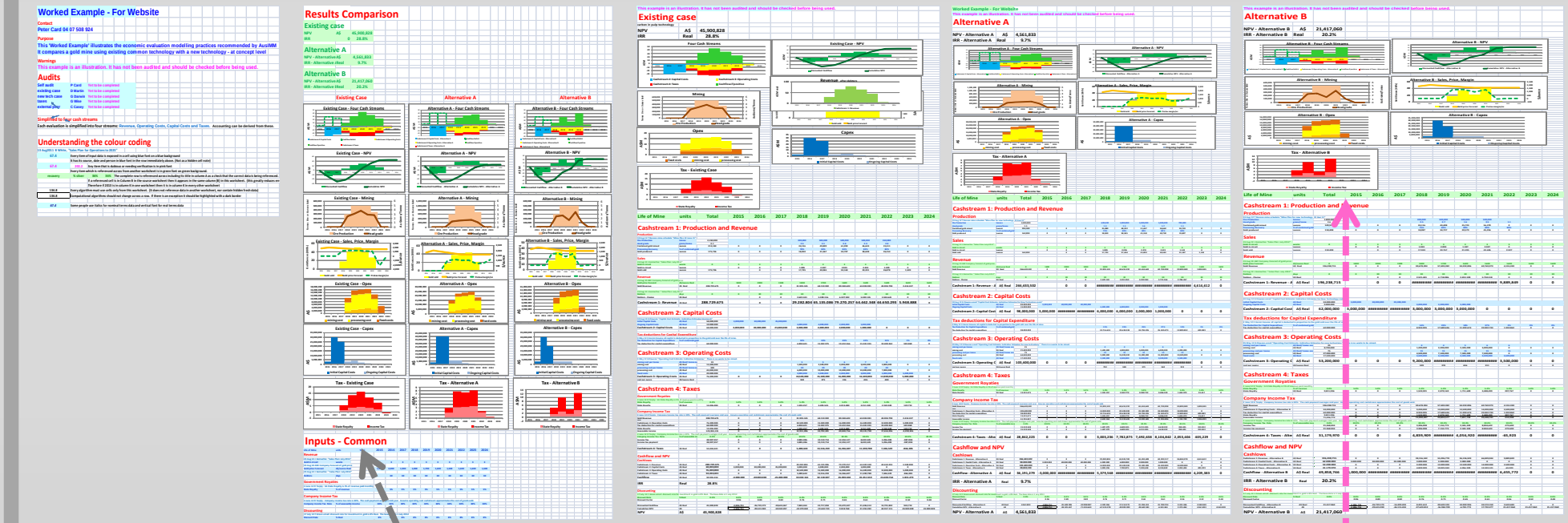
The ‘Intro’ and any ‘Summary’ worksheets are positioned as the first worksheets

Making your model intuitive #5: Worksheet flow



The information inside each worksheet flows intuitively down and across

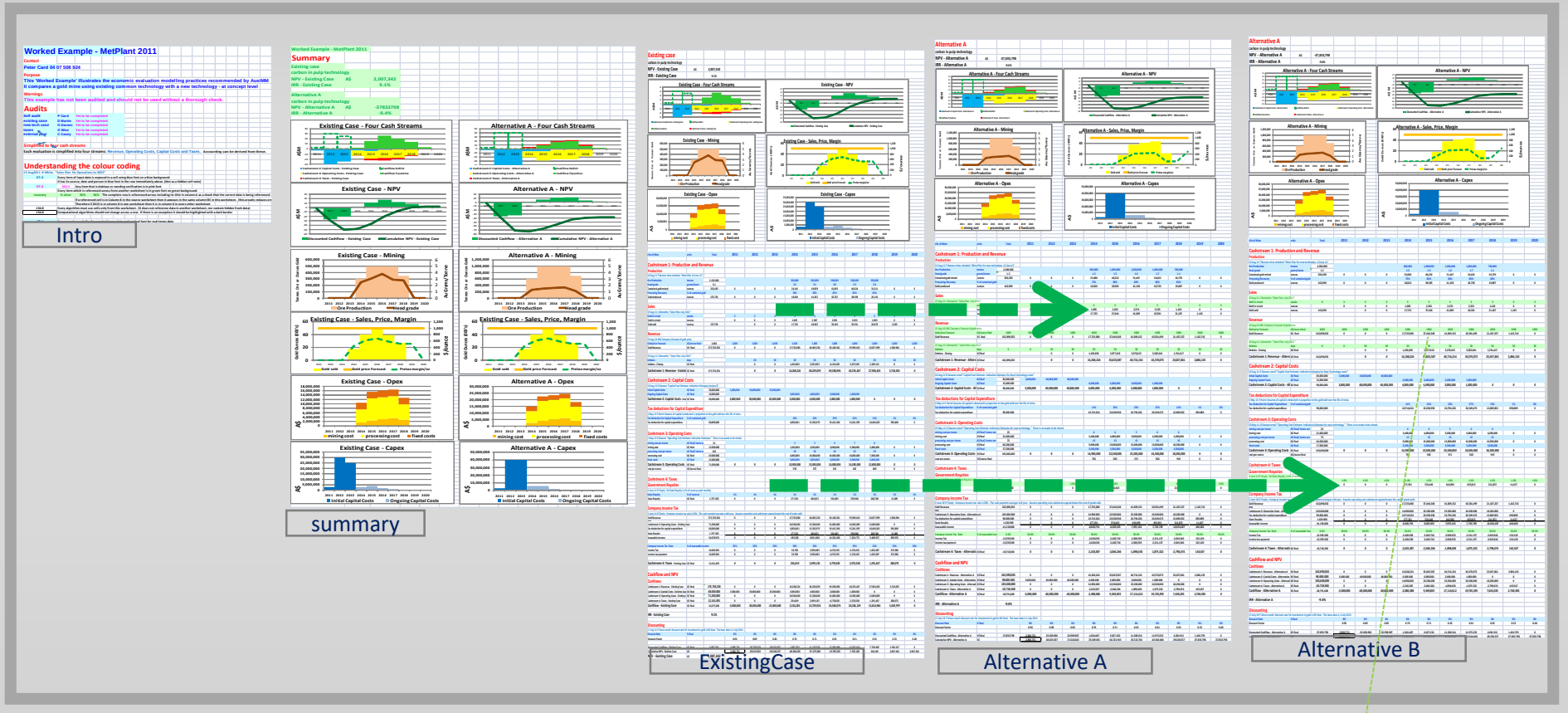
Making your model intuitive #6: Data is inputted only once



Any item of data is entered into the model only once.

Entering it a second time is absolutely forbidden
– this especially applies to naming the years across the columns at the top

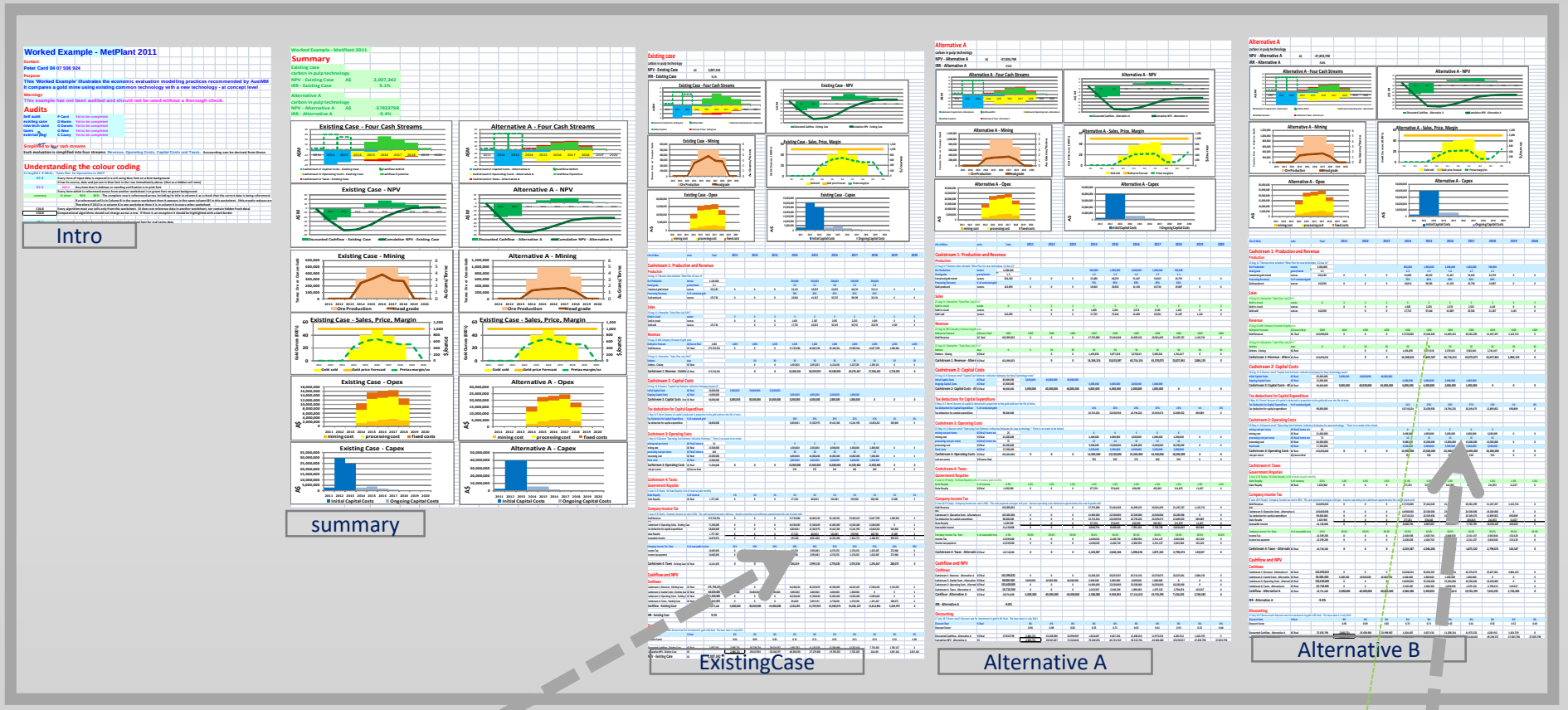
Making your model intuitive #7: **Re-using Data** (‘referencing across’)



If you want to use data that has already been inputted into another worksheet or you have results from another worksheet you want to use, then you must ‘reference’ it across in a very obvious way.

- here the referenced rows are green, so anyone seeing data in green knows it comes from another worksheet
- Importantly the whole row is referenced across – not just selected cells. To avoid errors.
- (But re-using computed data lower down in the same worksheet is not coloured green but is black on white)

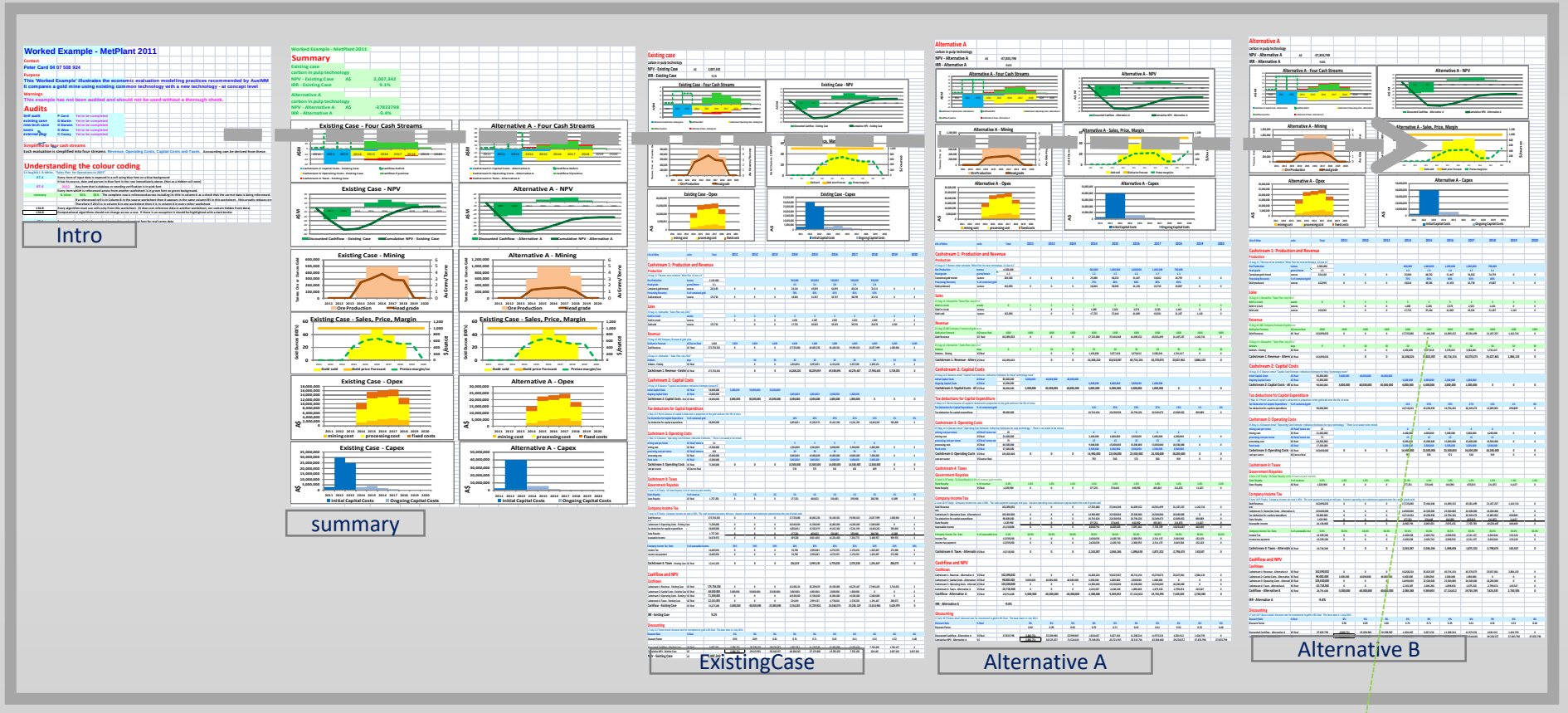
Making your model intuitive #8: Eliminate clutter



Do not add into your model rows of computations "in case they might be needed in the future!"
Add these calculations only when needed.

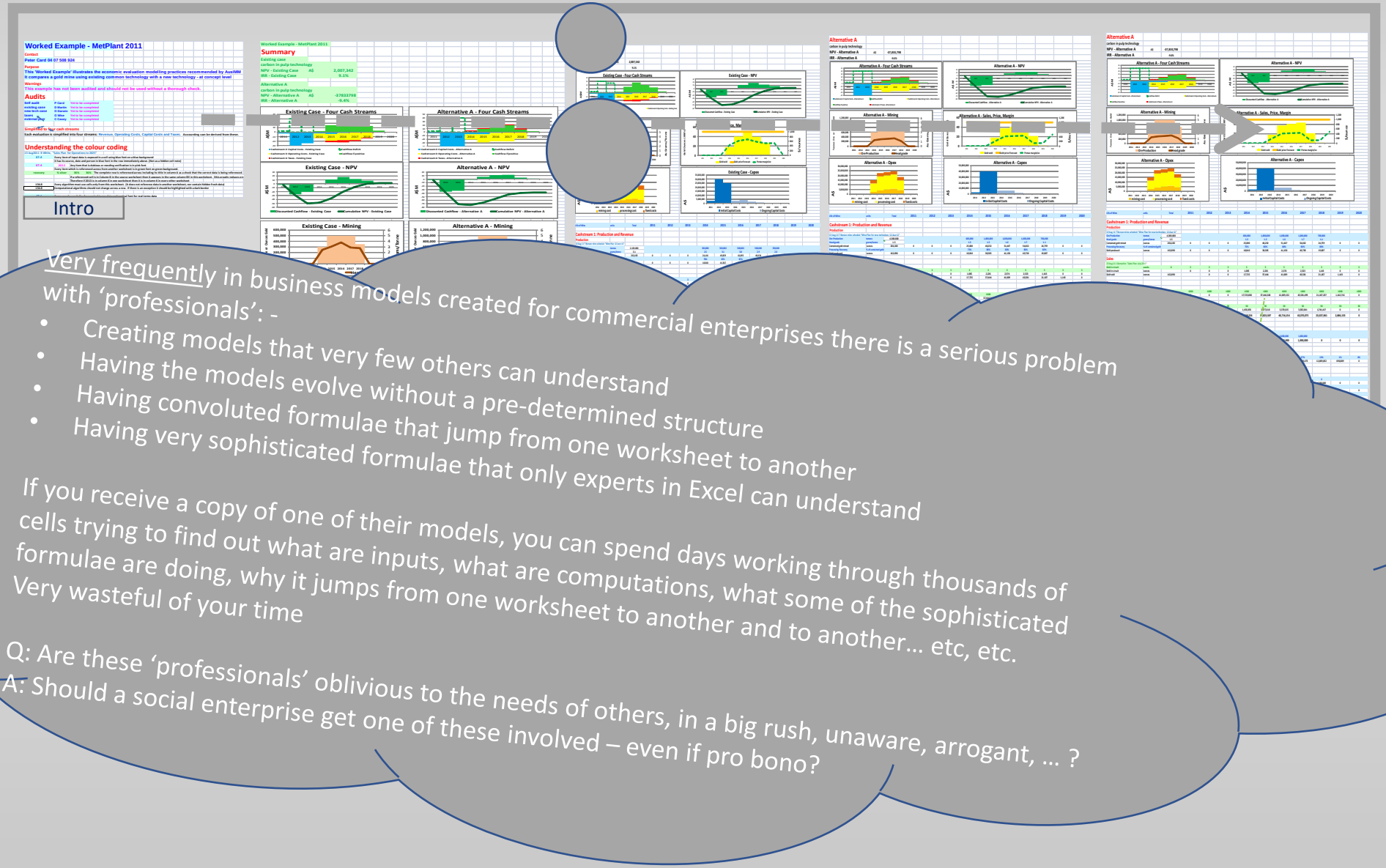
If some rows are no longer being used then delete them!

Making your model intuitive #9: ‘Story Book’



Your whole model may become long, detailed and complex but it always must remain easy for others to read. Information must flow logically down each worksheet and across the whole workbook – just like a story book.

Making your model intuitive #10: ‘Philosophy’



Very frequently in business models created for commercial enterprises there is a serious problem with ‘professionals’: -

- Creating models that very few others can understand
- Having the models evolve without a pre-determined structure
- Having convoluted formulae that jump from one worksheet to another
- Having very sophisticated formulae that only experts in Excel can understand

If you receive a copy of one of their models, you can spend days working through thousands of cells trying to find out what are inputs, what are computations, what some of the sophisticated formulae are doing, why it jumps from one worksheet to another and to another… etc, etc.
Very wasteful of your time

Q: Are these ‘professionals’ oblivious to the needs of others, in a big rush, unaware, arrogant, … ?
A: Should a social enterprise get one of these involved – even if pro bono?

Glossary 1	
Business Model or 'Economic Model'	A forecast of the social enterprise's physical operations, deliveries of benefits, sales, costs, taxes and net cashflow. It usually is over several years and computed in monthly intervals or in years. It gives a 'helicopter view' of the underlying economic health of the enterprise showing how much funding it will require and when it is likely to 'stand on its own legs' to be self-supporting. . (It uses cash rather than accounting concepts.) Funding and ownership can be added when the project looks promising
Project Funding	Getting investors, donors and lenders to provide cash to fund the project
Accounting	An internationally regulated way of assessing or forecasting the performance of the project over a specified period – past or future - given its recent results, past inputs and future liabilities. (Uses non-cash concepts so may be difficult for some non-accounting people to quickly understand.)
Tax	Extracting money from the project as entirely defined by government legislation - and like accounting uses non-cash concepts.
Real terms	Before applying inflation – example $2.50 today and still $2.50 in 5 years (Usually employed in business case modelling.)
Nominal terms or Dollars of the Day	*After applying inflation – example $2.50 today becomes $3.97 in 5 years* (Used in accounting, tax and funding.)

Glossary 2	
Four Cashstreams	The business of any social enterprise (or any industry) can be shown in just four cash streams
Cashstream1: Revenue	The cash that will be received from sales of products and delivery of benefits
Cashstream 2: Capital Costs 'capex'	The cash that will be paid out to start-up the project and when up and running, on purchases of things that will last more than one year – 'sustaining capital' to keep it going
Cashstream 3: Operating Costs 'opex'	The cash that will actually be paid out to run the project and make the sales. Typically some will be 'fixed' or 'overheads' that are constant whether many units or few units are being made/sold and 'variable costs' that vary directly with the number of units made/sold.
Cashstream 4: Taxes	The cash that is paid out to meet the expectations of the governments and community - usually as income tax
Net Cashflow	Cash from revenue minus cash paid out as capital costs, operating costs and taxes.
Cumulative cashflow & payback	The running total of cash paid out/received from the beginning. Usually this becomes increasingly negative during construction and 'ramp up'. It improves when sales revenue exceeds all costs. When it improves back up to zero this is called "Payback". Then hopefully becomes strongly positive.

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