

Assignment Overview

For this assignment, you will be analyzing your business value proposition, product/service lines, addressable market, market environment, and competitive landscape. Based upon this analysis, you will then prepare an initial go-to-market approach. Finally, you will use these analyses to prepare a unit and dollar sales forecast by product line.

There are three primary tasks when trying to plan/forecast what sales are going to be:

- Deeply understand the market, your product/service, and where your product/service fits in the competitive landscape and market environment.
- Based upon the market and your product/service, determine your go-to-market approach.
- Estimate what your future sales will be in the context of the two above analyses.

You should prepare this assignment in the form of a report (with supplementary schedules), with clearly delineated sections that are organized in a manner that tells a story to the reader, yet still allows the reader to easily jump around to whatever topic they want more information about.

Hopefully by now it should be obvious that this report should have at least three major sections (tasks above). For each section you should have subsections of the major minimum requirements, and additional subsections as it is applicable to your particular business.

The key questions we want to answer in this analysis are:

- What is this thing worth to my customer? (set price according to value provided)
- How does my price-value compare to substitute products/services/providers? (value vs competition)
- What is the total size of my "addressable" market? (how many do people buy)
- How am I going to market this? (getting the word out / differentiating vs competition)
- What, therefore, are reasonable assumptions around sales unit volume and price forecasts?

Requirements:

Complete the requirements listed below for each Tier.

The key output of this exercise is a ten-year forecast of sales, in units and dollars, for each of your product/service lines. This is the starting point for any business planning - we need to know what we expect to sell before we can begin to plan the resources necessary to support those sales. But in order to have a defensible sales forecast, we have to use our analyses of the market, our product, and our marketing approach - otherwise it's just pulling numbers out of the air.

Use the following simplifying assumptions and tips:

- Ignore inflation effects in your forecast. This forecast should be prepared in a "real" price viewpoint.
- Unless you have a really good reason that price will change in the future, keep your unit price unchanged.

- Aim for no more than 3-5 product/service lines (having just one is perfectly ok if that's what your business is). If you have a lot of SKUs, group them into related categories and forecast by product/service line. Use an average sell price (ASP) for the product/service line in total and multiply that by units sold forecast.
- Assume that your price will affect your volume only in terms of competitive choice. In other words, you cannot affect total market volume sold through your choice of price. Assume that the price point you set will affect consumer choice in terms of where they choose to buy it (a competitor or you) and/or what they choose to buy (substitute product/services).

Submission requirements

This assignment should be prepared as a **business report** with supporting schedules.

Submit a pdf of your report to the appropriate dropbox on Moodle before the in-class due date/time.

Grading will be based upon:

- Satisfaction of requirements listed below.
- Quality of analysis, discussion, and estimation methods.
- Quality of report organization and layout.
- Proper grammar and spelling; style and flow; sentence construction; concise but complete.
- Editing - good writing is *rewriting*!


Graphics and other visualizations are not an absolute requirement (unless otherwise specified), but your grade will be positively affected by the use of effective visualizations.

Common Requirements for all Tiers

Open your report with a summary (in addition to the three major sections) - this is a justification argument in summary form (concise but complete) of your overall sales forecast and why you think your forecast is reasonable and defensible. When writing the summary, try to anticipate a reader's questions by challenging your own logic and conclusions.

Examples of questions we can ask about sales price/volume:

- Is the price aligned with customer perception of value? What problem does this product/service solve? What satisfaction/benefit does this product/service provide? How does what we ask customers to spend compare with their alternatives?
- Is the price reasonable in the context of what competitors charge for similar products (considering price-value)?
- How does your product/service differ from competitors? Is this difference accounted for in price / volume projections?
- What market share are you projecting? Is this reasonable given your analysis of the addressable market, the market environment, and the competitive landscape? Why is it reasonable?

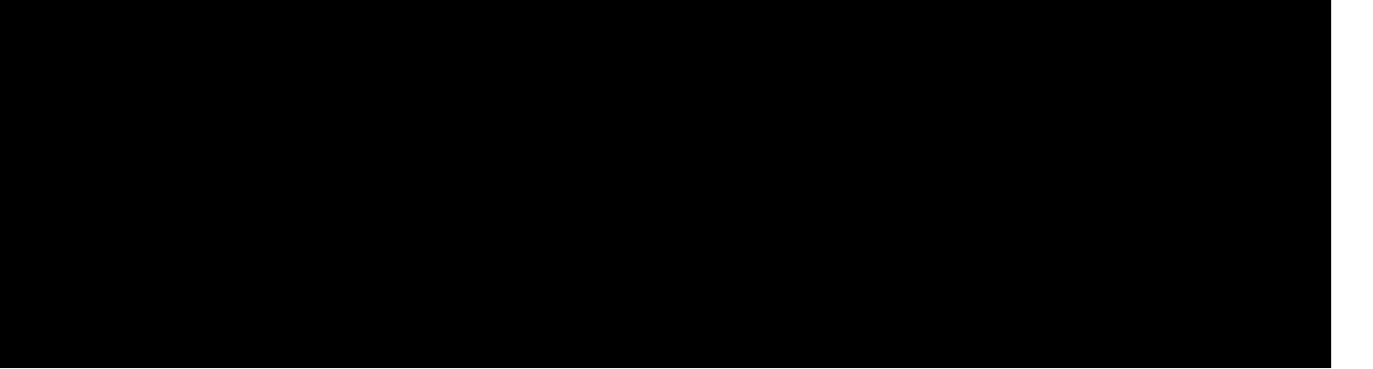


One method that can be used in critical analysis is the so-called "5 whys". Ask a question, then ask another "why" question and get an answer. For that answer, ask another "why" question, and so on for five iterations. This helps us to practice getting below the superficial and digging into the guts of the problem we are analyzing.

Note that although your report begins with this overview, you must write it after you have finished all the requirements below. Organizing the overview using appropriate subsections congruent with your other sections would be a very good idea as it allows the reader to easily zoom in / zoom out as they desire.

The structure of your report should begin with this summary/overview, and then be followed with sections and schedules for the requirements below that are organized congruently with requirements and in an order (flow) that is designed to get the reader to agree with your argument (ie, your forecast). Organize and layout your report (sections and paragraphs) logically to tell your story while still allowing the reader to zoom/jump to a particular component easily.

Tier 1 requirements:

1. Elucidate your view of your business's value proposition(s).
 2. If you have more than one product/service line, explain clearly to the reader what these different lines are and how the value proposition by product/service line may differ.
 3. Describe/analyze the market environment and competitive landscape.
 4. Identify substitutes/complements that may affect your price choice and/or sales projections.
 5. Estimate your addressable market size and share using defensible logic and assumptions. The addressable market and share estimates should be logically consistent with your analysis in item 3.
 6. Prepare a *concise* summary of your go-to-market plan (promotion, placement, brand positioning, etc).
 7. Prepare a ten-year sales forecast. Your schedule should include:
 - solid logical justification of unit price and volume,
 - presentation of annual growth, separating price and volume effects,
 - presentation of CAGR for the ten-year period,
 - estimated market share for each year (for each product line as appropriate),
 - proper formatting for a trend statement.
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Helpful hints / detailed requirements by section

Value Proposition

In your value proposition analysis, provide a clear understanding of what the value is to your customer. What problem does it solve? Why does the customer value it? What other options does your customer have to solve this problem or enjoy value? When you discuss value, see your product/service through the customer's eyes; express the value proposition in the "voice of the customer".

Think about value for different segments:

- B2B (business to business) vs B2C (business to consumer)
- B2B subsegments - are all business customers alike in the dimensions of choice?
- B2C subsegments - are all consumer customers alike in the dimensions of choice?

Businesses generally "value" anything that increases their profits; consumers may "value" products/services for many reasons - entertainment, leisure, satisfaction of necessity, convenience, solving a problem, or how the consumption changes their social status.

Business customers are looking for solutions, productivity improvements, making their lives easier (and their costs lower), or making their products more attractive to their customers. Consumers (B2C) may be looking for a whole host of sources of value, including reasons similar to B2B customers.

There is nothing wrong with having a single value proposition that applies to all segments; there is also nothing wrong about having the basic value proposition granulate to subsegments. Starting with a basic value proposition and then adding/subtracting value dimensions to/from it to more granularly match your subsegments is a perfectly valid approach - it all depends upon your particular market and strategy.

Product/service lines

Product/service lines are heterogeneous groups of products/service that share common properties. For example, in The Mini case, you should have understood that The Mini's primary product lines are: gas, groceries, car wash, and ready-to-go hot food and drink.

Different product lines may require different marketing approaches. In The Mini's case, gas is a commodity - people make their purchase decision based upon price, as gasoline is not differentiated. It doesn't matter who you buy gas from - it's the same wherever you get it, so price is the only dimension of choice. Their hot food is differentiated - it's cheap, pretty darn good for the price, and it's a generous portion.

So The Mini is positioning its food product line differently than its gas product line - because consumer dimensions of choice are different for different product lines, how a business approaches that market may differ by the product line.

It is also true for The Mini that their value proposition is different by product line, AND that (arguably) they have an overarching value proposition (one-stop shopping, not crowded, friendly staff) that applies to ALL product lines. What is really neat about thinking about all this stuff is how The Mini can use the value proposition from one product line (food or their overall value prop) to pull in customers that fill up the tank or get a car wash as long as they are stopping - and those customers might otherwise be indifferent about where they get their car washed and tank filled up.

Sometimes there are value trade-offs: Rocky has a much bigger selection of goods than The Mini does, but it's also a zoo as a result. One must really understand deeply how these factors interplay with the market environment and competitive landscape in order to figure out what market segment you are really going after and how to grab as much of their spending dollars as you can.

Market Environment / Competitive Landscape Analysis

Your competitive landscape analysis should include, at minimum, the following subsections:

- Identification of competitors, qualitative analysis, and quantitative analysis. Give the reader the ability to understand the market enough to compete in it. Give the reader enough information to understand market power, positioning, type (commodity vs value), etc.
- Competitive dimensions - is this a commodity market? Value market? What are the key dimensions of customer choice in your market?
- Identify substitutes - are there products and services that your customer can turn to besides yours? How is your value proposition unique and different? Do you solve an unmet need or do you satisfy an existing need with more value to the customer? What's the outlook for the future?
- Identify complements - are there products and services whose consumption has a positive effect on your sales? What's the outlook for the future? Is expanding into a complementary market a possibility? Would adding a complementary product line affect your promotion/targeting/positioning approach?

Four-square diagrams are excellent tool to help the reader visualize/grasp where a business falls in the competitive landscape and/or the market environment.

Addressable Market Analysis

Your market analysis should include, at minimum, an estimate of total market size (in \$) and estimate of your addressable market (both \$ and discussion of your market share % assumptions), by product line or market segment as appropriate and with appropriate support for your estimates. Make sure your analysis, assumptions, and logic are all consistent with your market environment / competitive landscape analysis.

In your sales schedules, don't forget to forecast how the addressable market will change over ten years! Use defensible market growth rates with appropriate support for your claims. Your year 10 share will be a function of both your sales forecast and what you expect the addressable market to be in year 10.

Go-to-market plan

Provide the reader with a concise understanding of how you plan to approach the market. What promotional efforts will you make? How will you position your brand? What market channels and segments do you plan to attack? This section is part of the justification of your sales forecast; be strategic with your subsection and paragraph organization choices.

Use all of the tools you learned in your marketing classes: think about channels, segments, 4Ps, etc, etc. You may find it useful for this section to take a look at the SparkNotes marketing pdf posted on Moodle.

Sensitivity Analysis

Sensitivity analysis is a technique that establishes "guardrails" around your model results. It is all well and good to use models to generate a point estimate of what will occur, but life is uncertain and things rarely turn out exactly as we plan them to turn out. Sensitivity analysis allows us to understand the range of possible outcomes of our model.

Basic sensitivity analysis typically considers a low/base/hi result distribution, specifically "what is the quantitative result if the worst case scenario occurs?"; "what is the quantitative result if what I expect to happen occurs?"; and, "what is the quantitative result if the best case scenario occurs?". In other words, for this assignment, we are estimating three unique values of gross profit forecast: if things go badly, if things go as expected, and if things go better than expected.

Trend financial statements format

Trend financial statements should be presented with the statement line listed in order horizontally on the left, and a column for each year in the analysis. In the far right column, CAGR should be calculated for at least the major summary lines on the statement (eg, Sales, Gross Profit, Operating Income, etc). Adding calculations to the statements gives the reader quick ways to estimate leverage, common size statement ratios, and B/S working capital metrics for key F/S lines.

The level of detail provided for each major summary line is context-dependent: if your presentation has multiple products or market segments, then there should be a separate line under sales showing each product/segment; if your presentation is operations-focused, breaking out variable costs and fixed costs into separate lines is often indicated. For gross profit, if the detail provided in sales and cost of sales does not sufficiently support the story you are trying to get across, you may need to break out gross profit either by product/segment or by contribution margin and fixed costs (subschedules may also be used instead of breaking out lines in the financial statement itself). Calculate and provide ratios as appropriate.

If you are not sure what "appropriate" or "context-dependent" means, put yourself in the shoes of an investor and/or financial statement reader and ask yourself what you would want to see to help your understanding of the business.

Regarding layout

Getting the layout and format "right" for the financial statements will take some effort. When communicating, think of your audience and your story when designing the communication organization and layout. Think of this report as a written presentation: more formal than a verbal presentation, but still telling a story.

Using subschedules effectively can be very powerful. As you are designing your schedules, step back and evaluate it with a critical eye. Is it easy to read? Easy to see the summary lines? Easy to see various additional metrics? If a statement is too busy use a subschedule either in the appendix or below the main statement.

If you aren't sure what "looks good", go look up some annual reports from public companies. Either the 10K (SEC report) or the company's annual report can help to establish a best practice in your own mind. You can also google examples from across the world. Part of this class is about learning how to figure stuff out on your own. Don't just slam something together and call it good. Evaluate it with a critical eye while benchmarking against what others do.

You will iterate; focus on the structure not perfection of estimates

Please note that as this is your first effort at preparing a sales forecast for your business, it is highly likely you will make changes to it before you submit your final report. Much of business planning and analysis is *iterative*, just as the PDCA cycle is iterative. Prepare initial estimates that are logically congruent with your value proposition, market analysis, and go-to-market approach. You will have the opportunity to refine the quantitative estimates through successive iterations.

Note that the work we have done so far (proposals and cases) should make this assignment easier, assuming that you did a solid job in the first two months of the course.

For this assignment, focus on figuring out the process of convincing an investor of your future sales projections. How do I use these building blocks to estimate a defensible forecast? How do I make sure all of these blocks fit together and do not contradict one another?

The more effort you put into this assignment, the less work you will have to do in the last month of this course. This assignment forms the foundation for your final business plan report, as everything begins with sales projections.

You are convincing the investor of the viability of your sales outlook. Be convincing. Support your claims. If you can convince the investor that your sales outlook is viable, you have the battle two-thirds won.