

Owner must research business before making financial plan

By Mary DiPaolo
special writer

Financial projections can represent a major source of frustration to small business owners. Used primarily by investors to evaluate a company before committing themselves financially, their preparation requires much more than just "throwing some numbers together."

When presented as part of a company's business plan, financial projections are expected to extend five years from the date of investment, present monthly estimates over the first two years and quarterly estimates over the remaining three. Balance sheet projections may be presented on a quarterly basis during the first two years and semiannually after that.

Financial projections should be the result of the owners' strategic planning effort. As such, management must decide where they want to be as a company before any projections can be calculated and put

into written form.

To help determine the future direction of the company in the area of customer service, profitability and company life cycle, extensive marketing research is usually necessary.

RESEARCH WILL help uncover relevant facts and figures concerning company and industry trends as well as competitive strategies and activities. Industry trends data are available through several sources and include Robert Morris Associates' "Annual Statement Studies."

This report represents "averaged" financial statements data for companies from a variety of industries. Equally important is the need to analyze your own company resources (people, capital and production) to estimate what will be needed over each of the next five years.

Financial projections that are overly optimistic or grossly understated often do more harm than good. Because they are used as a basis to negotiate the percentage re-

turn on investment, they must be as realistic as possible.

For investment deals that are designed to reward or penalize management when the company succeeds or fails to meet its projections, preparing pro forma financials are recommended.

Financial projections should include the company's income statement, showing sales, gross margin, expenses and income or loss. The cash flow forecast presents receipts and disbursements over time, and the expected real time requirements for cash.

THE BALANCE SHEET presents assets and liabilities, and the break-even analysis shows when total sales and costs become equal, after which the business will generate profits.

Keep in mind that financial projections must conform to presentation and in the scope of sales and expenses to other companies within the same industry, and with generally accepted accounting principles and formats.

Next week, we will discuss how a company may go about conducting its own competitive data search.

Mary DiPaolo is the owner of *MarketTrends*, a Farmington Hills-based business consulting firm. She is also producer and host of the cable television series, "Chamber Perspectives."

Are the U.S. automakers paving way for Koreans?

By Dan McCosh
special writer

Lately it's been fashionable to prepare for a Korean onslaught as "another Japan," which is to say once again we are going to have to struggle to compete with a country that educates its children, works hard and reinvests its capital in productive industry.

Sometimes I think Americans wishing for "another Japan" are secretly hoping that if that happens, Japan will go away like every other fad issue on the nightly news. Fat chance.

Chrysler, which announced a deal with Korea's Hyundai to build cars in Canada and sell them in the United States, is the latest joint venture between U.S. and Korean auto companies. Chairman Lee, rebuffed by the Korean government a few years ago in his effort to get Korea's Samsung into the auto business, now has a Korean affiliate to match Ford's joint venture with Kia and GM's affiliation with Daewoo.

IRONICALLY, CHRYSLER already builds the lowest-priced four-door economy car on sale in the United States — its Omni/Horizon subcompact. That car becomes even more cost competitive as U.S. wages

continue to slide against Japan's.

Why then the deal with Hyundai?

Anyone now searching auto parts stores for brake linings for his Chrysler Simca or Cricket, or maybe his Ford Cortina or GM Opel by name knows there is nothing much new in domestic auto companies acting as importers and selling foreign cars in their dealerships.

The irony is that in the old days, such cars came mainly from hardpressed European manufacturers with both a low labor base compared to the United States and surplus production capacity.

Today's "captive" imports are being sourced in countries with relatively low production capacity and virtually no local markets for their cars.

The result is that the new Korean ventures are taking a lot of hand-holding just to get started. Hyundai, for example, leaned heavily on Ford Motor Co. British Leyland and Mitsubishi for a decade before being able to export in any quantity.

That's the plant expected to supply cars to Chrysler.

NONE OF the Korean imports have proven to be great retail bargains, likely a reflection of the real cost of production in a labor-inten-

sive facility several thousands of miles away from its market eating up the advantage of low labor cost.

Likewise, political instability has frequently shut down Korean auto plants, and its record as a reliable source of new cars isn't much better than Brazil's.

So why set up yet further deals with Korean manufacturers?

Apparently, domestic automakers are increasingly unwilling to make further investments in production capacity or new manufacturing technology themselves, and see Korea's struggling industry as a way of getting cars to sell in the low end of the market without risking serious investment.

Is this a clever strategy? Or another way of liquidating U.S. production capacity, paving the way for a larger share of wholly Korean-owned auto business in the United States?

I would bet on the latter. Kia, for example, is already laying the groundwork for an independent U.S. distributorship. In addition to its deal with Ford, it ought to be up and running by the time Chrysler gets its deal with Hyundai off the ground in the early 1990s.

Dan McCosh is the automotive editor of *Popular Science*.

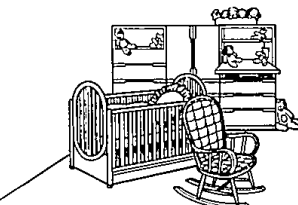
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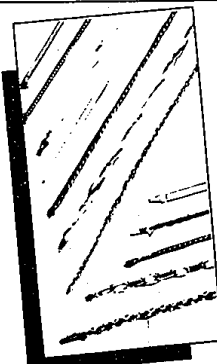


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