

Subject line: [Flawless Financials] Single Customer Models

Flawless Financials
the Financial Forecasting Online Newsletter
from Minotaur Financial
and David Brode

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This month: Single Customer Models

Have you ever started discussing the potential of your business and soon there are so many possibilities and options that people are lost? Often entrepreneurs are unable to smoothly communicate their value proposition to customers and investors. If I had to recommend one tool to present a business model, I would choose the "Single Customer Model."

The Single Customer Model is a powerful paradigm for both company executives and investors because it provides a simple and concrete way to explain the core aspects of your business. When a company shares a consistent view of its business, meetings speed along since everyone agrees on what part of the Single Customer Model changes for the topic at hand. And for investor meetings, you have a single sheet of paper that explains the economics of your business model.

Below I outline the Single Customer Model approach. After I explain its key components, I offer two concrete examples for use in your organization.

I. What's in the Single Customer Model?

Simplicity is key. First, the Single Customer Model must fit on a single sheet of paper. Remember the [January 2003 newsletter](#) in which Steven Wright is quoted saying "I have a full scale map of the United States. One mile equals one mile-"
This isn't the time to discuss every detail of your business; instead, the goal is to show the profitability of the incremental customer.

To do this you must examine what activities you perform and what costs you incur in dealing with customers. More specifically, you should answer: _What revenues are generated and in what categories? What is the cost of goods/services/staff to create that revenue? What capital investment is needed to support that customer? And depending on your business, you may include a Customer Acquisition Cost derived from the sales & marketing expenses and expected customer wins.

Look at what's missing here: G&A. Hey, it's called "overhead" for a reason. It really has nothing to do with the core activity of your business: finding and serving customers. Only once we show that your company can do these activities properly, will we see if the business can be profitable with overhead expenses. But for now, we abstract them away.

II. Variations on the Theme

The idea of a single customer is less useful for some businesses, particularly those with thousands of customers. So for the Retail sector, we often do Single Store analysis. For Wireless Services companies we used to do Single City analysis, though as technology has changed to allow smaller discrete systems, we now do Single Neighborhood analysis.

Also, when viewed from the customer's perspective, this type of model becomes a Customer ROI Analysis which can be used to a) show investors *why* a customer will buy from you, and b) to show customers the financial benefit of doing so.

III. Where Single Customer Models Fit into the Funding Picture

The Single Customer Model fits into the "Business Model" section of the Financial Summary (see [August newsletter](#) for details). For my new client engagements, this is the first piece of work I deliver and begin to refine. I highly recommend this as the key to starting your financial projections.

Below are two examples of Single Customer Models. I encourage you to email yours to me for feedback or to expand the Minotaur library.

Until next month, all the best,

David Brode – Minotaur Financial
Removing Financial Issues as a Deal Roadblock

Single Customer Analysis: Acquired Customer: Example #1

This first example, though simplistic, was very useful for this client.

Operating

Revenue	\$ 000/yr	45
Y1 ramp-up adj. Factor	%	90%
COS+Opex	\$ 000/yr	25
Integration Exp	\$ 000	8

based on steady state EBITDA margin
Includes Opex (\$3K) plus Capex (\$5K)

Acquiring

Price	rev mult.	0.9x
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Results

Operating Results

	Y0	Y1	Y2	Y3	Y4	Y5
Revenue		41	45	45	45	45
COS/Opex		25	25	25	25	25
Integration exp + capex	8	-	-	-	-	-
Operating Cash Flow	(8)	16	20	20	20	20
Acquisition Pymts	41					
Cash Flow	(49)	16	20	20	20	20
Cum. Cash Flow	(49)	(33)	(13)	7	27	47
IRR	26%					

Single Customer Analysis: Example #2

This second example goes into greater business model detail.

Investment Return Metrics			
Payback period	months	29	
IRR*	%	33%	70% with 5x earnings multiple at back end
Cash on cash return*	x	2.3	
NPV*	\$	60,992	(at 12% Ke)
* Calculated assuming ZERO terminal value at end of year five.			

Single Unit Analysis						
Installation capex	\$	\$1,400				
Installation revenue	\$	\$400				
Net installation costs	\$	\$1,000				
			Year 1	Year 2	Year 3	Year 4
Revenue	\$/year	\$1,062 (Average)	\$978	\$1,038	\$1,098	\$1,098
Gross profit	\$/year	\$454 (Average)	\$370	\$430	\$490	\$490
						Year 5
Revenue per Unit	\$/Unit/day	\$2.95 (Average)	\$2.72	\$2.88	\$3.05	\$3.05
Gross profit per Unit	\$/Unit/day	\$1.26 (Average)	\$1.03	\$1.19	\$1.36	\$1.36

Assumptions			
I. Units per Customer	units	100	
II. Per Unit			
Capital expenditures	\$	\$1,400	
Revenue #1	\$	\$400	
Revenue #2	\$/day	\$1.00	
Revenue #3	\$/day	\$1.25	
COGS #3	\$/day	\$0.75	
III. Other Revenue			
Revenue #4	\$/month	400	
Revenue #5			
Y1	\$/month	\$1,000	
Y2	\$/month	\$1,500	
Y3	\$/month	\$2,000	
IV. COS			
COGS #1	% rev #2	30%	
COGS #2	\$/month	300	
COGS #4	%	20%	% of net revenue #2 and #3
COGS #5	% rev #5	50%	

Projections							
	Monthly Operations	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue							
#2	3,000		36,000	36,000	36,000	36,000	36,000
#3	3,750		45,000	45,000	45,000	45,000	45,000
#5	2,000		12,000	18,000	24,000	24,000	24,000
#1	40,000	40,000					
#4	400		4,800	4,800	4,800	4,800	4,800
Total Revenue	49,150	40,000	97,800	103,800	109,800	109,800	109,800
COS							
#1	900		10,800	10,800	10,800	10,800	10,800
#2	300		3,600	3,600	3,600	3,600	3,600
#3	2,250		27,000	27,000	27,000	27,000	27,000
#4	620		7,440	7,440	7,440	7,440	7,440
#5	1,000		12,000	12,000	12,000	12,000	12,000
Total COS	5,070	-	60,840	60,840	60,840	60,840	60,840
Gross Profit	44,080	40,000	36,960	42,960	48,960	48,960	48,960
			38%	41%	45%	45%	45%
Capital Expenditures	-	140,000	-	-	-	-	-
Operating Cash Flow	44,080	(100,000)	36,960	42,960	48,960	48,960	48,960
Cumulative		(100,000)	(63,040)	(20,080)	28,880	77,840	126,800

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ABOUT DAVID BRODE

I'm a financial modeling specialist. Over the last fifteen years I've completed dozens of models and certainly thousands of versions to support corporate development, M&A, strategic planning, and debt and equity transactions. These models have raised over \$1B in debt and \$100M in venture capital and private equity.

Over time I've consistently revised software tools and work processes to get the job done quickly and well. If you have a financial forecasting issue, I'd love to help.

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Are you struggling to convince others to do a deal which you think is a no-brainer? To discuss how you can take numbers off the table as a deal roadblock, call (303) 444-3300. I'm very accessible and glad to help.

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Your feedback is always welcome and appreciated. Write in to <mailto:feedback@brode.net>.

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