

GEE Important stuff to know-by-heart

Balance sheet

Expresses the financial position of a company at a given date.

- $\text{Equity} = \text{Assets} - \text{Liabilities}$;
- $\text{Assets} = \text{Equity} + \text{Liabilities}$;

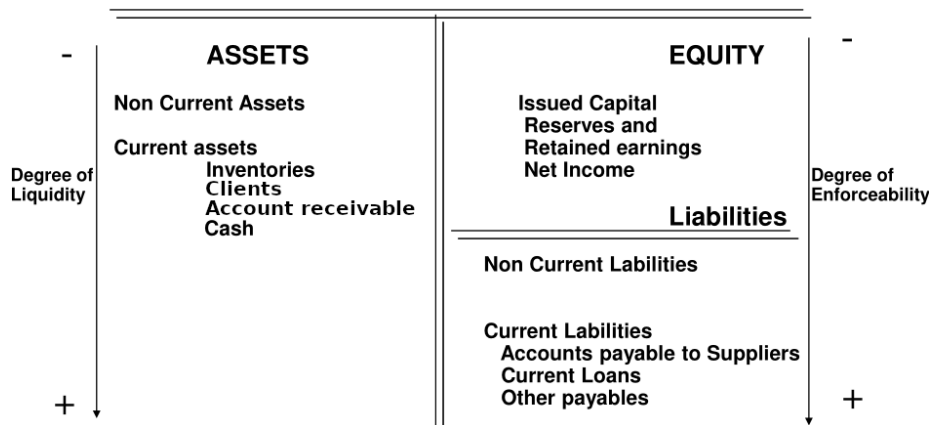


Figure 1: balance_sheet

Assets

Non-current assets

Property, plant and equipment
Investments in associates – equity method
Investments in financial assets
Intangible assets

Total non-current assets

Current assets

Inventories
Biological assets
Accounts receivables (from clients)
Suppliers advances
Financial claims on owners of the company
Current tax assets
Other receivables
Cash and bank balances

Total current assets
Total assets

Figure 2: BC_assets

Equity

Issued capital
Share premium
Legal reserves
Retained earnings – other reserves
Net income of the year
Non-controlling (minority) interests

Total equity

Figure 3: BC__equity

Equity

Liabilities

Non-current liabilities

Long-term debt
Provisions

Total non-current liabilities

Current liabilities

Accounts payable (to suppliers)
Customers advances
Current tax liabilities
Financial liabilities to owners of the company
Short-term debt
Other payables

Total current liabilities

Total liabilities

Total equity and liabilities

Figure 4: BC__liabilities

Income statement by nature

Ratios

Analysis of return

- **Return on sales or production:**
 - Net earnings / sales or net income / production
 - **>0 - good; 5 to 10% - excellent.**
- **Return on assets (ROA):**
 - $ROA = \text{net earnings} / \text{total assets}$
 - **$\geq 5\%$ - good; 20% - great.**
- **Return on equity (ROE):**
 - $ROE = \text{net earnings} / \text{equity}$

- Sales +
 - Cost of goods sold -
 - Suppliers and external services -
 - Employee expenses -
 - Other operating income +
 - Other operating expenses -

 - EBITDA =

 - Depreciation and amortization expenses -

 - EBIT =

 - Financial income +
 - Financial expenses -

 - Earnings before taxes =
 -
 - Income Taxes +/-

 - Net Income =
- Lia Patrício | Ma

Figure 5: income_statement_nature

- 15 to 20%.

Measuring efficiency

- **Asset turnover:**
 - Asset turnover = sales or production / total assets
 - **higher is better.**
- **Avg. inventory period:**
 - $(\text{Inventory} / \text{cost of goods sold}) * 365$
 - **lower is better.**
- **Avg. collection period:**
 - $(\text{accounts receivables} / \text{sales}) * 365$
 - **lower is better.**
- **Avg. payment period:**
 - $(\text{accounts payable} / \text{purchases}) * 365$
 - **it depends:**
 - * lower may signal opportunities of reinvestment of capital being lost;
 - * higher might show inadequate cash flows.

Measuring liquidity - short-term

- **Current ratio:**
 - current assets / current liabilities
 - ≥ 1 significa que a empresa consegue pagar dinheiro loaned/account payable;
 - Se for muito alto, pode indicar que a empresa está a deixar muito dinheiro de lado em vez de o investir.
- **Quick (acid-test) ratio:**
 - $(\text{cash} + \text{marketable securities} + \text{receivables}) / \text{current liabilities}$
 - ≥ 1 (short term assets dão para cobrir as current liabilities);
- **Cash ratio:**
 - $(\text{cash} + \text{marketable securities}) / \text{current liabilities}$
 - Similar ao acid;
 - Medida conservadora.
- Working capital = current assets - current liabilities
 - > 1 indica que empresa consegue fund its current operations and investments;
 - lower values may indicate risk of distress.

Measuring liquidity - long-term

- **Equity to assets ratio:**
 - equity / total assets
 - **higher is better.**
 - 75% means company has financed 75% of its assets with shareholder equity;

- meaning that only 25% is funded by debt;
- If company liquidated all of its assets to pay off its debt, the shareholders would retain 75% of the company's financial resources.
- **Debt to equity:**
 - debt / equity
 - **High => high risk;**
 - Used to gauge to what extent a company is taking on debt as means to leverage its assets.
- **Coverage of fixed investments:**
 - (equity + long-term debt) / fixed assets
- **Interest coverage:**
 - EBIT / interest
 - **<= 1.5 - not so good;**
 - Ability to meet interest expenses may be questionable;
 - Used to ensure how well a firm can pay the interest due on outstanding debt.

Os 7 P's of marketing mix

- **Product** - variety, quality, design, etc. . .
- **Price** - list price, discounts, credit, etc. . .
- **Promotion** - sales promotions, advertising, sales force, etc. . .
- **Place** - channels, coverage, stock availability, etc. . .
- **Physical evidence** - service environment, sound, sight, etc. . .
- **Process** - service blueprint, process design, self-service technologies, etc. . .
- **People** - participants, staff, customers to customers, etc. . .

Segments

Levels of segmentation

- Mass marketing
- Segment marketing
- Niche marketing
- Marketing one-to-one

Segmentation variable

- Geographic segmentation
- Socio-demographic segmentation
- Psychographic segmentation
- Behavioral segmentation

Selecting target markets

- **Single-segment concentration** - A empresa concentra-se em servir um segment particularmente bem;

- **Selective specialization** - A empresa seleciona um grupo de segments, cada um atraente e apropriado;
- **Product/service specialization** - A empresa especializa-se num produto que é vendido a diferentes market segments;
- **Market specialization** - A empresa concentra-se em servir muitas necessidades de um segment em particular;
- **Full market coverage** - A empresa tenta servir todos os segments em todas as suas necessidades.

Competitive advantage

- Ability of a firm to outperform its rivals;
- Valuable and rare;
- Costly to imitate by competitors;
- Allows earning above-average returns.
- Is the company's ability to get superior performance to its rivals in a sustained way.

SWOT

		external environment	
		Opportunities	Threats
internal environment	Strengths	Opportunities for the firm	Threats neutralization
	Weaknesses	Opportunities for the market but NOT for the firm	Areas that require attention

Figure 6: swot

PESTEL

Porter's Five Forces of competition

Startup

Customer discovery

1. State hypothesis -> draw BMC;

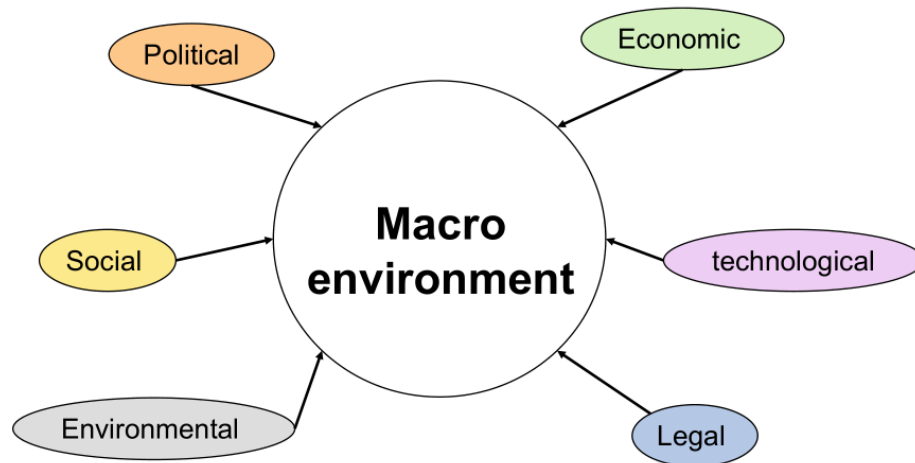


Figure 7: pestel

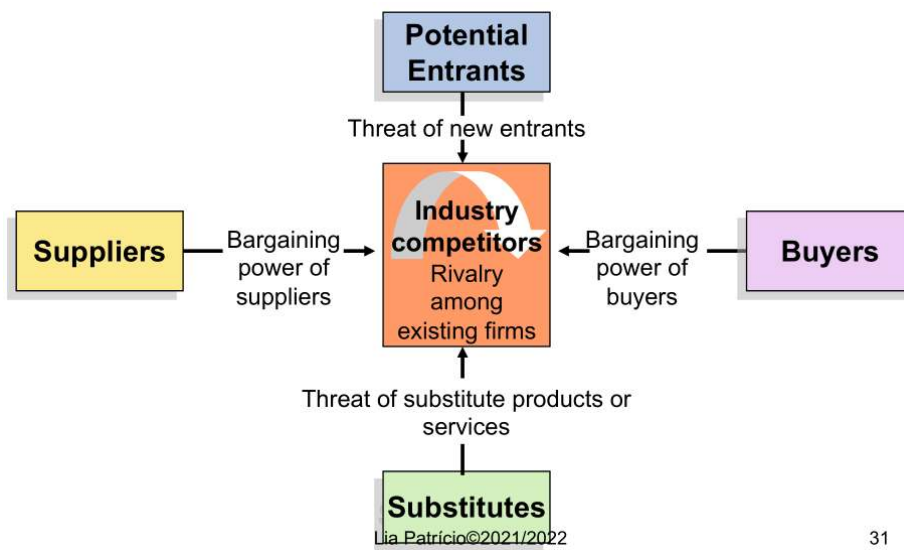


Figure 8: five_forces

2. Test the problem -> get out of the building and test understanding of customer problem/need;
3. Test the solution -> build prototype and test product-market fit;
4. Verify or pivot BMC.

- **Pivot:**

- Are possible results of hypothesis testing and experimentation (hypothesis testing involves failure);
- Is a substantive change to one or more components of the BMC (iterations are minor changes);
- In a pivot, dismiss hypotheses that do not match reality (but save the knowledge built).

Customer validation

1. Get ready to sell -> acquire customers + prepare distribution channels + build MVP;
2. Get out of the building -> “test sell” to early evangelists;
3. Develop positioning -> corporate and product positioning;
4. Verify the BMC -> pivot or proceed (repeatable and scalable?).

BMC

Business Model Canvas

Key Partners <i>Who are the key partners and suppliers needed to make the business model work?</i>	Key Activities <i>What are the most important activities to make the business model work?</i> Key Resources <i>What are the most important assets to make the business model work?</i>	Value Propositions <i>What are we building and for whom?</i>	Customer Relationships <i>How do we get, keep and grow customers?</i> Channels <i>How does the product get to customers?</i>	Customer Segments <i>Who are our customers?</i> <i>Why would they buy?</i>
Cost Structure <i>What are the costs to operate the business model?</i>			Revenue Streams <i>How does the company make money from each customer segment?</i>	

Figure 9: bmc

- **Product-Market Fit:**

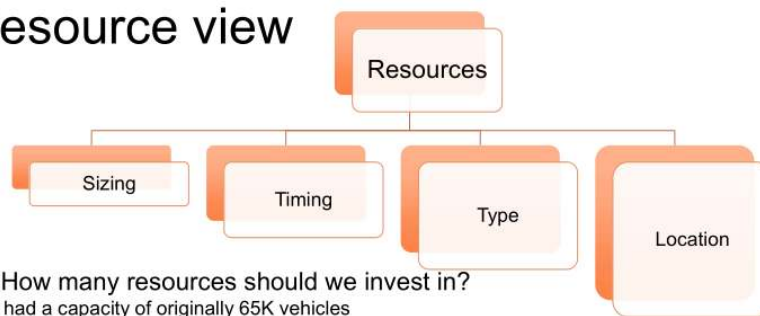
- Value Propositions + Customer Segments.
- **Connecting to customers:**
 - Customer Relationships + Channels + Revenue Streams.
- **Operations:**
 - Key Partners + Key Activities + Key Resources + Cost Structure.

Views

The resource view

- Organization is considered as a set of real assets:
 - tangible + human - “do” the work;
 - intangible - embody “know-how” to do the work.
- This perspective is useful to decide the amounts and types of resources the operation needs;

The Resource view



1. **Sizing:** How many resources should we invest in?
Mercedes had a capacity of originally 65K vehicles
2. **Timing:** When should we increase or decrease resources?
Mercedes capacity expanded to 80K in 1999 and 160K in 2004
3. **Type:** What kinds of resources are best?
How is Mercedes capacity split into capacity for the M-class and the R-class?
Are the assts specialized or flexible?
4. **Location:** Where should resources be located?
Mercedes plant is located in Alabama. In the car industry, connections with suppliers are organized in a tree format.
«You need three things for a successful business – locations, location, location.»
Conrad Hilton

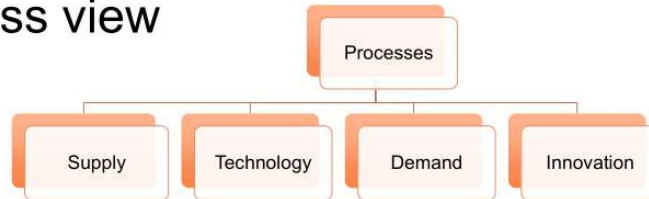
Figure 10: resources_view

The process view

- Purpose of resources is to work and generate value;
- Highlights how resources perform activities and add value;
- **Processes:**
 - structure, recurrent activities that transform inputs into outputs;

- Detailed tasks: billing a customer, implementing and engineering change order;
- Aggregate tasks: new product development, customer service.

The Process view



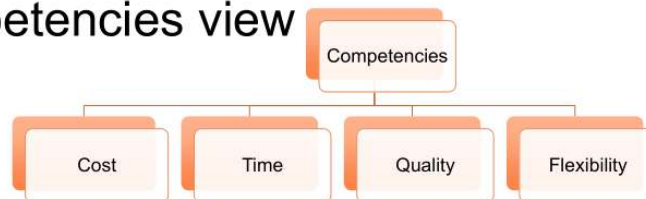
- 1. Supply:** When to outsource and how to manage suppliers?
Mercedes owns engine plants, but outsources seat manufacturing
- 2. Technology:** Which technologies do our processes need?
 - **Coordination and information:** Mercedes has centralized coordination for componentes/parts
 - **Product:** Is M-class designed in modules or as a single integral system?
 - **Process:** Processes organized by activity or by product-line?
 - **Transportation:** Which componentes are transported by truck, train, ship, airplane?
- 3. Demand:** How do we match demand to available supply?
Mercedes systematically undesrestimated demand of M-class.
- 4. Innovation:** How and when do we improve and innovate?
7 years after introducing M-class, Mercedes introduced R-class, and, in 2014, C-class.

Figure 11: process_view

The competencies view

- A third factor: **values**
 - Standards by which employees set priorities;
 - As organizations become more complex, consistent values are powerful mechanisms for employees to make independent but consistent decisions about priorities.
- Competencies:
 - What the organization's resources, processes, and values allow to do (its abilities);
 - Determine the set of outputs, products, and services that the operation will be particularly good at providing;

The Competencies view



1. **Cost:** What is the total cost of operating?
For Mercedes, the cost is not particularly important, since it does not operate in commodities markets or as a low margin business.
2. **Time:** What is the total time needed to transform inputs into outputs (lead time)?
For Mercedes, time is moderately important
3. **Quality:** What is the ability to deliver quality products?
For Mercedes, quality is essential – and it is a key differentiator in luxury and high precision businesses.
4. **Flexibility:** What is the operation' flexibility to change inputs, activities, volumes, or outputs?
Concerning M-class, Mercedes would benefits from volumes flexibility (at a capacity expansion level), once demand is not easily estimated

Figure 12: competencies_view