



BEYOND
FINANCING

THE MERCHANT BANK AND SMALL BUSINESS

October 20, 2009

ICCC Presentation



 **next street**



Session Goals

- > Distinguish key factors signaling a business is ready for investment
- > Discuss actions businesses can take to improve organizational performance and overcome common risks
- > Understand critical components to design and implement a successful strategic growth plan



Next Street: A Merchant Bank

- > A tradition of serving businesses of all sizes
- > Committed to job and wealth creation in urban markets
- > Trusted advisor relationships



Tools of all Trades

ACCESS TO CAPITAL

Next Street provides a range of customized financing options:

- > Working capital and lines of credit
- > Term loans, including project finance
- > Real estate loans
- > Mezzanine and structured finance
- > Equity

NEXT STREET STRATEGY

Next Street brings solid, clear-eyed advice to our strategy engagements. They include:

- > Strategic planning
- > Corporate finance and M&A advice
- > Profitability and cost analysis
- > Real estate solutions
- > Project planning and implementation

NEXT STREET TALENT

Next Street Talent advises clients on how to best attract, retain and develop talent including:

- > Leadership and talent development
- > Performance Initiatives Implementation
- > Team and individual assessments
- > Organizational structure and role clarity
- > Skill-building and training programs

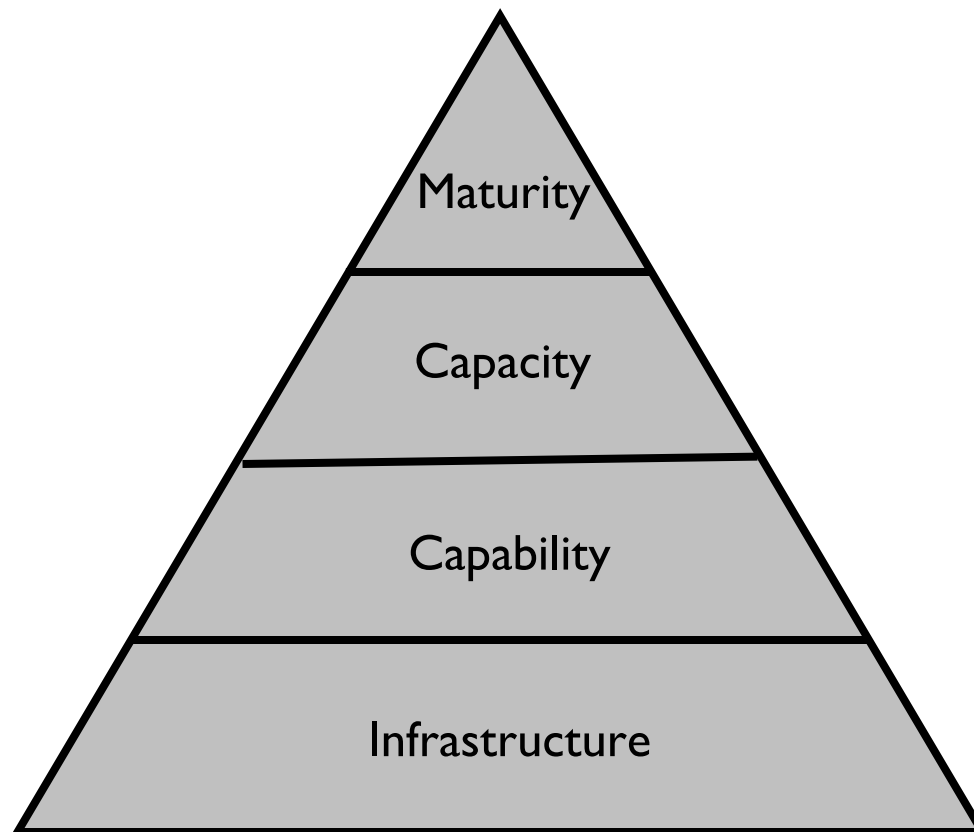
NEXT STREET AGENCY

Next Street Agency delivers top-tier creative marketing solutions, including:

- > Brand Identity
- > Marketing strategy
- > Consumer/trade advertising
- > Web development
- > Video production and dissemination



Business Competency Pyramid

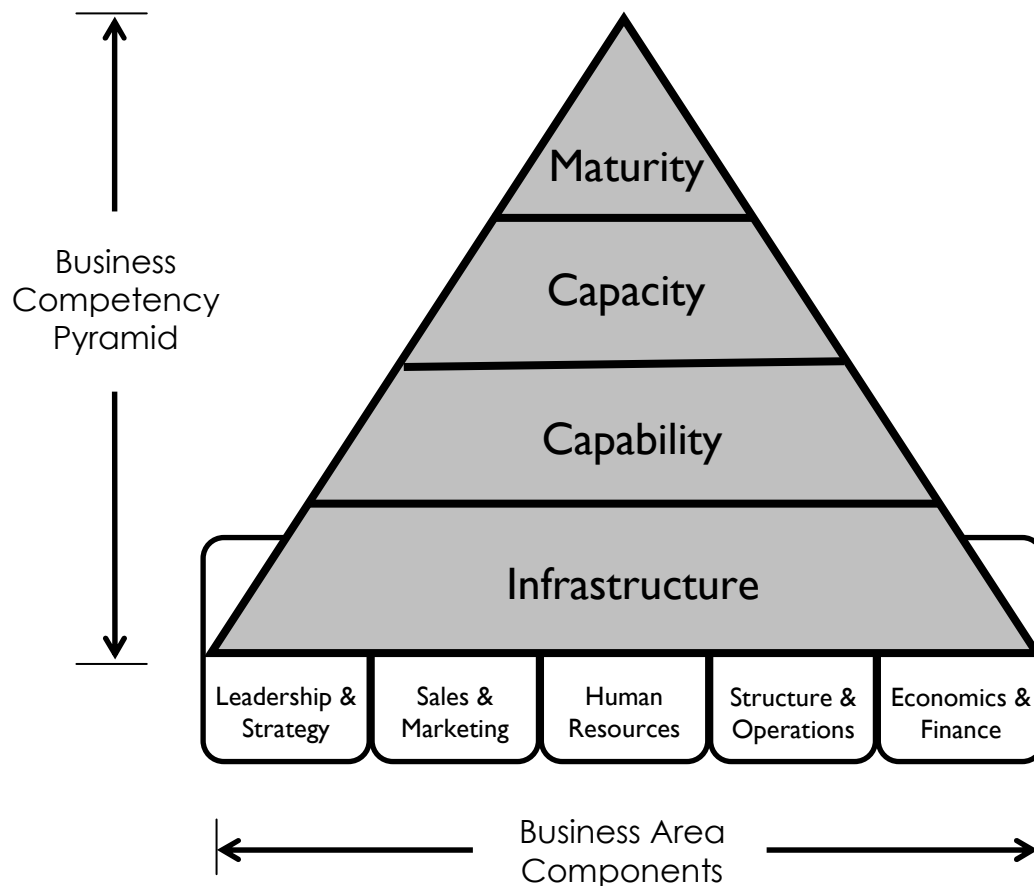


Organizational Development Levels

- > **Maturity:** Industry leader with potential for rapid scale (“I want in”)
- > **Capacity:** Developing ability to become industry leader -- (“What would you do if . . .?”)
- > **Capability:** Building critical business competency to support near term delivery and growth – (“Let’s keep in touch”)
- > **Infrastructure:** Having ability to meet day-to-day organizational needs (“Come back to me”)



Business Evaluation Areas



- > Investors consistently evaluate opportunities both quantitatively and qualitatively:
 - Along the business competency pyramid
 - Across key business area components



Business Area Components

Components

Leadership & Strategy

- > Clear business objectives
- > Competitive distinctions
- > Defined product/service offerings
- > Client/customer segmentation

Sales & Marketing

- > Established reputation
- > Marketing tools and collateral
- > Pricing strategy
- > Sources and drivers of revenue
- > Brand identity and market positioning

Human Resources

- > Organizational structure
- > Performance management
- > Skills and experience
- > Employee benefits
- > Job roles and accountability

Structure & Operations

- > Business processes
- > Systems infrastructure
- > Quality controls
- > Management reporting
- > Service provider/vendor relationships

Economics & Finance

- > Profit/loss drivers
- > Debt structure
- > Financial management/planning
- > Revenue mix /product



Leadership & Strategy

Common Risks

- > Lack formal planning process
 - Loosely defined goals with no clear roadmap for success
 - Limited perceived value for strategy and planning
- > Leadership has an operational focus with limited strategic vision

Characteristics of Mature Companies

- > Clearly defined business objectives
 - For example: "Grow by 35% while achieving \$4 M profit targets by 2013"
 - For example: "Strong market and brand presence for the anticipated economic recovery"
- > Formal tools and processes to monitor and track performance (e.g., dashboards, metrics, targets, etc.)
- > Dedicated time – separate from operations – to reevaluate company strategy, competitor and industry trends, and key opportunities for future growth and development



Sales & Marketing

Common Risks

- > Marketing is opportunistic, inconsistent and reactive
- > Undefined (and often passive) sales process and lack of dedicated, experienced resources
- > Concentration of revenue among few, core customers

Characteristics of Mature Companies

- > Recognizable, respected, relevant brand identity
 - Represents clear position in market
 - Speaks to the audience
- > Repeatable and scalable sales processes, client acquisition targets, and dedicated, experienced team
- > Relationship management systems resulting in high client retention & repeat business
- > Diversified client base to mitigate potential business losses
- > Market demand for product/services



Human Resources

Common Risks

- > Owners “lead everything”
 - Compromises certain tasks (e.g., marketing, finance, etc.)
 - Relationships, knowledge, and expertise often resides exclusively with owners
- > Limited contingency, exit or succession plan for owners
- > Unclear role definition and “bench strength” to scale organization

Characteristics of Mature Companies

- > Knowledge institutionalized into standard business processes
- > Management team developed and established to support owner(s)/ principal(s)



Structure & Operations

Common Risks

- > Highly reliant on day-to-day direction of owner/ principal(s)
- > Limited infrastructure or management processes (e.g., accounting, finance, business development, etc.)

Characteristics of Mature Companies

- > Consistent managed performance with financial goals/plan
- > Integrated accounting, estimating and contract management systems
- > Quality control processes and governance, as required, to support business



Economics & Finance

Common Risks

- > Highly variable revenues and unpredictable financial performance
- > Large levels of debt often linked to personal assets (e.g., homes)
- > Poor credit and financial management practices

Characteristics of Mature Companies

- > Measured and forecasted return on overhead expense
- > Financial management practices and reviews
- > Established finance function, including experienced leadership (e.g., CFO/controller) and sound financial management practices
- > Profitable product/service lines
- > Good credit strategy



Strategic Planning Process



Strategic Planning Principles

- > Desire to achieve identified business goals:
 - Increase market share
 - Improve, manage, and measure performance
 - Diversify business concentration
 - Mitigate risks
 - Improve organizational alignment

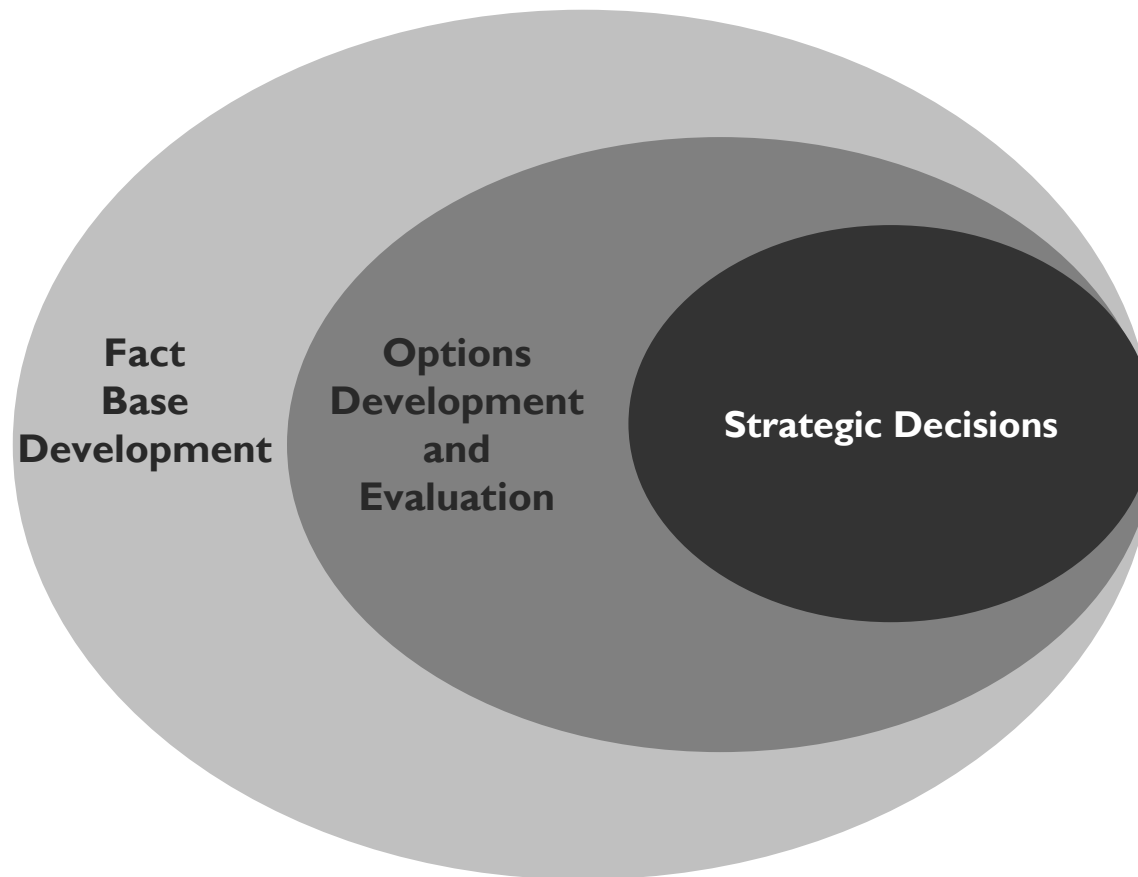
- > Develop clear understanding of sources and drivers of profit across business lines, segments and customers

- > Recognize not all opportunities, customers, products and regions are equal – and profits are always concentrated

- > Understand financial requirements and allocate resources to highest potential opportunities

- > Focus on developing and implementing an actionable strategic plan

Proven Approach for Successful Strategic Plans



Fact base development

- > Includes financial, strategic, marketing and organizational infrastructure review
- > Mix of internal and external research

Options development and evaluation

- > Define and evaluating strategic options facing the organization
- > Screen and prioritize strategic options

Strategic decisions and implementation plan

- > Finalize direction and timing
- > Create detailed implementation plan



Fact Base Development

Internal Understanding

- > Business strengths and opportunities
- > Sales and marketing processes and client acquisition rates
- > Revenue and profit concentration by product / service categories
- > Current business mix and change over time
- > Customer segments
 - By type (government, business, residential)
 - By size (average revenue, min, max)
 - By geography
- > Price setting approach

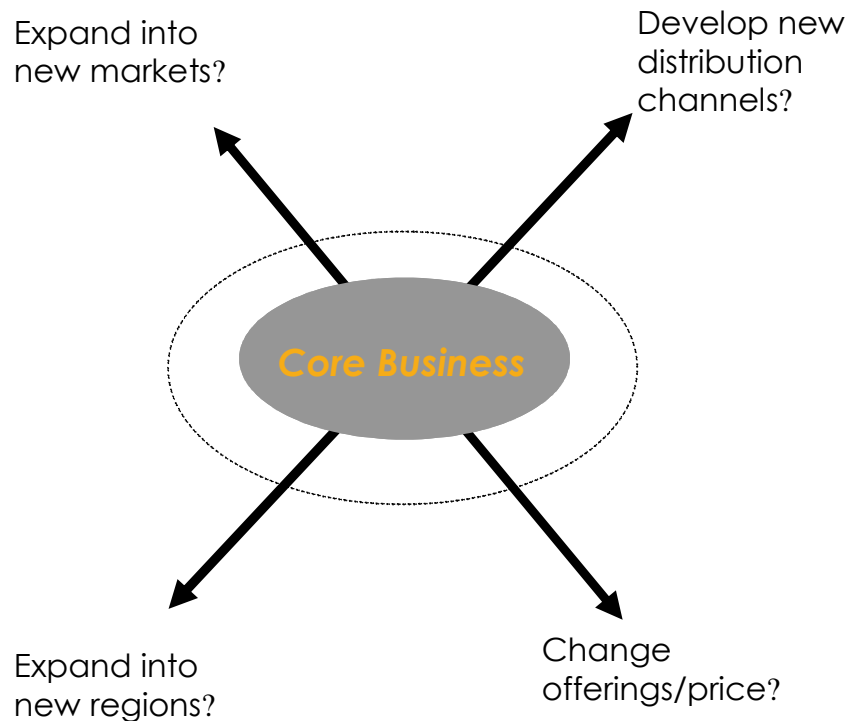
External Understanding

- > Positioning vs. competition
 - Gaining / losing share
 - Differentiating characteristics
- > Industry trends (e.g. green, quasi-public resources, corporate procurement purchasing criteria, etc.)
- > Largest growth opportunities and barriers to expansion



Strategic Options Development

Determining Appropriate Growth Direction

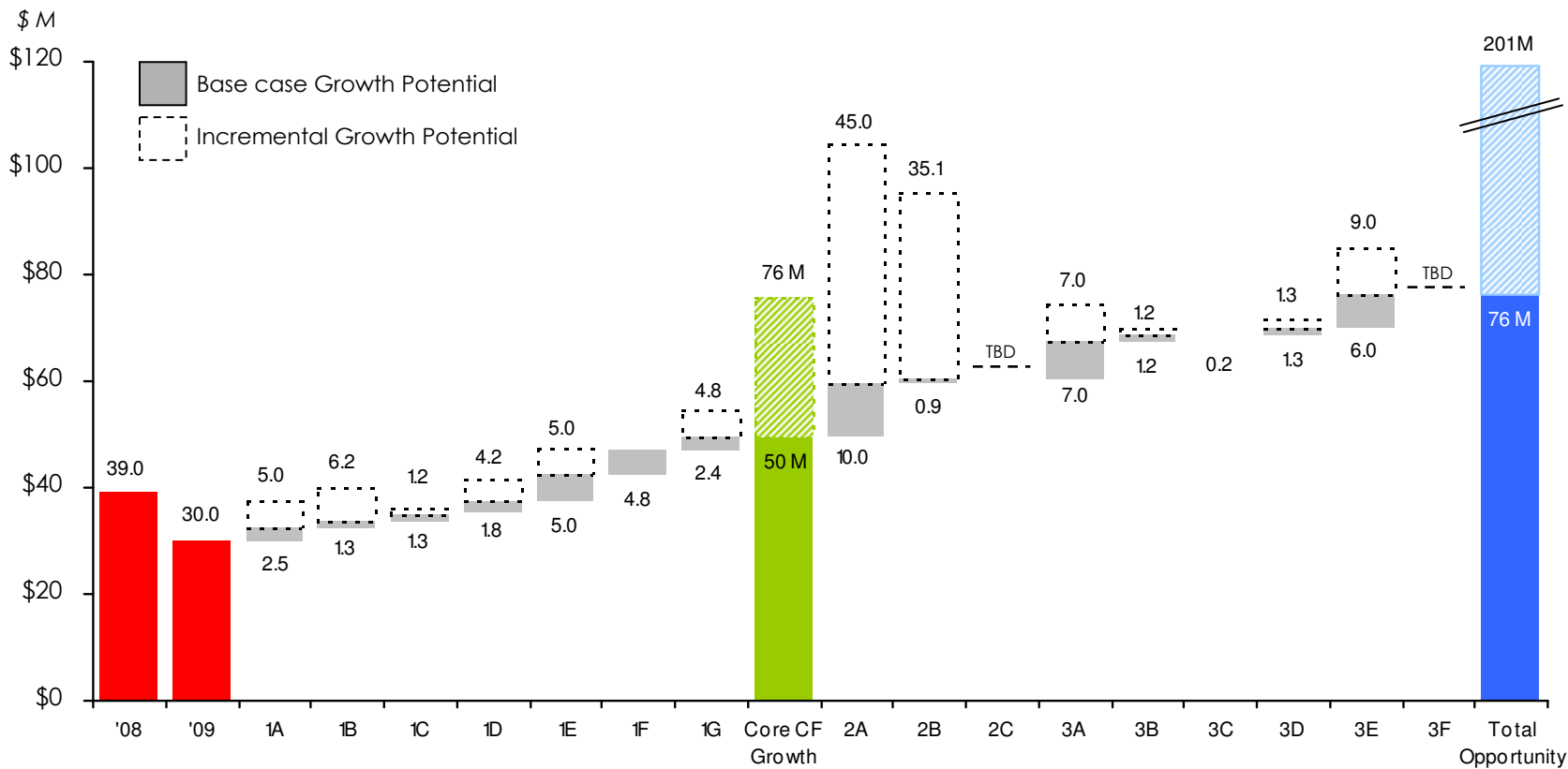


Categories

- 1. Existing Business Model Enhancements:** Improvements to your current business to help drive revenue growth
- 2. Business Growth Platforms:** Entrance into new regions, products, channels, and markets
- 3. Organizational / Infrastructure Improvements:** Improvements to your infrastructure to increase efficiency, lower costs, and improve profits
- 4. Marketing Investment:** Development and implementation of marketing strategy to increase brand awareness, client acquisition, and client retention

Sizing Emerging Options

Emerging Options – Initial Sizing





Implementation Plan Components

Project Management

- > Schedule action items and milestones
- > Define clear roles and responsibilities
- > Identify resource requirements

Risk Analysis

- > Proactively identify potential risks
- > Determine mitigation techniques

Communication Plan

- > Maintain alignment and momentum
- > Build support and engagement with organization and among key stakeholders

Management Dashboard

- > Reinforce culture of accountability
- > Track progress and discuss successes and failures