

# [Technical data corporation business plan](https://assignbuster.com/technical-data-corporation-business-plan/)

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Technical Data Corporation Business Plan 1. Technical Data Corporation is in the computer hardware and software business. TDC is in the business of providing liable data in regards to the fixed income market. TDC is going to provide a web based service that will relay historical price data, price analysis, and market commentary on the day to day price variances. Currently the purchases of this information are not willing to pay high amounts to access this information.

Additionally, the purchases are not willing to buy any equipment to get this information.

The purchases expect to get this information from their current equipment. Many of the competitors in this industry provide some of the same information, but all of them are not willing to provide this information on a up to date basis. 2. The financial offer to the investor is the sale of twenty separate units. Each unit is includes 50 shares of common stock at $10 per share and a non-negotiable promissory note with a face value of $4, 500.

The 50 shares of common stock have no par value.

Additionally, the stocks do not have a registration statement for the securities and therefore cannot be transferred. The promissory note involves an annual interest rate of 15% that is allocated in semiannual payments beginning July 1, 1981. The date of maturity for the note is December 15, 1990. Under the terms in the promissory note the company reserves the right to prepay, in whole or in part, the principal and interest due at any time without penalty. 3.

Technical Data Corp. makes several assumptions in relation to its expenses, revenues and cash balance.

For expenses, TDC assumes it will only require two full-time professionals through the first year of the company and will add a full-time clerical employee as of April, 1981, a part-time computer consultant in June, 1981, and an additional full-time professional in January, 1983. These additions assume that revenues are meeting expectations. TDC also makes expense assumptions based on the number of pages it will rent.

These assumptions also allow for additions based on revenue performance.

Additional expense assumptions include allowance for travel and entertainment in relation to marketing the product to potential clients and premium payments on a life insurance policy on the President of the company. The main assumptions TDC makes are based on revenue expectations. These assumptions are very important because they drive the other assumptions. First, the company makes assumptions concerning customer numbers and how they will grow over time.

These numbers start with an initial base of 100 customers in April, 1981 and increase to 530 as of year end 1983.

Additionally, TDC assumes initial monthly rental fees of $150 which will increase to $200 as the customer base increases which in turn increases expenses. Finally the company assumes excess cash will receive 9% interest a year. The assumptions that TDC has made in regards to their Pro-Forma Financials seem reasonable. It appears that the company has done extensive research in regards to the expenses it will incur as their customer base increases. Additionally, it is not unreasonable to assume 9% yearly return on excess cash.

The most difficult assumptions, however, are in regards to projected revenues.

It is difficult to forecast revenues on a new product and will be difficult to determine how many customers this product will attract. However, the company seems to have developed an attractive product offering that will be useful to investors. Also, TDC has developed a good marketing strategy through an agreement with Telerate Systems that will allow the company to test market its products without incurring any expenses. This agreement will also provide TDC with a convenient mode of advertising its products through current Telerate subscribers.

As a result, the assumptions TDC has made in relation to revenues also seem reasonable.

4, There are many issues to consider when investing in this company. First, the general product sounds like an excellent opportunity. Based on competitor profiles, it seems like TDC should be able to capture market share in the Fixed Income / Futures information industry. However, there is a major barrier to entry. Many existing competitors have already developed propriety hardware that many banks or trading firms may already have.

For these clients, switching costs may be too high.

It is important to find out what percentage of TDC’s target base already has this equipment. The second major consideration is the financials of the deal. In order to invest in the company, an investor would need to purchase $4, 500 in promissory notes and $500 in equity. Overall, the company will be leveraged at a debt to equity ratio of 9 to 1. For a technology-related firm, this is an extremely high ratio and poses significant risks to equity holders.

Additionally, because most of the financing seems to be going to product development and distribution costs rather than tangible assets with resalable value, there is significant risk that the firm will not be able to make whole on it’s promissory notes as well.

Preliminary financials given in the case indicate the firm will be cash flow positive in its first three years of operations. However, the assumptions are somewhat aggressive. The firm estimates that it’s customer base will grow from 100 in April 1981 to 300 by the year end in 1981.

Overall, while the company has a great idea, its method of financing is far too aggressive for a technology-focused firm. The high debt to equity load (especially with a 15% interest rate) will put huge demand on a company that cannot predict whether it will have stable cash flows or not. 4.

Jeff Parker should pursue this idea. As mentioned earlier, TDC has the potential to have the majority of the Fixed Income / Derivatives information technology market share. Parker may have to consider some limiting constraints prior to starting his business. First, he needs to evaluate whether now is the right time to start a business.

During this period, TDC was offering promissory notes that yielded 15%, which was a 4% spread over a T-bill. While TDC faced no prepayment penalties, TDC may benefit by waiting until the cost of borrowing decreases.

Additionally, as mentioned before, Jeff Parker should consider alternative methods of financings because the current financing strategy seems to aggressive for the industry TDC’s is in. Perhaps Parker should consider project financing. Project financing would allow Parker to keep a large equity stake in the company while still deferring interest rate payments until later periods.