Small-Enterprise Finance

Documentation for the SEF Course

General purpose of the course

The Small-Enterprise Finance course is designed to provide participants with experience in the analysis and resolution of financial issues in the context of the smaller enterprise that has no or, at best, limited access to the public capital markets. Although these firms may have access to debt financing from commercial banks, they generally are not able easily to raise equity funds without creating problems of control. The course material will seldom deal with start-ups or high-tech, flip-en-and-flip enterprises. Those topics are left to courses that treat venture-capital situations. This course typically deals with companies operating in the mundane, real world of the typical small-enterprise owner, who needs sales to meet the payroll, wisely uses limited capital resources, carefully raises new funds, and plans for the ultimate transfer of the business to new owners. Most of the companies discussed will be in the manufacturing sector because this category has the most complex financial problems.

In addition to consideration of typical issues of asset management, including acquisitions and dispositions, the course will discuss topics such as working-capital management, selecting funding sources and structuring loans, project finance, creating liquidity, and transferring the business to the next generation or selling it. The course emphasizes breadth of coverage rather than the depth provided by other financial electives that focus on narrower issues.

The course material will be cases, of which a modicum will deal with non-U.S. situations. One reason for this is that financial decisions often involve legal and tax issues. It is hard enough to deal with the United States’ rules let alone to develop a sufficient understanding of the rules in other countries to make wise decisions.

On occasion, it is possible that individuals involved with the case situation may attend the class.

Unfortunately, there are no formulas, no hidden spreadsheet templates, no one-size-fits-all frameworks, no five xs, seven ys, or ten zs of pop management that easily can be applied to the analysis of the problems considered in this course, particularly when dealing with a smorgasbord of situations in fifteen classes.
Although there are no prerequisites for the course, it is a finance course. It does involve numberwork, which can present a challenge for the innumerate or numerophobic. The numberwork, however, is straightforward and does not involve advanced theoretical concepts or the development of elaborate spreadsheets. The essential tools were introduced in first-year finance. No additional tools are needed. Emphasis will be on applying these tools in the small-enterprise context.

Except in those instances for which a spreadsheet file is provided, it is not necessary to use a computer in preparation of the cases. Spending hours transferring numbers from the exhibits in the case to a computer is an indication the analysis is probably off the track. Using a computer to forecast based on a few reasonable assumptions is more likely to be productive. A ten-key calculator, an HP12C, or equivalent, should be sufficient to accomplish the analysis and should be brought to class. Consequently, computers will be closed during class discussion. Material needed during class should be prepared and printed in advance. Exceptions will be announced.

Specific assignment questions and data files are not generally provided for the cases. In the real world outside Darden, and particularly in a small-enterprise setting, you will seldom be handed an eight-page summary of the problem, several exhibits, a set of Excel files, and a list of questions to address. One important purpose of the course, therefore, is to help you hone your skills in problem identification and in efficient use of your analytic time. A critical skill to be developed is the selection of the proper technique (presumably from your existing portfolio) and making the necessary modifications to apply it to the situation at hand.

Although no collateral reading is mandated (except for the occasional technical note), the following technical notes were used in the Financial Management elective. Their titles should suggest the case topics to which each would be relevant. Participants who want to obtain copies of any of these technical notes should contact Darden Publishing.

- Analytical Frameworks for Finance (uva-f-1107)
- Ratios as Analytical Tools (uva-f-0217)
- Managing Accounts Receivable (uva-f-0228)
- Managing Inventory (uva-f-1332)
- Funds Forecasting and Cash Management (uva-f-1215)
- Basic Debt and Equity Decisions (uva-f-0240)

A basic book, such as Higgins' Analysis for Financial Management, offers a good review of basic techniques. (Higgins changes little from edition to edition except for the price, which is now outrageous. If you decide to acquire a copy, buying a used copy is very cost effective.) Another possible source of guidance is Smart Financial Management: The Essential Reference Book for Small Enterprises (Sihler, Crawford, and Davis), which is based on a simplification of the Financial Management technical notes. A couple of copies of the book are on reserve for the SEF course.
Sundry notes

Although concern with grades is alleged to decline rapidly in the second year, some information on that subject with respect to SEF may be useful. I expect to weight class participation and the final examination each 50 percent. The final examination will be a take-home case analysis. The full range of grades, from 'D' to 'F', will be available for use as required.

As soon as possible after a class session is over, I record class participation grades on a scale of 0 (no participation) to 8 (carried from the room on the shoulders of cheering classmates). A participant’s ultimate rank on class performance depends both on quality and quantity of participation.

In any professional workplace, attendance is expected at all scheduled meetings but is not mechanically tied to performance evaluation. If you cannot attend a class, for example, professional courtesy and wisdom indicate you should explain your absence in advance and determine how best to compensate for the material you will miss. You will be evaluated on what you contribute to the class discussion rather than on your attendance, but it is hard to contribute unless you are present. It is particularly important not to miss class on those days when a guest is expected.
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Assignments for the SEF Course

Strategic Perspectives

Wednesday, January 19  (Eat Well or Sleep Well?)

John M. Case Company (9-291-008)
Read: Introduction to the Private Capital Market (UVA-F-1280)

Thursday, January 20  (Go Along for the Ride?)

Titan Motorcycle Co. of America, Inc. (UVA-F-1302)
Scan: The Role of the Board of Directors with Special Reference to Distressed Corporations (Abridged) (UVA-F-1580)

Using Funds Wisely

Wednesday, January 26  (Receivables Management)

Heritage Brick Company (B) (UVA-F-1321)
The Home Store, Inc. (UVA-F-1562)

Thursday, January 27  (Strategic Acquisition)

Audubon Aggregates, Incorporated (A) (UVA-F-1307)

Thursday, February 3  (New Venture)

Relais Florence Hotel (UVA-F-1369)

Friday, February 4  (Comprehensive)

Dunsiname, Inc. (UVA-F-1475)

When this case was used as a final examination, the question was: What should Mr. Malcom do about the six issues described on the first page of the case? Defend your recommendations.
Wednesday, February 9  (Transition Case: Assets and Financing)

Kvikk Foto Holding Corporation (uva-f-1073)

Raising funds efficiently

Thursday, February 10  (Funds Profiles)

Amore Corporation (uva-f-1397)

An Excel spreadsheet (AMOREX.xls) containing the three exhibits for the Amore case may be found on the myDarden location for course 8454.

Mr. Steven Krohn, (Darden ’88), Managing Director, Virginia National Bank, will join the class discussion today.

Friday, February 11  (Financing a Startup)

DiamondBack Systems, Inc. (uva-f-1569)

Family and exit considerations

Wednesday, February 16  (Graceful Exiting)

Curtis Bag Company (uva-f-1324) (Guest will attend class)

Thursday, February 17  (Ownership Structure)

The Cardon Family (9-802-196)

The discussion will focus on the proposed arrangements for structuring the ownership of the business rather than the real-estate project itself, except as the project can be used to illustrate the proposed ownership structure.

Wednesday, February 23  (Using an ESOP)

Bay Construction Company, Inc. (uva-f-1620)

Thursday, February 24  (Getting Out)

Security Video, Inc. (uva-f-1593)

Thursday, March 3  (Asset Structure and Lease Valuation)

Superior Box Company (uva-f-1395)

Enerdynamics Corporation (A) and (B) (uva-f-1504 and uva-f-1505)

(Guest will attend class)
**Comprehensive situation**

Friday, March 4 (Comprehensive)

*Heritage Brick Company (UVA-F-1305)*

The final examination will be distributed on Tuesday, March 8, about 4:15 PM and is due back on Saturday, March 12, at 4:30 PM.