

## **QUICKSTART- FINANCIAL STIPULATION OF A START UP**

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### **Introduction**

*Quickstart* (Company's name changed based on the request) is firmly grounded sports coaching firm incorporated on 14<sup>th</sup> November 2015 with the conviction that sports activity is the only aspect that can truly catalyze Social Integration by enhancing the three basic dimensions of their existence - the body, the mind and spirit. This being the ethos of *Quickstart*, they want to embark on the journey to educate and help people of all ages & gender, that sports activity is more than just a game. The firm want to give an opportunity to the lesser privileged to experience and discover the spirit of brotherhood, egalitarian outlook, and desire to dream big and achieve bigger. The firm's endeavor is to promote sports at all levels - schools, colleges and corporate, through which one day India will be in on the world map of sports.

### **Board and management.**

The location of the corporate office is in Bangalore. Five partners namely Mr. Sundar Rajan, Mr. Faustino Rosario, Mr. Laxman, Mr. Rajendiran and Mr. Peter Van. They also have a role CEO, CXO, COO cum CMO, CFO, & Managing Director respectively. In that Mr. Peter Van is a france citizen.

### **Inception and Operation**

The firm had established its corporate office at Bangalore on 14<sup>th</sup> November 2015. Even though the passion to do this business became *dream come true*, the financing and investing progression was a nightmare in the initial stage. As purchasing a land will be a huge investment which may lock up the major portion of their capital for a longer period and culminates in huge cost of capital, the partners decided to opt for leasing the land on a monthly royalty on an agreement for 25 years.

The partners leased a piece of land with the area of 4 acres (where the corporate office is also located) in city outskirts which is approximately 8 kilometers from the city and developed the land to make it suitable for playing cricket, football and volleyball. The accessories were

procured from china i.e. artificial grass, accoutrements for the maintenance of the artificial grass, lightings, pillars and poles, fences and furniture for sitting arena etc.

The major target customers are schools and colleges (without playground and related amenities) who approach for their tournaments and other sport activities and the secondary customers are individuals (those who come for getting coached in volley ball and other sports). The tertiary customers are the local people who come to play during their leisure.

### **Instigation of concerns**

During the procurement of the articles and accessories from china, it was delayed very badly initially due to political disrupts between the countries and also due to the transaction delay as the partners were not available to sign in their respective documents for the final order. At the same time there was a lot of communication gap as there was no full time responsible middle level management with the organisation at that time. In between the progress of the business, the partners were often withdrawing their investments considerably for their personal business activities. Anyhow they returned their drawings back as per their word. (which was allowed as per the partnership deed)

At the same time, the partners are having other businesses of their own to earn their regular income prior to this business. As they are busy with their own business which are already deep rooted and not able to concentrate fully on this business, they have appointed 2 managerial personnel to take care of day to day activities and update the events on weekend basis which added their expenses. The expenses are raising up day by day for maintaining the land, land royalty, stadium and the field, salary and wages, electricity charges, promotional expenses, regular damages and repairs in the field and other indirect expenses. The added cost burden for the firm is that the partners are drawing a huge sum as salary for the designation which they are given in the management. Mr. Laxman (one of the partner) is taking care of marketing and promoting activities right from the inception.

As a part of advertising and promotional activities, pamphlets and notices were printed with the details of the offers and schemes for the utilization of the ground and were issued to schools and colleges within 10 kilometers surrounding but was not fruitful due to the unviable financial terms and conditions. There was no experienced or skillful marketing team and the CMO too couldn't work on it appropriately due to his commitments in his personal business activities. During the month of June 2016, Few nearby school managements approached for entering an annual or 3 years' or 5 years' agreement by that the whole academic year, a portion of the field will be reserved for them whenever they required.

The summary of the proposed financial terms of the agreement was as follows:

**Exhibit No:1**

<b>PARTICULARS</b>	<b>Amount in Rs.</b>
Initial refundable deposit during the month of June	Rs.50000
Monthly rent (maximum 100 students at a time in the reserved portion of the field, Weekly 2 days and 5 hours each day)	Rs.20000
For sports day activities (per day)	Rs.10000
For inter school tournament organized through the school (The whole ground can be utilized and maximum 500 students at a time, 7 hours on that day)	Rs.20000

But the decision on executing the agreement was kept on pending. The demand went on rising. At one point of time 12 schools in the surrounding area have approached with more or less similar proposed agreement. Discussions happened in this regard but no final decisions were taken due to the constraint in reserving the portion of the field exclusively for one particular field. *There is a trilemma in the decision making whether to enter into an agreement with schools immediately or to wait for more demand or not to enter into any such agreements.*

**Annual meeting and further proceedings to sort out the crisis**

During the annual performance meeting on October 16<sup>th</sup>, 2016 few areas were highlighted such as Income level, Promotions and growing expenses etc. Mr. Peter Van, the managing director has expressed his opinion on the under performance of the managerial personnel. The managerial personnel in return expressed their inability due to the dual commanding from the CFO and CMO at a time and also expressed their negative views on the modus operandi in marketing and promoting activities and it was also concerned about pending decision on the agreements with the schools.

During the month of January 2017, the CEO decided to extend the office and field working hours by that the field's idle time could be reduced and the optimum utilization of land might happen and the same will lead to increased income as it never happened as the booking was not there during late night hours due to severe cold weather. So that idea was dropped within that month. Then the CEO decided to approach a business consultant to get an idea of what next possible

solution to come out of the growing financial crisis and to start earning profit. The suggestion given by the consultant was to create a business tie up with summer camp/sports academies and generate funds by providing the ground for rent. But that was not executed due to deadlock in the decision making between between CEO & MD. Then there was a short meeting during January 2017 between the CMO, CEO and CFO regarding involving a new partner divestment or to go for bank borrowing. It was informed to Mr. Faustino Rosario and Mr. Peter Van. Both of them refused to do so as it will dilute their grip on the firm and unable to decide about the viability of the bank borrowing as the interest rate on business loan is 15.5% at present.

### **Decision on introduction of a new partner**

After a couple of meetings thereafter, it was decided to go for additional borrowing or involving a new partner (whichever happens earlier) and utilizing the further capital for marketing and promotional activities. This decision was not only for promotional activity but also to keep the continuous flow of fund for uninterrupted business operations for few more months and to take an appropriate remedial action to come out of this financial dearth before the next annual meeting. Fortunately, during the month of May 2017, they decided to involved a new partner with a capital of Rs. 850,000. *But there is a dilemma whether to involve a new partner or to opt for a bank borrowing where bank borrowing can be settled once considerable profit is earned but in case of partnership, the partner will continue and there must be a profit sharing in future and the proportion of the profit sharing will be considerably shuffled and may culminate in reduction the future share in the profit.*

Their target was to earn a revenue of atleast 200% of their total expenses in a year as the sports management is an area which is evergreen and demand is more always. From past one year it was found that there is a considerable decline of revenue and fluctuations in the expenditure and the pattern of revenue generation.

At present the partners are thinking of either exiting the partnership deed or to bring in a new partner and divesting their investment as the income is not upto the expectation of-course not even to breakeven level but the expenses are increasing month by month due to electricity charges and other indirect expenses. Mr. Sundar Rajan and Mr. Rajendiran have already expressed their disappointment in the business due to the dissatisfactory income level and growing expenses.

*The investors are concerned in this regard and tangled with further accomplishments in the business and are in the verge of acquiescent a solution as the continuation of the existing financial turbulent situation will be hammering the survival of the business.*

**Exhibit No. 2**

**Balance sheet for the year ending 31<sup>ST</sup> March 207**

<b>LIABILITIES</b>	<b>Amount Rs.</b>	<b>Amount Rs.</b>
<b>Partners' Capital</b>		
Mr. Sundar Rajan	1,200,000	
Mr. Faustino Rosario	800,000	
Mr. Laxman	500,000	
Mr. Rajendiran	800,000	
Mr. Peter Van	800,000	4,100,000
Bank Loan		500,000
Current liabilities		200,000
<b>Total</b>		<b>4,800,000</b>

<b>ASSETS</b>		
Fixed Assets	1,050,000	
Depreciation	156,000	894,000
Office supplies and utilities		22,000
Current Assets		420,000
Profit and Loss account		3,255,000
Cash and Bank		209,000
<b>Total</b>		<b>4,800,000</b>

**Note: The financial details are extracted from the SFP of the firm & is not disclosed openly based on the request as it is a partnership firm and the name of the firm is not disclosed**

**Exhibit No. 3**

Income statement for the year ending 31st March 2017(Extractions after Post Annual Meeting)							
Particulars	October' 16	November' 16	December' 16	January' 17	February' 17	March' 17	Total
1. Gross Revenue	₹ 1,200,000.00	₹ 1,250,000.00	₹ 1,550,000.00	₹ 950,000.00	₹ 550,000.00	₹ 1,110,000.00	₹ 6,610,000.00
Ground Retail Rent	₹ 750,000.00	₹ 700,000.00	₹ 800,000.00	₹ 400,000.00	₹ 250,000.00	₹ 250,000.00	₹ 3,150,000.00
Ground Corporate Rent	₹ 100,000.00	₹ 150,000.00	₹ 100,000.00	₹ 150,000.00	₹ 200,000.00	₹ 50,000.00	₹ 750,000.00
Academy	₹ 350,000.00	₹ 400,000.00	₹ 450,000.00	₹ 200,000.00	₹ 100,000.00	₹ 110,000.00	₹ 1,610,000.00
Camps	₹ 0.00	₹ 0.00	₹ 200,000.00	₹ 200,000.00	₹ 0.00	₹ 700,000.00	₹ 1,100,000.00
2. Less: Cash Discounts	₹ 0.00	₹ 0.00	₹ 0.00	₹ 0.00	₹ 0.00	₹ 0.00	₹ 0.00
<b>A. NET REVENUE</b>	₹ 1,200,000.00	₹ 1,250,000.00	₹ 1,550,000.00	₹ 950,000.00	₹ 550,000.00	₹ 1,110,000.00	₹ 6,610,000.00
<b>Less: Variable Expenses</b>							
Senior Executive's salary	₹ 300,000.00	₹ 300,000.00	₹ 300,000.00	₹ 300,000.00	₹ 300,000.00	₹ 300,000.00	₹ 1,800,000.00
8. Employee's Wages and Salaries	₹ 234,200.00	₹ 244,200.00	₹ 234,200.00	₹ 244,200.00	₹ 244,200.00	₹ 244,200.00	₹ 1,445,200.00
9. Supplies and Postage	₹ 1,500.00	₹ 1,500.00	₹ 1,500.00	₹ 1,500.00	₹ 1,500.00	₹ 1,500.00	₹ 9,000.00
10. Advertising and Promotion	₹ 25,000.00	₹ 30,000.00	₹ 35,000.00	₹ 40,000.00	₹ 45,000.00	₹ 50,000.00	₹ 225,000.00
13. Travel	₹ 12,000.00	₹ 14,000.00	₹ 13,500.00	₹ 12,000.00	₹ 13,000.00	₹ 12,500.00	₹ 77,000.00

19. Utilities (Heat, Light, Power)	₹ 26,600.00	₹ 27,000.00	₹ 30,000.00	₹ 24,000.00	₹ 28,000.00	₹ 34,000.00	₹ 169,600.00
20. Telephone	₹ 5,600.00	₹ 5,400.00	₹ 5,800.00	₹ 4,900.00	₹ 6,200.00	₹ 6,500.00	₹ 34,400.00
16. Maintenance Expense	₹ 15,000.00	₹ 45,000.00	₹ 45,000.00	₹ 45,000.00	₹ 45,000.00	₹ 45,000.00	₹ 240,000.00
17. Miscellaneous	₹ 144,200.00	₹ 0.00	₹ 0.00	₹ 0.00	₹ 0.00	₹ 0.00	₹ 144,200.00
<b>D. TOTAL VARIABLE</b>							
<b>EXPENSES</b>	₹ 764,100.00	₹ 667,100.00	₹ 665,000.00	₹ 671,600.00	₹ 682,900.00	₹ 693,700.00	₹ 4,144,400.00
Less: Fixed Expenses							
18. Rent	₹ 700,000.00	₹ 700,000.00	₹ 700,000.00	₹ 700,000.00	₹ 700,000.00	₹ 700,000.00	₹ 4,200,000.00
21. Taxes and Licenses	₹ 4,500.00	₹ 4,500.00	₹ 4,500.00	₹ 4,500.00	₹ 4,500.00	₹ 4,500.00	₹ 27,000.00
22. Depreciation	₹ 8,500.00	₹ 8,500.00	₹ 8,500.00	₹ 8,500.00	₹ 8,500.00	₹ 8,500.00	₹ 51,000.00
23. Interest	₹ 35,000.00	₹ 35,000.00	₹ 35,000.00	₹ 35,000.00	₹ 35,000.00	₹ 35,000.00	₹ 210,000.00
24. Insurance	₹ 0.00	₹ 0.00	₹ 75,000.00	₹ 0.00	₹ 0.00	₹ 75,000.00	₹ 150,000.00
25. Other Fixed Expenses	₹ 12,000.00	₹ 12,000.00	₹ 12,000.00	₹ 12,000.00	₹ 12,000.00	₹ 12,000.00	₹ 72,000.00
<b>E. TOTAL FIXED EXPENSES</b>	₹ 760,000.00	₹ 760,000.00	₹ 835,000.00	₹ 760,000.00	₹ 760,000.00	₹ 835,000.00	₹ 4,710,000.00
<b>F. TOTAL OPERATING EXPENSES</b>	₹ 1,524,100.00	₹ 1,427,100.00	₹ 1,500,000.00	₹ 1,431,600.00	₹ 1,442,900.00	₹ 1,528,700.00	₹ 8,854,400.00
<b>G. NET OPERATING PROFIT (LOSS)</b>	₹ -324,100.00	₹ -177,100.00	₹ 50,000.00	₹ -481,600.00	₹ -892,900.00	₹ -418,700.00	₹ -2,244,400.00