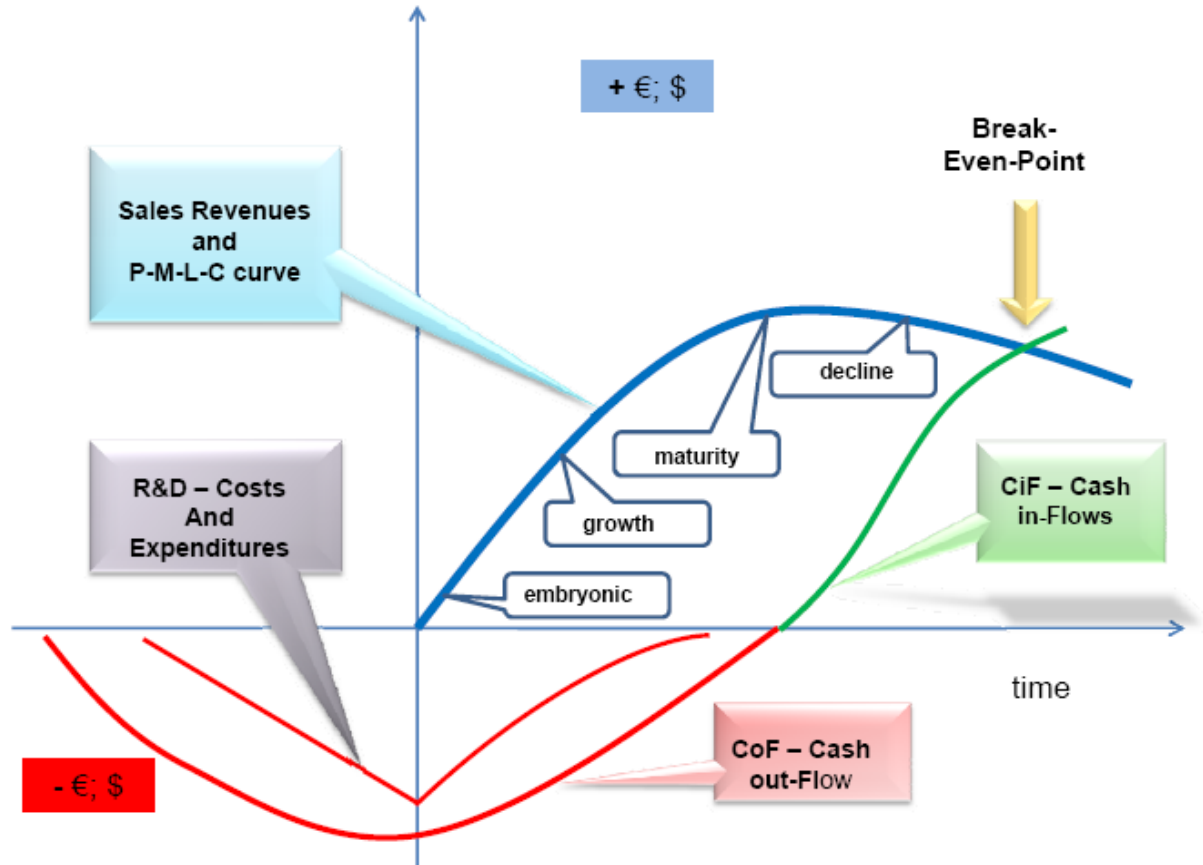




## Sales, Costs, Cash-Flows, and Product/Service-Market-Life-Cycle



HQIC devised a simple formula to stress the fact that R&D results have to be turned into INNOVATIONS to engender returns and cash in-flows from initial and ongoing cash out-flows:

$$\begin{aligned} \text{R\&D} &= \text{Costs} \\ \text{Innovation} &= \text{Returns} \end{aligned}$$

HQIC suggests incorporating a discounted cash flow analysis (DCF - Method) already at the very beginning of the planning process. Decision making stands on solid ground when realistic data are accessible and intelligent assumptions are made. The break-even-point is reached when:

**Discounted CoFs = Discounted CiFs**

In addition to the above, we recommend consulting with Christian Stadler's (2007) *The Four Principles of Enduring Success*. Stadler underlines the business wisdom of exploitation vs. exploration. To get a taste for Stadler's approach please select "**Important Elements of Successful Organizations**".

**Legend:**

R&D – Research and Development

P-M-L-C = P/S-M-L-C – Product and/or Service Market Life Cycle

DCF-Method – discounted (to the present) CoFs are deducted from discounted CiFs. The result, i.e. the NPV (Net Present Value) has to be a positive number to pursue a certain project. The WACC (Weighted Average Cost of Capital) should be used as the interest rate for discounting purposes. A positive NPV leads to an IRR (Internal Rate of Return) which is greater than the WACC used in the computation. Details on how to incorporate the DCF-Method into planning processes will follow later.