

DON WALTERS AND NEXTBLOK: CHANGING THE WAY HOUSES ARE BUILT

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NextBlok “*will change the way houses are built in the United States and the world,*” claimed Don Walters, the 88-year-old inventor and entrepreneur. Walters, a California businessman with 15 years’ experience as a building contractor, received a U.S. patent for an insulated concrete form (ICF) block used for building construction (see Exhibits 1 and 2). Unpatented – but surely as important – were Don’s notions of how a house could be efficiently constructed using his block. NextBloks would click together and be held by glue, so that construction would be easy and waste-free. The big advantage, Don claimed, was that his block would be “*easy to build with*” compared with rival non-wood materials for housing construction. But NextBlok offered several other advantages: it was fire-resistant, wind and hurricane resistant, impervious to water, pest and termite-free, and because the material itself served as insulation, it would reduce homeowners’ heating and cooling costs significantly. All for a price comparable to a wood house ... a wood house that could burn, blow away in a storm and wash away in a flood, become a nest for rodents and termites, and require enormous energy to heat and cool. Who wouldn’t want a NextBlok house?

Don called his product “*triple green.*” NextBlok promised to reduce waste by using recycled Styrofoam, save trees, and save energy. Don prepared a detailed and ambitious business plan and practiced over and over again his PowerPoint presentation. (Exhibit 3 provides the product description included in his business plan.) After years of pitching his business idea to anybody who would listen, Don had yet to raise any capital. Everybody seemed to love the idea, but nobody wrote a check.

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Were Don's ambitions too grandiose? Why was it proving so difficult to raise funds – was the venture simply too risky for potential investors, or had he been knocking on the wrong doors? Should Don Walters (a) continue to seek investors with the current business plan; (b) seek a different source of funding; (c) substantially revise his plan to make it more attractive to 'traditional' investors; or (d) discard his business model, and try to sell or license the patent?

Don established NextBlok, Inc. to manufacture and commercialize the NextBlok product and other associated building materials – some forthcoming from NextBlok, Inc. and others manufactured by other firms. NextBlok, Inc. would compete in the framing and construction materials industry. It would initially target the new home construction markets in the U.S. and Mexico, and later expand to other geographies and other markets such as small commercial and industrial buildings and military applications.

Target Market

All houses were built on a frame – the support structure of the building. The majority of houses built in the U.S. were made with wood frames, but houses could also be made with the more expensive cement, steel, or brick frames. Homebuilders in the United States had historically used lumber as their default framing material because of familiarity and low cost in home construction. To replace wood, NextBlok, Inc. would need to convert traditional house builders to a new material. Happily, a number of factors had led builders to seek alternate framing materials: increasing lumber prices and decreasing availability and quality of wood, new state and federal laws that promoted green alternatives, and wood's vulnerability to pests and toxic mold. Per Don Walter's calculations, the total cost of a NextBlok house would be nearly identical to that of a wood frame house. Moreover, it took $\frac{3}{4}$ of an acre of trees to produce a single 2,500 square foot house, while NextBlok was made of cement and waste EPS (expanded polystyrene, typically known as Styrofoam). NextBlok, in many ways, was a much superior building material to wood or any existing ICF product. (Exhibits 4 and 5 provide cost and quality comparisons with rival framing materials.)

The target markets for NextBlok, Inc. were U.S. and Mexican builders of new homes. Approximately 1.2 million new homes were built in the U.S. each year, and about 500,000 in Mexico. Per Don's data, the U.S. and Mexican framing materials market together reached about \$29 billion. Don estimated that the market was growing annually at about 3%. After all, the population was constantly growing and people needed houses. ICFs were already on the markets, with total sales of \$260 million in the U.S., and an average growth rate of over 10% per year for the past several years. Don estimated that the estimated framing market exceeded \$13 billion per year in the U.S. market alone. And while the U.S. was the big market, Don was eager to begin marketing in Mexico, where – unlike in the U.S. – wood was not as widely used in framing homes. Mexican houses were typically made of cement or brick. Don thought that Mexican builders would be more open to using an alternative framing material that was not a radical departure from their current building methods. Frosty Canada was also a great potential market, and in fact, some U.S. manufacturers sold ICF products to Canadian builders. Don also identified a number of secondary markets that could be approached in a later phase of development. There were obvious commercial, industrial and military uses for the product. Internationally, the framing materials market was estimated to exceed \$51.4 billion annually.

Don believed that NextBlok's product advantage would enable it to dominate the house framing/construction material market – it was just a matter of making the product available to builders. With NextBlok's lower costs and superior product features, Don was confident that, in short order, his pioneering product would be adopted worldwide.

Don Seeks Investors

Don had been shopping the concept and plan to just about anybody who would listen nearly every day for several years. Every morning he got up and did *something* to raise interest in the product or send information to potential investors or parties with influence in the housing

construction industry. Just about every afternoon he had a meeting with somebody to exchange ideas or, on a good day, to pitch for investment. Don had spent many hours, with the help of a Los Angeles business school professor, to refine his business plan and practice his “pitch” with a set of PowerPoint overheads. He pitched, and pitched, and pitched the business idea to dozens of “Angels,” interested parties, and wealthy individuals. He commented that he had “many nibbles but no bites,” that is, no serious offer of investment. Don was worried about the people he called “vulture capitalists” who wanted majority ownership for non-commensurate input. And while Don was willing to give up – eventually – the majority of the equity in the business, he was loathe to do so before the business was up and running with enough capital to do it right. He believed that his business idea wasn’t attractive to traditional investors because it was not a “sexy dot-com business.” And while everybody was *in theory* interested in green products, in practice it was hard to get investors excited about green construction. Don remained amazed that investors couldn’t see the obvious growth potential; after all, the market for his product was huge! He did recognize that the size of investment sought (see Exhibit 6), about \$7.5 million to start and a total of \$67.4 million over three years, plus the fact that Don himself could provide no cash equity, were factors that made the process more difficult. Don was convinced that he needed to find somebody with high-level credibility who could open doors for him, so he could get access to potential investors. He was also bothered that universities and government agencies could not provide him with “the list” of potential financiers/investors who could be of help to entrepreneurs like him.

Knocking on Many Doors

After several unsuccessful pitches, Don realized that investors were wary of making significant investments in a business that would rely entirely upon a man of his age. After much soul searching, he arrived at the conclusion that he would need to find a CEO to run the business. Moreover, he liked the idea of having somebody run the business so that he could concentrate on further product development, process innovations, and filing for patent extensions and new

patents. He had a long list of new products he wanted to work on. He approached a few acquaintances and explored the possibility of one of them taking the helm, but none of them seemed able to raise the capital he needed. He then decided to place an ad on Craigslist for a CEO who would find funding and run the business (see Exhibit 15 for Craigslist ad.) At any given time over the past two years, Donald Walters had three to five people assisting him try to raise capital – whoever brought in the money, Don promised, would become CEO of the company. *“You gotta dance with the one who brung ya,”* he liked to say. What Don learned, however, was that few investors were willing to consider the amounts he needed – some seemed to think the project was too big, and a few thought it was too small to consider. (One potential investor from the Middle East and another from Turkey had talks with Don over several months and convinced him that *“too small would kill the project.”* However, neither one made the investments they were talking about.)

One or two of the people who showed interest, Don believed, had presented him with funding schemes that might very well have been scams. So in spite of having made dozens of presentations and having corresponded with hundreds of potential investors, Don had not been able to raise any money at all. The people he found to help him raise money – all of whom were initially excited about the prospect of becoming CEO and confident that they could raise the money – gradually turned their attention elsewhere. How would Don raise the capital he needed to launch NextBlok?

Sell or License the Patent?

When Don discussed his business ideas with people, he often heard the suggestion to *“sell the patent”* or *“license the patent.”* After all, well-wishers said, given your age, you should be able to enjoy life now with the money you would get. According to Don, one person to whom he pitched the idea *“offered a million dollars”* for outright ownership of the patent, but Don hesitated and the offer evaporated. The offer, however, was vague and not in writing. In

another case, a San Francisco firm offered to find a company or companies that would license the use of the patent. When the San Francisco firm sent Don a contract, he balked: apparently, this matchmaker would keep 15% of all revenue generated from the license deal in perpetuity. Don considered himself a *doer* – a person who actually go things done – and it bothered him that so many people he met were merely *talkers* with no capability to make things happen.

Don assumed that existing ICF firms would have no interest at all in licensing his patent. He believed that the composite ICF manufacturers, especially the market leader Rastra, were complacent and without the bold vision needed to enlarge the market beyond the current niche of ICF builders. He approached cement manufacturers, but never got in the door. A major waste management firm, interested in getting rid of Styrofoam, initially showed interest but nothing came of several meetings.

It was also suggested to Don that he arrange for a joint venture with a housing developer. A developer, who could both be a capital investor and a major customer for blocks, could get the business off the ground. Maybe so, Don thought, but where were the developers who might be interested in ICFs? Most ICF homes were built by independents on single plots or small developments. Very large development firms – large enough, that is, to give NextBlok enough business to get started – shied away from new approaches. When Don approached several large development companies, they showed no interest. Moreover, Don noted, “*the big boys like KB Homes*” had an inventory of unsold wood houses they couldn’t get rid of at a profit.

Yet he remained convinced: if Don Walters could construct a model NextBlok house, interest would be created. All investors needed was to realize the tremendous advantages that such a home offered, and just how attractive a long-term investment like this one would turn out to be. Nonetheless, he could not build a model NextBlok house without a capital investment. Without the investment, he couldn’t show off a model home. Without a model home, he thought he would not be able to get the investment he needed.

NextBlok's Competitive Advantages

Don believed that the attractiveness of his new venture was not only in its financial returns – which would be very good but not exorbitant – but also because NextBlok represented a fundamental shift in the technology of building construction. He envisioned a vast international market for the product. For the U.S. market, and particularly for California, he was proud that NextBlok was “*Triple-Green.*” It was green because: 1) the blocks would be made from waste Styrofoam; 2) the blocks were self-insulating so that a dwelling built with the material would require less air-conditioning in warm weather and less heating in cold weather; and 3) no trees were killed to make the blocks.

Product Advantages over Rival ICFs. Insulated concrete forms (ICFs) were heavy frames that addressed the insulation problems associated with steel, cement and brick. ICFs were not new. They had been used in housing construction since the 1970s. Unlike the NextBlok, rival ICFs did not click together. There were two major types of ICF forms on the market: EPS forms (100% EPS that were later filled with cement) and Composite ICFs (which had ingredients similar to NextBlok, a mixture of some insulating material and cement).

While the use of ICFs has grown quickly in the United States, according to Don there were two main obstacles to their widespread acceptance. First, existing ICF products were difficult to build with. Second, builders were reluctant to adopt new materials, particularly if they were not supplemented with plans, cost estimates, samples, training materials, and technical support. Don planned to address both weaknesses with NextBlok, Inc.

Don had prepared an exhaustive study on the limitations of existing ICF products, which he was happy to discuss at length with anyone who would listen, including some of the following:

- ***Existing ICF products were expensive.*** NextBlok would allow builders to make a high quality house at a price nearly identical to that of a house built with wood, and about 1/3 the cost of using other ICFs.
- ***EPS forms were difficult to build with.*** EPS forms (EPS-only forms that were later filled with cement) were difficult to build with and labor intensive, primarily because an extensive

system of bracing needed to be used. Some EPS forms required a labor-intensive process of attaching mechanical clips to ensure alignment. Don said when a builder used EPS forms, he had to “*build a wall in order to build a wall,*” which made no sense. EPS forms required 35% more cement than NextBlok would, and cost 30% more in material and labor. (Exhibit 7 shows the bracing required when using EPS forms.) NextBlok’s patented shape created a mechanical seal at each joint, eliminating the need for bracing.

- **Composite ICFs were cumbersome.** ICFs from the companies Rastra, Trilogy, and Cempo were large (10 feet long), heavy (110 to 300 pounds), and cumbersome to align and use. Placing the blocks required a crane and a crew of strong laborers. Each NextBlok would weigh only 34 lbs., and could easily be lifted and fitted in place by a single worker, and transported to any building site on standard size pallets. Both rival ICFs and wood were wasteful. Houses made with existing composite forms typically resulted in a large amount of waste, since the huge blocks had to be cut to fit the shape that the architect had planned. (Exhibit 8 shows waste at two building sites, one using wood and the other using one of Don’s rival’s Composite ICFs.) Because of NextBlok’s shape, waste at a NextBlok building site would be minimal.
- **EPS forms and Composite ICFs had blow-outs.** Both EPS forms and existing Composite ICFs were susceptible to “*blow-outs that caused significant delays in construction,*” Don noted. Blow-outs occurred when cement leaked out from between the blocks and caused a structure to collapse. (Exhibit 9 shows a blow-out that occurred by a builder using a rival product.)
- **Rival products offered builders very limited technical support, or none at all.** NextBlok, Inc. would provide a full array of support services to builders, and would be able to provide approved plans, blueprints, and eventually full “*kits*” for house construction.

Product Advantages over Wood Frames. The NextBlok housing frame had many advantages over a wood housing frame. The labor and material costs for insulation, HVAC, and foundations were reduced without compromising quality. The insulation of a NextBlok home was superior to that typically placed in a wood home. Working with data reported by HUD on ICF houses compared with traditional wood homes, Don estimated that NextBlok homes would save owners 44% on heating and cooling costs. NextBlok homes would also be quieter than wood homes were. Moreover, ICFs were fire resistant; the material did not sustain combustion – a feature that should be particularly appealing to home buyers in places like California where homes were threatened by fires. Unlike wood houses, which provided nooks and crannies for pests to make nests, an ICF home couldn’t be gnawed by rodents or eaten by termites.

Moreover, toxic mold – which grew on wet wood and had caused some homeowners to be so sick they had to move out of their new houses – could not survive on cement and Styrofoam.

Again based on the HUD studies, Don estimated that a NextBlok home would be resistant to earthquakes up to a magnitude of 7.5 and could withstand hurricane winds up to a Category 5. He liked to claim that if the houses in New Orleans had been made of NextBlok, Hurricane Katrina would have been only a minor annoyance. To prove his point, he carried a photograph of one lonely house that remained standing while all of its neighbors were swept away by Katrina – a house constructed (by the owner himself) with ICFs (see Exhibit 10).

One potential market-limiting factor was that Don's technology was limited to a maximum height of five (standard) levels. There were, apparently, some engineering characteristics of the material that will not allow it to support taller structures.

Don's concept was through and through innovative. ICF blocks made of about 85% Styrofoam and 15% concrete were not new. After the ICF composition was invented by Warner Gragorie in 1968, the first ICF plant was established in 1972 by Rastra, the current ICF industry leader. What was new? Don's proposed manufacturing process was expected to be more advanced and efficient, and his block design - size and configuration - allowed for greater efficiencies in both manufacturing-distribution and the building construction process. In fact, the technology to combine the ingredients for the blocks would be new also, and Don hoped to get multiple patents on his design for a block making "machine." Don's sample NextBlocs were crude (see Exhibit 2) but did allow investors to see what the product would look like.

Strategy

NextBlok, Inc.'s strategy for entering the market began with making the machine that would be needed to manufacture the blocks, then establishing one prototype factory (the machine plus peripheral equipment, with silos for water). Doing so would allow Don to produce the first

blocks and immediately use them to build a proof of concept house. The first house would be critical to show to investors and builders, as well as necessary to run tests and identify areas for improvement. Don had prepared detailed sketches, blueprints and plans for the factory, and was convinced that he could obtain several additional patents. According to Don's business plan, in a first phase a prototype machine would be designed and constructed, the production process refined and tested, and the initial factory sites selected. In a second phase, NextBlok, Inc. would open plants in the U.S. and Mexico. Following that, NextBlok, Inc. would work on new product development alongside the production and sale of the core product while working on new applications and complementary building materials.

Marketing Plan

Don believed he had a well-crafted marketing plan. With funding, he would hire professionals in marketing, sales, customer service, and public relations. He would have a team of expert craftspeople who could be rushed to a site to solve any technical problem, and provide supplemental training to builders. NextBlok, Inc. would target the key decision makers in the framing materials selection process: developers, general contractors, architects, and local building authorities through direct marketing and public relations. In addition, an advance team of technical salespeople would support each new factory in the locations being targeted.

NextBlok's promotional strategy would focus first on 500-plus builders who already used ICFs. They would be provided with technical documentation, samples, house plans, and training materials. Don spoken with many of them about his new product. Their response was typically something along the lines of, *"When will this stuff be available, Don?"*

Second, architects and local building authorities in certain locations would be contacted through direct marketing and seminars, and provided with technical information and materials describing NextBlok. NextBlok would even train and provide official certification of trained

builders. National and local architectural organizations and trade publications would likewise be contacted by NextBlok's marketing team.

Third, promotional efforts would be directed at major developers and general contractors who primarily built with wood. In these cases, the marketing pitch would be to "convert" them to NextBlok, and substantial concessions in price would be made for those who were willing to give it a try.

Fourth, potential new homeowners would be informed about NextBlok through public relations actions. Don envisioned his team of experts building a house on a television program like *Extreme Makeover: Home Edition*.

Finances

After many hours working with a spreadsheet, Don arrived at the conclusion that the project wouldn't work if it were undercapitalized. He needed to develop the block-making machine, then construct the prototype factory. He insisted that there be funds available for proper marketing and start-up expenditures (see Exhibit 11). NextBlok, Inc. would then need additional investment for expansion of factories and to go after the U.S. and Mexican markets. His business plan projected gross revenues of \$672 million in the fifth year of operations, resulting in an operating cash-flow of 207.3 million for that year. (See Exhibits 16 to 18 for financial projections.). The incremental return on each additional factory was estimated to be in excess of 70% over five years and beyond.

Frankly, Don believed, once the pilot factory got worked out and the roll-out started, his business would be very attractive in financial terms. The market was enormous and the product highly profitable. Of course, to achieve these sales volumes meant going beyond the niche of builders already convinced that ICFs were superior. That meant convincing builders accustomed to wood that NextBlok was superior.

Don Walters was absolutely convinced that *“NextBlok will be the best ICF to build with.”* In concept, NextBlok was an extraordinary framing material. Compared to other ICFs, it promised to minimize waste, cost less, be easy to use, and come with full technical support. But it seemed house builders resisted change. Would NextBlok, Inc. be successful in convincing builders to choose NextBlok over wood, and for that matter, over rival ICF materials?

Were Don’s ambitions too grandiose? Why was it proving so difficult to raise funds – was the venture simply too risky for potential investors, or had Walters knocked on the wrong doors?

Should Don Walters (a) continue to seek investors with the current business plan; (b) seek a different source of funding; (c) substantially revise his plan or to make it more attractive to ‘traditional’ investors; or (d) discard his business model, and instead try to sell or license the patent?

Exhibit 1. NextBlok Patent

Source: Don Walters

U.S. Patent

Jul. 8, 2003

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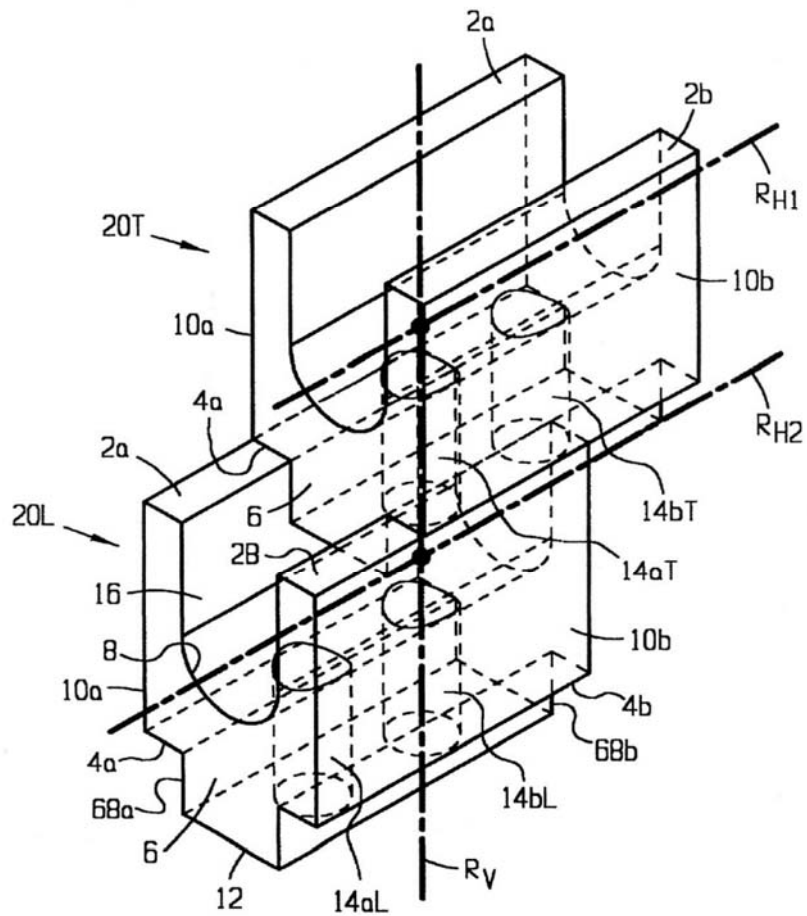


Exhibit 2. Photos of NextBlok

Source: Don Walters



Exhibit 3. Product Description (Excerpt from Don's Business Plan)

Source: Don Walters

What is NextBlok?

NextBlok is a patented insulated concrete form (ICF) made of a composite mixture of 15% cement and 85% recycled EPS (expanded polystyrene), to construct exterior and interior walls (framing) for houses, condominiums, and commercial buildings, of up to five floors. Its patented block shape is 10" x 16" by 32," though blocks can be produced with a variety of dimensions to accommodate differing construction requirements.

Like other ICFs, a NextBlok wall is first assembled, glued, and then reinforced with rebar. The advantage of NextBlok is that unlike competitors, its patented shape clicks together, without the need for time consuming block alignment and costly external bracing. Cement is then injected through channels into the NextBlok wall, where it hardens to form a reinforced concrete frame structure. The forms (or blocks) are left in place to provide the hard wall surface, insulation, and sound buffering. The walls are then sealed using plaster or a proprietary stucco-cement mix.

A standard electrical saw/router can be used to rapidly groove the wall for the installation of the electrical wiring, copper piping, and to cut windows in the structure prior to reinforcement with rebar. Since the NextBlok form provides insulation, there is no need for additional insulation. Moreover, because the internal walls are plastered, there is no need for drywall installation.

NextBlok blocks are light enough for one worker to lift and place easily (approximately 34 lbs.) without cranes or winches. Because the blocks click together, there is minimal waste of materials. Because of the small size, the product can easily be palletized for transportation.

NextBlok is a green product. EPS has a lifespan of one million years; waste disposal facilities charge fees to bury it in the ground. NextBlok reduces heating/cooling costs by up to 44% in comparison with wood frame construction. Finally, NextBlok eliminates the need for wood as a framing material, preserving our forests, meeting future green construction requirements.

NextBlok is strong. Properly engineered, structures made with NextBlok can be expected to withstand up to a level 7.5 earthquake. NextBlok is resistant to fire, hurricanes, and hurricane speed winds. NextBlok is impervious to water, does not breed toxic mold (as does wood), and does not provide a home for termites or other pests. A house built with NextBlok is a reinforced concrete frame house that will remain sound for more than 500 years, while costing the same as a wood frame house.

Exhibit 4. NextBlok and Wood Frame Houses: Costs of a Typical U.S. New Single Family Residence (2,500 square feet)¹

Source: Don Walters

	NextBlok House – Costs				Wood Frame House - Costs			
	Materials	Labor	Equipment	Total	Material	Labor	Equipment	Total
Foundation	4,800	9,300	1,800	15,900	4,800	9,300	1,800	15,900
Frame ²	17,300	22,800	1,430	41,530	16,000	22,500	120	38,620
Insulation	960	630		1,590	2,910	1,920		4,830
Exterior Finish and Trim	9,300	5,800	790	15,890	8,830	5,530	750	15,110
Doors and Windows	4,100	2,900		7,000	4,100	2,900		7,000
Roof	6,500	5,180		11,680	6,500	5,180		11,680
Interior Walls (Wood)	5,000	10,200		15,200	5,000	10,200		15,200
Painting	2,600	5,800		8,400	2,480	5,490		7,970
Electrical	4,400	5,070		9,470	4,400	5,070		9,470
Floor and Carpet	5,530	3,740		9,270	5,530	3,740		9,270
Plumbing, Kitchen and Bathrooms	19,860	12,220	400	32,480	19,860	12,220	400	32,480
Heating and Cooling and Fireplace	7,260	11,640		18,900	7,760	11,640		19,400
Direct Job Costs	\$87,610	\$95,280	\$4,420	\$187,310	\$88,170	\$95,690	\$3,070	\$186,930
Indirect Job Costs (Insurance, Permits, Plans, Cleanup, etc.)	9,000	775		9,775	9,000	775		9,775
Contractor Markup	23,186			23,186	23,321			23,321
Total Cost	\$119,797	\$96,055	\$4,420	\$220,272	\$120,491	\$96,465	\$3,070	\$220,026

¹ www.building-cost.net

² Framing materials include ICF blocks, steel rebar, and cement.

Exhibit 5. Comparative Analysis of NextBlok, Wood, and ICF Competitors³

Source: Don Walters

	NextBlok	Reddi-Form	Reward Wall System	Rastra	Quad-Lock Building System	ARRX Building Systems Inc.	Wood Frame Home
Cost of Material	\$ 18,000	\$32,000	\$32,000	\$34,000	\$33,000	\$32,000	\$24,000
Labor Costs	\$ 10,000	\$16,000	\$16,000	\$21,000	\$16,000	\$16,000	\$17,000
Flammability	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent	Very poor
Bracing	Minimal	Excessive	Excessive	Excessive	Excessive	Excessive	Normal
Consolidation of Cement	Excellent	Very poor	Very poor	Very good	Very poor	Very poor	n.a.
Energy Annual Savings	Cool 32 % Heat 44%	32 % to 44%	32 % to 44%	32 % to 44%	32 % to 44%	32 % to 44%	Regular
Insulation (R Values) Thermal performance	R-40	R-40	R-40	R-40	R-40	R-40	R-11
Customer Preference	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent	Regular
Heating, Ventilation & Air Conditioning)	20 % smaller	20 % smaller	20 % smaller	20 % smaller	20 % smaller	20 % smaller	Regular
Block Size (Material)	Excellent 32" x16" x10"	Very poor	Very poor	Very poor	Very poor	Very poor	n.a.
Ease of Use	Excellent	Very poor	Very poor	Very poor	Very poor	Very poor	Excellent
Interconnection	Excellent	Very poor	Very poor	Very poor	Very poor	Very poor	n.a.
Sound Efficiency	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent	Poor
Different Block Shapes	Many	One	One	Three	One	One	n.a.
Drywall	None	Necessary	Necessary	None	Necessary	Necessary	Necessary
Need for Foundation	None	Yes	Yes	Yes	Yes	Yes	Yes
Waste	2 %	8 %	9 %	22%	8 %	7 %	16.6%

³ www.building-cost.net

Exhibit 6. NextBlok, Inc.’s Capital Requirements

Source: Don Walters

	Start-up	Year 1	Year 2	Year 3	Year 4	Year 5
Investor Capital \$67.4 M	\$7,443,600	\$26,354,743	\$33,608,400	0	0	0
Internal CF's Re-invested				\$33,608,400	\$67,216,800	\$67,216,800
No. of factories (at year end)	0	2	5	8	14	20
No. NextBlok double-line machines	0	2	5	8	14	20

Exhibit 7. Erection of Bracing in Traditional ICF Construction

Source: Don Walters

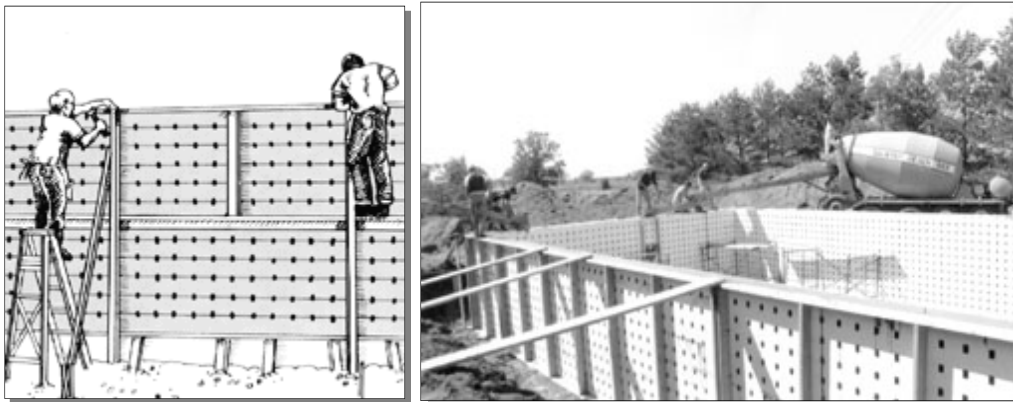


Exhibit 8. Waste Resulting from Construction with Wood Frames or Rival ICFs

Source: photograph by Don Walters



Above: Waste at a Wood Frame Job Site

Below: Waste at a Composite ICF Forms Job Site

Source: photograph by Don Walters



Exhibit 9. Photo of Blowout using a Competitor's Materials

Source: photographs by Don Walters



Exhibit 10. ICF House Standing after Hurricane Katrina

Source: Don Walters



Note: An ICF house (circled) standing amidst the destruction left by hurricane Katrina and its 21-foot storm surge. The houses surrounding it were wood frame.

Exhibit 11. Don's Estimated Start-up Expenses*Source: Don Walters*

Proof of Concept	\$5,036,000
Facility Rent	\$330,000
Indirect Factory Personnel	\$40,000
Other Factory Expenses	\$250,000
Administrative Expenses	
Indirect Personnel - Sales	\$325,000
Indirect Personnel - Design/Admin	\$351,000
Licenses/Permits	\$50,000
Marketing/Promotion	\$200,000
Supplies	\$60,000
Legal	\$300,000
Consulting	\$200,000
Rent/Land	\$30,000
Insurance	\$71,600
Other Indirect Costs/Recruiting	\$200,000
Total Start-up Expenses	\$2,077,600
Total Start-up Assets/Expenses	\$7,443,600

Exhibit 12. Pro Forma Profit and Loss Statement

Source: Don Walters

	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue					
Sales NextBlok	\$22,176,000	\$123,528,000	\$235,001,000	\$399,910,000	\$672,060,000
Less: Discount & Rebates	(\$332,640)	(\$1,235,280)	(\$2,350,010)	(\$3,999,100)	(\$6,720,600)
Total Sales	\$21,843,360	\$122,292,720	\$232,650,990	\$395,910,900	\$665,339,400
Cost of Good Sold					
Labor	(\$1,402,800)	(\$5,155,290)	(\$10,052,816)	(\$17,863,080)	(\$28,986,907)
Raw Materials	(\$5,452,800)	(\$30,376,800)	(\$56,035,200)	(\$92,580,000)	(\$151,052,000)
Total CGS	(\$6,855,600)	(\$35,532,090)	(\$66,088,016)	(\$110,443,080)	(\$180,038,907)
Gross Margin	\$14,987,760	\$86,760,630	\$166,562,975	\$285,467,820	\$485,300,493
Gross Margin %	68%	70%	71%	71%	72%
Expenses					
Engineering, R & D	\$221,760	\$1,235,280	\$2,350,010	\$3,999,100	\$6,720,600
Indirect Personnel	\$3,851,500	\$9,696,100	\$18,636,182	\$30,181,792	\$46,457,837
Cost of Sales					
Sales Commissions	\$665,280	\$3,705,840	\$7,050,030	\$11,997,300	\$20,161,800
Packaging & Delivery	\$1,042,272	\$5,805,816	\$11,045,047	\$18,795,770	\$31,586,820
Payment of Royalties	\$524,572	\$3,036,622	\$5,829,704	\$9,991,374	\$16,985,517
Licenses/Permits	\$100,000	\$150,000	\$150,000	\$300,000	\$300,000
Marketing/Promotion	\$2,993,760	\$4,941,120	\$9,400,040	\$15,996,400	\$26,882,400
Supplies	\$221,760	\$1,235,280	\$2,350,010	\$3,999,100	\$6,720,600
Software & IT Services	\$210,880	\$767,640	\$1,325,005	\$2,299,550	\$3,660,300
Legal Fees	\$450,000	\$550,000	\$550,000	\$850,000	\$850,000
Consulting	\$156,756	\$368,452	\$708,175	\$1,146,908	\$1,765,398
Training and Logistics	\$157,629	\$445,542	\$860,670	\$1,441,346	\$2,263,342
Rent/Land	\$600,000	\$600,000	\$900,000	\$900,000	\$900,000
Insurance	\$525,430	\$1,485,139	\$2,868,900	\$4,804,487	\$7,544,474
Depreciation (Factory)	\$125,000	\$312,500	\$500,000	\$875,000	\$1,250,000
Depreciation (Machines)	\$1,075,000	\$2,687,500	\$4,300,000	\$7,525,000	\$10,750,000
Depreciation (other PPE)	\$14,286	\$35,714	\$57,143	\$100,000	\$142,857
Total Operating Expenses	\$12,714,124	\$35,823,265	\$66,530,905	\$111,204,027	\$178,221,346
Income (loss) Before Interest and Taxes	\$2,051,876	\$49,702,085	\$97,682,059	\$170,264,693	\$300,358,547
Interest Expense	\$0	\$0	\$0	\$0	\$0
Income before Taxes	\$2,051,876	\$49,702,085	\$97,682,059	\$170,264,693	\$300,358,547
Income Tax Provision	\$718,156	\$17,395,730	\$34,188,721	\$59,592,643	\$105,125,492
Net Income (Loss)	\$1,333,719	\$32,306,355	\$63,493,339	\$110,672,050	\$195,233,056
Profit Margin	6.01%	26.15%	27.02%	27.67%	29.05%
Operating Cash-Flow	\$2,548,005	\$35,342,070	\$68,350,481	\$119,172,050	\$207,375,913

Exhibit 13. Pro Forma Balance Sheet

Source: Don Walters

	Year 1	Year 2	Year 3	Year 4	Year 5
Assets					
Cash	\$13,779,159	\$55,522,639	\$95,676,104	\$162,258,202	\$309,250,539
Accounts Receivable	\$2,214,258	\$12,396,796	\$23,583,799	\$40,133,434	\$67,445,364
Inventory	\$563,474	\$2,920,446	\$5,431,892	\$9,077,513	\$14,797,718
Total Current Assets	\$16,556,891	\$70,839,881	\$124,691,794	\$211,469,149	\$391,493,622
Long-term Assets					
Factory	\$5,000,000	\$12,500,000	\$20,000,000	\$35,000,000	\$50,000,000
Machines	\$5,500,000	\$13,750,000	\$22,000,000	\$38,500,000	\$55,000,000
Furniture and Fixtures	\$100,000	\$250,000	\$400,000	\$700,000	\$1,000,000
Non-Depreciable Assets (Land)	\$3,000,000	\$7,500,000	\$12,000,000	\$21,000,000	\$30,000,000
Total Plant Property Equipment	\$13,600,000	\$34,000,000	\$54,400,000	\$95,200,000	\$136,000,000
Less: Accumulated Depreciation	\$125,000	\$437,500	\$937,500	\$1,812,500	\$3,062,500
Less: Accumulated Depreciation	\$1,075,000	\$3,762,500	\$8,062,500	\$15,587,500	\$26,337,500
Less: Accumulated Depreciation	\$14,286	\$50,000	\$107,143	\$207,143	\$350,000
Total Long-term Assets	\$12,385,714	\$29,750,000	\$45,292,857	\$77,592,857	\$106,250,000
TOTAL ASSETS	\$28,942,606	\$100,589,881	\$169,984,652	\$289,062,006	\$497,743,622
Liabilities & Capital					
Accounts Payable	\$1,254,144	\$6,986,664	\$12,888,096	\$21,293,400	\$34,741,960
Other Current Liabilities	\$0	\$0	\$0	\$0	\$0
Long Term Liabilities	\$0	\$0	\$0	\$0	\$0
TOTAL LIABILITIES	\$1,254,144	\$6,986,664	\$12,888,096	\$21,293,400	\$34,741,960
Paid-in Capital	\$33,798,343	\$67,406,743	\$67,406,743	\$67,406,743	\$67,406,743
Earnings	\$1,333,719	\$32,306,355	\$63,493,339	\$110,672,050	\$195,233,056
Retained earnings	(\$7,443,600)	(\$6,109,881)	\$26,196,475	\$89,689,813	\$200,361,864
Total Capital	\$27,688,462	\$93,603,217	\$157,096,556	\$267,768,606	\$463,001,662
LIABILITIES & CAPITAL	\$28,942,606	\$100,589,881	\$169,984,652	\$289,062,006	\$497,743,622
Net Worth	\$27,688,462	\$93,603,217	\$157,096,556	\$267,768,606	\$463,001,662

Exhibit 14. Pro Forma Cash Flow Statement

Source: Don Walters

	Year 1	Year 2	Year 3	Year 4	Year 5
Cash from Operations					
Cash Sales	\$21,843,360	\$122,292,720	\$232,650,990	\$395,910,900	\$665,339,400
Cash from Receivables	(\$2,214,258)	(\$10,182,538)	(\$11,187,003)	(\$16,549,635)	(\$27,311,930)
Cash from Depreciation	\$1,214,286	\$3,035,714	\$4,857,143	\$8,500,000	\$12,142,857
Cash from Inventory	(\$563,474)	(\$2,356,972)	(\$2,511,446)	(\$3,645,622)	(\$5,720,205)
Subtotal Cash from Operations	\$20,279,913	\$112,788,925	\$223,809,684	\$384,215,644	\$644,450,122
Additional Cash Rec'd					
New Investment Rec'd	\$26,354,743	\$33,608,400	\$0	\$0	\$0
Subtotal Cash Received	\$46,634,656	\$146,397,325	\$223,809,684	\$384,215,644	\$644,450,122
Expenditures from Operations					
Operating Expenses	(\$20,509,641)	(\$89,986,365)	(\$169,157,651)	(\$285,238,850)	(\$470,106,344)
Change in AP	\$1,254,144	\$5,732,520	\$5,901,432	\$8,405,304	\$13,448,560
Subtotal Operations	(\$19,255,497)	(\$84,253,845)	(\$163,256,219)	(\$276,833,546)	(\$456,657,784)
Additional Cash Spent					
Purchase L-term Assets	(\$13,600,000)	(\$20,400,000)	(\$20,400,000)	(\$40,800,000)	(\$40,800,000)
Subtotal Cash Spent	(\$32,855,497)	(\$104,653,845)	(\$183,656,219)	(\$317,633,546)	(\$497,457,784)
Net Cash Flow	\$13,779,159	\$41,743,480	\$40,153,465	\$66,582,098	\$146,992,338
Cash Balance	\$13,779,159	\$55,522,639	\$95,676,104	\$162,258,202	\$309,250,539

Exhibit 15. Don's Advertisement for CEO in Craigslist

Source: Don Walters

CEO NEEDED FOR A TRIPLE GREEN START UP--- HOUSING INDUSTRY

The time has arrived for us to bring a new PATENTED technology to market; I should mention that it is a new way to build housing, (glues and clicks together), and it is TRIPLE GREEN. When we bring NextBlok to market, it will make a paradigm shift in the way that all housing in the world is built, (a potential multi-billion dollar market).

We have completed the design of the machine and factory to build the block. Unfortunately, we have just one more part to complete the equation; we need the NECESSARY FUNDS to start production and sales of NextBlok.

This is where you come in; we need you to accept the challenge of finding the funds necessary to breathe life into NextBlok. Compensation upon funding, this is an un-paid intern position that will translate into a very formidable position of great responsibility and remuneration for the one who is selected.

ARE YOU QUALIFIED TO BE THE ONE?

CALL 818-xxx-xxxx

- Compensation: Compensation upon funding
 - Location: central LA
 - Telecommuting is ok.
 - This is an internship job
 - OK to highlight this job opening for persons with disabilities
 - Principals only. Recruiters please don't contact this job poster.
 - Phone calls about this job are ok.
 - Please do not contact job poster about other services, products or commercial interests.
-



Stephen J.J. McGuire is Professor of Management at California State University, Los Angeles, where he received the College Outstanding Teacher Award and the University Outstanding Professor Award. Steve is a former partner of the HayGroup, where he worked as a management consultant to major organizations in 23 countries, CEO of Hay Portugal, and Director, Hay International Business Group. He is author of *Managing Organizational Change* as well as several research articles and case studies.





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