

Finance

Strategies for Success

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Recap Lecture 6

Sales

- **Strategic Sales Foundation:** Establishing a robust sales foundation is crucial for revenue generation and customer loyalty in startups.
- **CRM Integration:** Seamless integration of Customer Relationship Management enhances customer interactions and streamlines business processes.
- **Customer-Centric Approach:** Building lasting customer relationships involves effective communication, complaint resolution, and strategic use of technology.
- **Revenue Growth Strategies:** Cross-selling, upselling, and effective sales forecasting are pivotal for increasing revenue from existing customers.

Learning Objectives

Empowering Entrepreneurs with Financial Literacy

- **Understand the Strategic Link Between Finance and Business:** Explore how finance serves as a strategic driver for decision-making and business growth.
- **Master Key Financial Concepts:** Income statements, balance sheets, and cash flow projections.
- **Learn Financial Planning and Forecasting Techniques:** Develop skills in creating comprehensive financial plans and accurate forecasts to guide decision-making.
- **Grasp Financial Management and Control Strategies:** Explore budgeting, expense control, and key financial metrics for effective financial management.
- **Navigate Financial Decision-Making:** Understand capital budgeting, financing decisions (debt vs. equity), and optimal capital structure for sound financial decision-making.

Introduction

Importance of Finance in Startup Management

- **Why Finance Matters in Startups?**
 - Finance is the lifeblood: It fuels operations, growth, and innovation.
 - Strategic decision-making: Finance guides critical choices for sustainable development.
- **Key Aspects of Financial Importance**
 - Resource Allocation: Finance ensures optimal use of limited resources.
 - Risk Mitigation: Financial planning helps identify and manage risks effectively.
 - Strategic Growth: Finance is the backbone of expansion and market penetration.
- **Financial Visibility**
 - Investor Confidence: A robust financial plan attracts investors and stakeholders.
 - Adaptability: Financial insights enable quick adjustments to market changes.
 - Sustainability: Financial health is crucial for long-term viability.

Navigating the Financial Landscape

Components of Financial Management in Startups

- **Financial Statements**

- Income Statements: Revealing profitability over a specific period.
- Balance Sheets: Providing a snapshot of assets, liabilities, and equity.
- Cash Flow Projections: Anticipating future cash movements.

- **Financial Planning and Forecasting**

- Comprehensive Financial Plans: Mapping out financial goals and strategies.
- Accurate Forecasts: Guiding decision-making with reliable projections.

- **Financial Management Strategies**

- Budgeting: Allocating resources effectively.
- Expense Control: Monitoring and managing costs.
- Key Financial Metrics: Metrics for evaluating and optimizing performance.

Business Performance Recording

Differences to Out of Pocket Economy

- **Cash accounting** records the transactions when cash exchanges hands.
- **Accrual transactions** are recorded as they happen.
- **Investments and amortisation/depreciation:** learn how businesses measures investments and expenses.
- **Variable vs. fixed costs:**
 - variable cost are vary proportionally to units of sales or production
 - fixed costs are always there

Income Statement

Learn What You Earned/Lost

Operating Revenue		15.000
.. Operating Revenue - Sales	15.000	
Gross Profit		8.000
.. Operating Expenses - Cost of goods sold	7.000	
Selling, General and Administrative Expenses (SG&A) - overhead		2.000
.. Rent	1.500	
.. Insurance	250	
.. Office supplies	150	
.. Utilities	50	
.. Amortisation/Depreciation	50	
Operating Income		6.000
Other (Expenses)		
.. Loan interest	-500	
Earnings Before Income Taxes		5.500
.. Income Taxes	1.000	
Net Earnings		4.500

Balance Sheet

Learn What You Have

Assets		Liabilities and Equity			
Current Assets		12.800	Liabilities		30.000
..Cash	6.600		..Credit Cards	5.000	
..Accounts Receivable	6.200		..Accounts Payable	25.000	
Fixed Assets		25.000	Equity		7.800
..Tools and equipment	25.000		..Capital	7.000	
			..Retained Earnings	800	
Total		37.800	Total		37.800

Cash Flow

Understand Where Cash Moves

Description	Initial	Q1	Q2	Q3	Q4
Cash flow from operations		10	8	5	2
..Sales (paid in cash)		30	40	40	50
..Payment to Suppliers		-10	-20	-20	-30
..Employee Salaries		-8	-10	-12	-14
..Rent and Utilities		-2	-2	-3	-4
..Taxes		4,8	6,4	6,4	8
Cash flow from financing		40	-5	-5	-5
..Incoming loan		+50	0	0	0
..Loan repayment		-5	-5	-5	-5
..Seed		30	0	0	0
Cash flow from investments		-40	-10	-10	-10
..Equipment		-40	-10	-10	-10
Net Cash flow		10	-7	-10	-13
Cash Position	20	30	23	13	0

Financial Planning for Sustainable Growth

Mastering the Art of Financial Planning

- **Introduction to Financial Planning**
- **Components of Comprehensive Financial Plans**
 - Revenue Projections: Forecasting income from sales and other revenue streams.
 - Expense Planning: Detailing anticipated costs across various categories.
 - Cash Flow Analysis: Ensuring adequate liquidity to cover operational needs.
- **Importance of Realistic Forecasting**

The Financial Planning Process

Navigating the Financial Planning Journey

- **Setting Financial Goals**
 - Define short-term and long-term financial objectives.
 - Emphasize the need for goals that align with the startup's overall strategy.
- **Data Collection and Analysis**
 - Collect relevant financial data from various sources.
 - Analyze historical financial performance and industry benchmarks.
- **Creating a Budget**
 - Develop a detailed budget allocating resources to different activities.
 - Discuss the importance of budgeting as a tool for financial control.

Strategic Financial Planning Techniques

Going Beyond the Basics

- Rolling Forecasts
 - Periodic and regular planning for a number of periods
- Scenario Planning
 - Anticipate various business outcomes.

Rolling Forecasting

A Self Improving Framework

	I	II	III	IV	V	VI	VII
I	5	6	7				
II	4	5	8	9			
III		4	5	7	8		
IV			5	6	7	9	
V				7	6	8	10

Scenario Planning

Playing the Role of the Devil's Advocate

- Best case scenario
- Expected case scenario
- Worst case scenario

Benefits of Effective Financial Planning

Unlocking Business Success

- Improved Decision-Making
 - Financial planning provides a basis for informed decision-making.
 - Benefit from strategic financial decisions.
- Resource Optimization
 - Financial planning helps allocate resources efficiently.
 - Impact on profitability and sustainability.

Budgeting as Strategic Tool

Mastering the Art of Budgeting

- What is Budgeting?
 - Budgeting is more than a financial plan—it's a strategic tool.
 - Align spending with strategic objectives - allocate resources.
- Budgeting Process
 - Define the strategic and financial goals
 - Gather the necessary data
 - Define key spending items and classify them (fixed or variable)
 - Estimate the revenue
 - Allocate the resources over the period to maximise the set goals

Budget Sample

- Expenses: fixed vs. variable
- Investments: spreading over longer period?

Income	Jan	Feb	Mar	Apr	May	Jun	Jul
Sales							
Sales - Product	£3,500	£7,000	£7,000	£7,000	£20,750	£27,750	£42,250
Sales - Labour	£2,000	£4,000	£4,000	£4,000	£12,000	£16,000	£26,000
Sales - Other	£1,000	£2,000	£2,000	£2,000	£6,500	£8,500	£13,500
Sales - Recurring	£10,909	£13,665	£15,000	£15,300	£16,275	£17,550	£19,575
Total Income	£17,409	£26,665	£28,000	£28,300	£55,525	£69,800	£101,325
COGS							
COGS Devices	£1,200	£2,400	£2,400	£2,400	£7,800	£10,200	£16,200
COGS Installations	£0	£0	£0	£0	£1,200	£3,200	£7,800
COGS One-off/other	£500	£1,000	£1,000	£1,000	£3,000	£4,000	£6,500
COGS Recurring	£3,840	£3,880	£3,880	£3,880	£4,060	£4,140	£4,340
Total COGS	£5,540	£7,280	£7,280	£7,280	£16,060	£21,540	£34,840
Other							
Direct Expenses	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000
Small Tools	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000
Total COGS - Other	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000
Total Cost of Sales	£7,540	£9,280	£9,280	£9,280	£18,060	£23,540	£36,840
Gross Profit	£9,869	£17,385	£18,720	£19,020	£37,465	£46,260	£64,485
Less Operating Expenses							
1. Personnel Costs - gross (includes NI, Tax...)							
Management	£21,250	£21,250	£21,250	£21,250	£21,250	£21,250	£21,250
Admin/bookkeeping	£0	£0	£0	£0	£0	£0	£0
Sales	£8,583	£8,583	£8,583	£8,583	£8,583	£11,000	£11,000
Tech	£11,125	£11,125	£11,125	£11,125	£11,125	£11,125	£11,125
Manufacturing	£3,333	£3,333	£3,333	£3,333	£3,333	£3,333	£3,333
Marketing	£2,917	£2,917	£2,917	£2,917	£2,917	£2,917	£2,917
Design	£2,500	£2,500	£2,500	£2,500	£2,500	£2,500	£2,500
Ops	£2,500	£2,500	£2,500	£2,500	£5,000	£5,000	£7,500
Support	£2,083	£2,083	£2,083	£2,083	£2,083	£2,083	£2,083
Total 1. Personnel Costs	£54,292	£54,292	£54,292	£54,292	£56,792	£59,208	£61,708
2. Professional Costs							
Audit & Accountancy fees	£1,500	£1,500	£1,500	£1,500	£1,500	£1,500	£1,500
Consulting	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000
Insurance	£1,115	£1,115	£1,115	£1,115	£1,115	£1,115	£1,115
Legal Expenses	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000
Total 2. Professional Costs	£4,615	£4,615	£4,615	£4,615	£4,615	£4,615	£4,615
3. Premises Costs							
General Expenses	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000
Postage, Freight & Courier	£300	£300	£300	£300	£300	£300	£300
Rent	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000
Telephone & Internet	£300	£300	£300	£300	£300	£300	£300
Total 3. Premises Costs	£4,600	£4,600	£4,600	£4,600	£4,600	£4,600	£4,600
4. Advertising & Marketing Costs							
Advertising & Marketing - Acquisition	£1,500	£2,500	£2,500	£4,500	£1,500	£1,500	£1,500
Advertising & Marketing - Brand	£0	£0	£0	£0	£0	£0	£0
Advertising & Marketing - Events	£0	£0	£0	£0	£2,000	£2,000	£2,000
Advertising & Marketing - Other	£0	£0	£1,000	£0	£1,000	£1,000	£1,000
Total 4. Advertising & Marketing Costs	£1,500	£2,500	£3,500	£4,500	£4,500	£4,500	£4,500
5. Software Costs							
IT Software and Consumables	£0	£0	£0	£0	£0	£0	£0
Subscriptions	£2,000	£2,200	£2,420	£2,662	£2,928	£3,221	£3,543
Total 5. Software Costs	£2,000	£2,200	£2,420	£2,662	£2,928	£3,221	£3,543
6. T&E Costs							
Entertainment-100% business	£200	£200	£200	£200	£200	£200	£200
Travel - International	£0	£0	£0	£0	£0	£0	£0
Travel - National	£2,000	£2,100	£2,205	£2,315	£2,431	£2,553	£2,680
Total 6. T&E Costs	£2,200	£2,300	£2,405	£2,515	£2,631	£2,753	£2,880
Other Expenditure							
Research and Development	£0	£0	£0	£0	£0	£0	£0
Foreign Currency Gains and Losses	£0	£0	£0	£0	£0	£0	£0
Interests	£7,700	£7,700	£7,700	£7,700	£7,700	£7,700	£7,700
Bank revaluations	£200	£200	£200	£200	£200	£200	£200
Total 7. Other	£7,900.00	£7,900.00	£7,900.00	£7,900.00	£7,900.00	£7,900.00	£7,900.00
Operating Profit	-£67,238	-£61,022	-£61,012	-£62,064	-£46,501	-£40,537	-£25,262

Effective Expense Control

Controlling what's Controllable

- **Regular Monitoring:** Establish a system for consistently monitoring expenses.
- **Budget Alignment:** Ensure that expenses align with the budget and strategic objectives.
- **Prioritization:** Not all expenses are equal. Prioritize spending based on the impact each expense has on the core business functions and objectives.
- **Technology Integration:** Leverage technology to streamline expense tracking and management processes.

Key Financial Metrics for Performance Evaluation

Evaluating Success with Metrics

- **Return on Investment (ROI)**

- ROI measures the profitability of an investment.
- A percentage of income relative to the investment.

- **Gross Margin**

- Percentage of revenue that exceeds the COGS.
- Discuss how it helps assess the efficiency of production and pricing.

- **Burn Rate / Runway**

- Burn rate as the rate at which a startup uses up its capital.
- Runway is the number of months that startup still has before using up the capital.

Conclusion

Finance

- Finance is a strategic driver for decision-making and growth.
- **Mastering Key Financial Concepts:** Income statements, balance sheets, and cash flow projections are fundamental tools.
- **Financial Planning and Forecasting Techniques:** Accurate forecasting guides strategic decision-making.
- **Explore budgeting, expense control:** Effectively managing finances ensures stability and growth.
- **Expense Management and Optimization:** Differentiate between variable and fixed costs.
- **Key Financial Metrics for Evaluation:** ROI, Gross Margin, and Burn Rate provide actionable insights.
- Effective financial management strategies are the key to sustained success.

Assignment

Create financial plan

- Forecast the business for 12 months ahead (CF based).
- Use worse case and expected scenario.
- Calculate financial needs for the business

Share it as a Google Sheet link to ales@spetic.si