

CONNECT 2021-2024

Connecting universities-industry through smart entrepreneurial cooperation and competitive intelligence of students in Moldova, Georgia and Armenia

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**Training Material on Acceleration**

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**TRAINING MODULE ON ACCELERATION**

**Advanced Acceleration: Business Execution but before, Test, Budget, Launch**

The training Module on Advanced Acceleration: From Business Execution but before, Test, Budget, Launch is for trainers, early stage and incorporated startups and teachers to use in non-formal education settings.

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**Introduction**

Successful implementation of any startup project requires careful planning of a range of activities. Planning and forecasting techniques such as financial planning and budgeting often proves a great challenge for the Founders. However, founders need to embrace financial planning methods and implement them along the all the way from before launching their project to business growth. The Startup finances is a simple, non-academic approach that explains different topics that relate to financial matters that a newly established team/company encounter.

**Course Description**

This training module is for startup entrepreneurs who are working towards realizing a business idea and have initiated the processes of designing the business launch (Part A) and the financial models (Part B). The training material provides an introduction to the relevant finance theory, as well as useful links for experiential learning and resources for further reading.

**Learning Outcomes**

By the end of this module, students will be able to:

* To understand the steps for launching a business
* To understand the relationship of business planning with business viability
* To understand the relationship of forecasts with Raise of Funds

**Course Format**

The course format integrates:

* Online lectures with slides (ppt)
* Video Lectures
* Explanatory material (present) analyzing lecture slides along with useful weblinks and other resources
* A case study

**Suggested resources**

* The Lean Startup: by Eric Ries
* Secrets of Sand Hill Road: Venture Capital and How to Get It by Scott Kuper
* Pitching Hacks: How to pitch startups to investors Paperback – December 22, 2009
* The Startup Game: Inside the Partnership between Venture Capitalists and Entrepreneurs by William H. Draper III.

# **Part A – Launching and growing a business**

# Chapter 1: Launching a start up

Launching a startup always come with a series of challenges such as limited resources, not knowing what exactly to do, finding the right idea, hiring and managing a team and attracting customers. Launching requires careful consideration and planning. Testing the business idea before launching is key to validate its business model. Launching however is related to taking actions that contribute to learning and avoiding the risk of financial losses.

## Why testing your idea before launch is important?

Startups tend to assume that their idea is going to be a huge success ending to risk large amounts of money and time and other resources. Testing the business idea is often skipped because of the rush to launch. When the business model or the business plan is missing then the launch is without a proper roadmap. Until the business idea is tested it is not known who exactly finds the product useful and by what means it is useful to them. Testing the business idea is a necessary step to validate the target market, the need and the business model.

## Build a prototype and test – the Minimum Viable Product

No matter how exciting the business idea may seem urging you to go for a quick launch, creating a prototype will always help you validate if you are solving the right problem, if you are building the right product, and how to improve your product or service to address the real need.

Building a Minimum Viable Product (MVP) i.e. “the simplest form of your idea that you can sell as a product” said by Eric Ries, author of The Lean Startup (Crown Business, 2011) offers a way to test a product early in the development process so that any modifications are urged from the feedback of the target customer. Along with the MVP one needs to determine how much it costs to build it and sell it. This way you will understand the basic profit margins.

## Run the MVP by a panel of critics

When a prototype is available a good strategy is to present it to a series of potential customers and check if they perceive there is a real problem, even the more skeptical and critical ones. Surveying a sample of around fifty people would offer a good indication of whether you are solving the right problem.

## Be ready for change

It is often that the feedback from the potential customers may indicate a potential small or major shift in the way the product is built. Founders need to be ready to change the product to match better the real need. No matter how much they are emotionally tied to their initial idea, it is the opinion of the end customer that matters in the end.

## Create a landing page and a social media campaign

Once you start testing your product, in parallel it is helpful to build a landing page where customers can learn more information about the product. A simple landing page combined with a social media campaign will help in monitoring the number of people interested and the number of people clicks through the ads.

## Create a market plan

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| **Resources:*** [New](https://www.businessnewsdaily.com/6540-how-to-test-your-business-idea.html) business idea? How to test it before launching
* [How to test a New Business Idea Before You Quite your Job](https://www.ivyexec.com/career-advice/2015/how-to-test-a-new-business-idea-before-you-quit-your-job/)
 |

A marketing plan is a necessary tool to have to create the necessary response and assess if you do have buyers for your product. Ryan Clements a business consultant, sales trainer, speaker, and writer uses the 100/1000 rule. That is writing down a list of 100 things you can do to market a product while executing those 100 things talk to 1000 people about it. It is only then that you say you have made enough to judge if you have customers for your product. This process will give you enough data and feedback like who is mostly interested about it, what marketing is most cost effective, which actions are not and form a strategy to improve both the product and the marketing strategy.

## Design thinking technique

Principles of design thinking includes the cognitive, strategic and practical processes of developing new products. It offers a way to better define the problem and the solution while gauging the perception of the end customer. Design thinking entails five steps: empathy (understand customers' needs), define your customers' problems and needs, ideate a unique solutions to their problem, prototype (create the solutions) and, test (try with a group of customers).

# Chapter 2: Growth hacking

Growing a business might entail various challenges that require different responses. Mistakes in the growing tactics are sometimes the reason why the business didn’t manage to thrive. What is important is that each step taken does not create more problems for the future. Some of the most common risks that affect the growth of a business are illustrated in this section

## Know your market at all times

As market conditions continuously change, a business need to have the most up-to-date information for making appropriate business decisions. Market research needs to be conducted on a continuous basis and not just once at the beginning of the business launch. Information sources include published information, partners and suppliers, business employees and gathering information from the customers. IT systems may set up processes to support the data collection and analysis of the parameters to understand customer’s behavior.

## Update your business plan

A continuously updated business plan is necessary as the business grows and the market conditions evolve. To identify new opportunities and build strong relationships with the customers that can ensure profits the business strategy need to adapt. The current success does not necessarily ensure that the business will be able to exploit the opportunities that arise. Diversification of the customer base is a good strategy to spread the risk of relying solely to existing customers. However, all moves needs careful planning and an appropriate strategy. Reviewing the risks of potential changes on a constant basis and planning ahead will help the business develop any necessary contingency plans.

## Cash Flow and financial management

The way a business manages its finances is a key element in planning ahead and assessing new business opportunities. To maximize cash low a business, need to carefully control the working capital, and undertake effective supplier management. Often, when a business grows additional funding may be needed for ensuring business expansion.

## Problem solving

For new business, challenges arise every day and require effective troubleshooting. As the business grow, the business needs to prioritize problems i.e. take appropriate actions for intellectual property, allocate resources according to the marketing campaign the business uses. Identifying the key drivers of growth and investing the appropriate time and resources to satisfy the business strategy developed requires the development of business structures that facilitate the management of problems in the future.

## Skills

Growing a business require a series of skills that may differ from those of starting a business. Delegating properly, trusting your management team and giving up day-to-day control can be crucial attitudes for enabling the business to grow effectively. Experts can be recruited to tackle areas that the founder of the existing team do not have the experience to deal with.

## Managing change

Updating the business plan according to the current market condition may require taking actions that change the way the business operates, i.e.,

* Changing to suppliers who can grow with the business and meet the new priorities i.e. quality and reliability instead of the cost
* Renegotiating contracts to take account of increased volume.
* Training and developing employees’ skills
* Making sure that the business is aware of new technologies and adapts it for increasing quality and saving time and costs

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| **Resources:*** [The challenges of growing a business and how to meet them](https://www.infoentrepreneurs.org/en/guides/the-challenges-of-growing-a-business---and-how-to-meet-them/)
 |

Sometimes the changes required may take the founders out their comfort zone and require them to take hard decisions i.e. selecting the right employees that can continue the business growth strategy or changing suppliers to pursue better quality or higher standards. But unless you're prepared to do this, you risk putting your business at a dangerous competitive disadvantage.

# **Part B -Financial Planning and Forecasting**

# Chapter 3: Financial Planning

Startups tend to focus too much on the product development and the marketing campaign but often neglect to pay the required attention to Financial Planning that offers insight to the viability of their business endeavor. Financial Planning is a critical part of the overall business process that keeps evolving along with the market and the company per se. This type of planning is also an essential ingredient that helps the founders understand the specific financial conditions that will help the business succeed, and therefore plan accordingly. Successful entrepreneurs can see numbers and profit margins when they investigate things like “Neo” the hero of the Wachowski brothers Matrix trilogy saw code and not only the three-dimensional world.

Budgeting is the main “tool” of Financial Planning. During budgeting process the startup team or company attempts to forecast the future company actions as they are translated in numbers showing fluctuations in various business functions like Revenue Generation, Production and other Production Related Costs, Operating Expenses. Funding etc.

The different budgeting elements relate to monetary relationships like Cost of Goods Sold, Gross Margins (Gross Profit), Operating Profit/loss or EBITDA (Earnings before Interest, Taxes, Dividends and Amortization) and last but not least Cash Flow.

**Relevant Terminology**

**Income** is money that a business receives in exchange for providing a good or service or through investing capital.

**Cost of goods sold** (COGS) are the costs of acquiring or manufacturing the products that a company sells during a period, and in specific those that are directly tied to the production of the products, including the cost of labor, materials, and manufacturing overhead.

**Operating costs** are expenses associated with the maintenance and administration of a business on a day-to-day basis. They are the cost of resources used by an organization just to maintain its existence (operations).

**EBITDA**: Earnings before interest, tax, depreciation and amortization (EBITDA) is a measure of a company's operating performance. EBITDA is a way to evaluate a company's performance.

**Cash flow** is the net amount of *cash* and *cash*-equivalents being transferred into and out of a business. A cash flow in its narrow sense is a payment; the term 'cash flow' is mostly used to describe payments that are expected to happen in the future as a form of forecast.

Budgeting may also include analytical forms of forecasting like the Production Budget, Sales Budget, Human Resources Budget and Profit and Loss statement (P&L) for a 5-year period. The different budget elements converge their outcomes in the P&L budget and statement which should be a month by month forecast of everything. Ultimately a good budgeting process will determine a first assessment of a company’s strategy, viability as well as funding needs.

## Production Budget

Although there is no single best practice way to budget for a startup business, it is suggested to start with the Production budget. Assessing demand and market shares that the business plans to achieve offer a good overview of the production needs per year and estimates sales for a 3-5-year period. Production budget should also reflect categorized costs to make or produce a product or those that are directly associated with the design and offering of a service. Sometimes it’s good to complement the production budget with the pricing formula as to be able to monitor cost / profit margin relationships. Founders should be able to figure out different phases of production process like pre- prototype, prototype, alpha, beta, final product as well as follow on versions. The accurate forecasting can be depicted with the help of Gantt charts and associate relevant costs month by month. The synthesis of those offers a better understanding of the financial requirements and resources needed to achieve each production milestone with or without external investment.

## Sales Budget

The sales budget form is the one following the production budget form. The sales budget must take into consideration both the business development strategy as well as the ability to cover and respond in market demand within the respective/current abilities to finance the whole efforts. To make the forecast more realistic it is important to consider pre-launch tactics, pricing strategies, sales promotions, distribution channels, growth-hacking etc.

## Human Resources Budget

Launching a startup requires the right skills and abilities of a certain team. Even when offering services via web-based models require human resources. The appropriate estimate of the right persons for the job(s) is both a qualitative and quantitative task. It is important to predict the number of team members (founders, employees, associates) who will synchronize their efforts to support the production and operating needs of the business. Assessing the skillsets, workhours, place, and timing conditions should all be integrated and factored in your Human Resources (HR) plan. You can use an excel sheet for that as an element of your total financial plan but make sure that your numbers follow some logic.

## The Profit and Loss Statement

The Profit and Loss Statement calculates the revenues, costs and expenses foreseen to be incurred for a specified period. The P&L statement is synonymous with the income statement. Now that the business has: a) the production, b) sales, and c) human resources budget, it needs to add the operating costs in the budget. The business might need to deal with more inelastic costs and less variable costs in this section so a suggestion is to plan wisely as they will drain the business gross margins. An important thing is to include administrative personnel and associates in the operating costs section and not personnel involved in the production process as they are part of the production budget and CoGS. At this stage any interest rate costs from bank loans (if applicable) also need to be included, although they are not part of the operating expenses budget.

The P&L especially when budgeted in a month-by-month time intervals can provide a good understanding of the cash flows. The cash flows are actual predicted payments (inflows or outflows) and reflect along with the capital at the bank the ability of the company to respond (or not) to its financial needs.

Startups are most of the times in need of funding. With the right cash-flow projections the founders can predict their capital requirements (negative cashflow peaks). The needed capital many times is pursued in a form of Business Angel investment or VC funding. For that reason, the Financial Plan will tell when and how much capital is needed. A very important element of the total budget scenario should be the Capital Needs and that segmented into the different uses of the requested funding. Based on the source of funding, a very demanding and time-consuming process may follow, that is called due diligence. Under that process the approached investing entity will have a deep look at many different elements of the business case including the startup finances. When planning for more than a year make sure that the cashflow results are related (connected). E.g. The cash flow of the end of year, Month 12 1 is the cash flow of the beginning of Year 2, Month 1. Graphs produced next can give you a better visual understanding of the situation relating EBITDA and Cash-Flows.



**Figure 1.** EBITDA and Cash Flows

**Key suggestions:**

1. Budget every month separately and for 5 years
2. Be realistic with numbers
3. Relate your sales goals with obtainable market share
4. Income and production expenses are rarely linear.
5. You might not have any income in the beginning, only expenses.
6. New companies hardly show profits in the first 1-2 years. That’s normal.
7. Cash flow turns positive after you make your first profits – rarely that is concurrent
8. Do not pay high salaries to founders in the first period of operations.
9. Ask for external funds (investment) in different periods and connect that with milestones
10. Plan for funds that cover 18-month period each time you do it.

**CASE STUDY (FICTIONAL): CASANDRA’S DREAM**

Casandra is a 24-year old daughter of an immigrant family. Cassandra and her parents immigrated when she was 10 years old. She watched her parents working hard every day to survive and ultimately be able to support her studies in the country’s University. Cassandra didn’t forget how difficult it was for her mother and father to go to work without having their own vehicle, having to cover very long distances combining different modes of transportation, and many times carry things in those distances. Public transportation was not always a convenient solution. She always thought how nice it would be if people like her parents would have autonomy in their move. Cars though were very expensive and even bikes were not always approachable.

As an exchange student, during her university years, Cassandra tried a Bike Sharing solution. *“This is great, I wish my parents had that when they needed it”* she thought. That was the spark that initiated a sequence of actions and events that brought Cassandra before a challenge; to create her Bike Sharing Company. She, among other things, wanted to help less privileged people by offering autonomy in their civic transportation.

Cassandra thought that such a business needed bikes, planning and of course capital. She started making plans and in parallel got a job. After finishing her workday, she used to make plans; different versions of plans. Her hypothesis for a successful endeavor like a bike-sharing company required capital to materialize but she couldn’t get a loan at that point. Banks were out of reach for her.

The study and research on different types of businesses and their funding methods brought her across social entrepreneurship. She also found out that certain - not many – Angel Investors have a social impact preference, favorable to social businesses. What were her chances in getting that type of funding? *“Not many”* she thought but it was worth the effort. Thinking how great it would be to build a business of her own, she put together a business plan with an analysis of her bike-sharing concept; “Bike Spirit”. At the beginning the business she would target broader target- groups. Later on, Bike Spirit would be able to offer the used bikes fleet replaced by new ones for free to immigrants. That would be the first social business element of her concept.

After putting together the Profit and Loss budget (P&L), Casandra realized that she needed to de-risk the potential investor by finding capital for the bikes but also find an investor… Other ways to generate the necessary capital like Grants, Donations or Crowdfunding were unavailable for her or too complex.

Cassandra started exploring possible investors by reading about them in various websites. She came across with Gary; a social impact entrepreneur/investor whose investment thesis was compatible with Casandra’s plan. Gary wanted to make a profit, regardless of his good will. He said I will help you if you can find a way to cover the capital needs for the bikes. “I do not invest in assets” he said.

Cassandra didn’t lose time. She approached a bike manufacturer “Bike Corp” that she read they wanted to expand vertically with bike-sharing. Bike Corp was exploring at the time ways to expand; that was good timing for her. Cassandra made a case for them offering free advertisement and her future company’s commitment to succeed under the goals and conditions of her plan. Bike Corp would test the waters of bike-sharing with an option to buy shares in Cassandras company if everything looked good at the end and Cassandra would get her bikes to start her business with. A deal was achieved.

Now it was Gary’s turn. He was invited under Cassandra’s investment proposal to take a leap of faith. With Bike Corp on board with a “bike for promotion” contract, Cassandra convinced Gary to invest 50.000 euros on a 200.000 pre money valuation to cover operating capital needs.

TABLE 1: the investing scenario for the Angel Round



After 3 years of successful operations Cassandra managed to be profitable and enjoy an increasing demand. Gary was now ready to make an “exit” and he proposed Bike Corp to buy his share at a higher valuation. Bike Corp Agreed and made Gary a happy investor.

TABLE 2: the investing scenario for the “Angel Exit” and the resulting Cap Table



Cassandra ended up partnering with Bike Corp who agreed to offer more, new bikes in exchange for more shares under a new company valuation. That was essential for the bikes fleet to be renewed. The new fleet of bikes had a value of 100.000 and that would result to a 25% of Bike Spirit’s shares. With the additional Shares Bike Corp would get as an exchange for the in-kind investment the capitalization structure would be Cassandra 60% and Bike Corp 40%:

TABLE 3: The in-kind investment of Bike Corp and the new shares mix



Cassandra could now offer the old fleet of her used bikes for free to immigrants and cover their need for autonomy. She also agreed to offer special discounts to underprivileged social classes. Cassandra has made her dream come true.

**Case Study Questions for Discussion:**

What do you think about Cassandra’s overall strategy to start her own business? Could she had done differently?

What do you think on Gary’s investment and Exit? Has Bike Corp benefited from the deal with Gary?

What were the short-term and long-term risks for each one of the participants (Cassandra–Gary–Bike Corp )

**FINANCIAL PLAN TEMPLATE**

Use the template to make the forecasts for your financial plan. Use the cells in GREEN to add values. You can change the parameters but make sure that you track and adjust the formulas as the results may change. Be sure that you make all checks possible to the formulas and your numbers. The template is offered “as is” and ONLY FOR ACADEMIC PURPOSES and should not be used for real business budgets.

The Template configuration is using the market share estimates based on market size (potential) in euros even though the Market Size sheet is comparing two methods (market size in euros as well as market size in terms of customers). If you want to use the other option (market size in customer volumes) you will have to make changes in all the P&L sheets (Range C10 to N10 and P10)

The "Pilot Period" for the scenario used is accounting for 12 months of expenses and 2 months of revenues... If you need make the necessary changes in your Sales Plan (for Revenues) and P& L Sheets (for costs/expenses). The model is currently using the subscription method and pricing from the Pricing Sheet.

In any case check for changes in the formulas before you confirm your scenario

Good Luck!!!

The template is offered with excel file.

**CAP TABLE TEMPLATE**

A simple cap table accompanies the document in an Excel file. Add values in the YELLOW CELLS but beware of possible formula changes as they may affect accuracy. The template is offered “as is” and ONLY FOR ACADEMIC PURPOSES and should not be used for real business budgets.