

Developer to CTO

CS 7002

Business aspects

Capitalism concepts

The **capital** is anything that **confers value** or benefit to its owner.

A company's capital is **divided into small equal units** of a finite number. Each unit is known as a **share**.

The **value** of a company corresponds to the price you should pay to acquire 100% of the capital.

The **capital increase** consists in **emitting new shares** and selling them through an investment (fundraising).

The goal of all **shareholders** is to earn money through **getting annual dividends** or **selling shares**

How does a business work?

A business has two main financial streams:

- the **revenues**
- the **charges**

The primary goal of any **company** is to have **financial profitability**

Profitability is reached when $(\text{revenues} - \text{charges}) > 0$

If the **annual balance sheet** shows a **profit**, the shareholders can decide to **distribute** it in **reinvestment** and **dividends**

Revenue types

Asset sale

Usage fee

Subscription fees

Lending/Renting/Leasing

Licensing

Commissioning

Advertising

Charges

Direct costs: costs associated to service / product production

Indirect costs: costs using by multiple activities

Taxes:

- Value-Added Tax (21% in Spain)
- Corporate income tax (25% in Spain)
- Social taxes (~30% in Spain)
- Personal tax (19-44%)
- Dividend tax (from 21%)

Profit & margin

Profit = revenue - cost

$$\text{margin} = \frac{\text{revenue} - \text{cost}}{\text{revenue}} = \frac{\text{profit}}{\text{revenue}}$$

Recurring Revenues: MRR, ARR

Recurring Profits: MRP, ARP

The personal equation simplified

If you want to earn money in salary, the company profit needs to be:

$$monthlyRecurringMinimumProfit = \frac{\frac{netSalary}{(1 - PIT) * (1 - SC)} * numberOfEmployees}{1 - CIT}$$

$$MRR = MRP * (1 + \frac{1}{margin})$$

Business equation simplified

EBITDA = Earnings Before Interest, Taxes, Depreciation, and Amortization

EBI = net income

T = taxes

D = depreciation

A = amortization

Main indicator for the health of your company

Build a business

Experimental approach, through hypothesis, iteration, validation loop

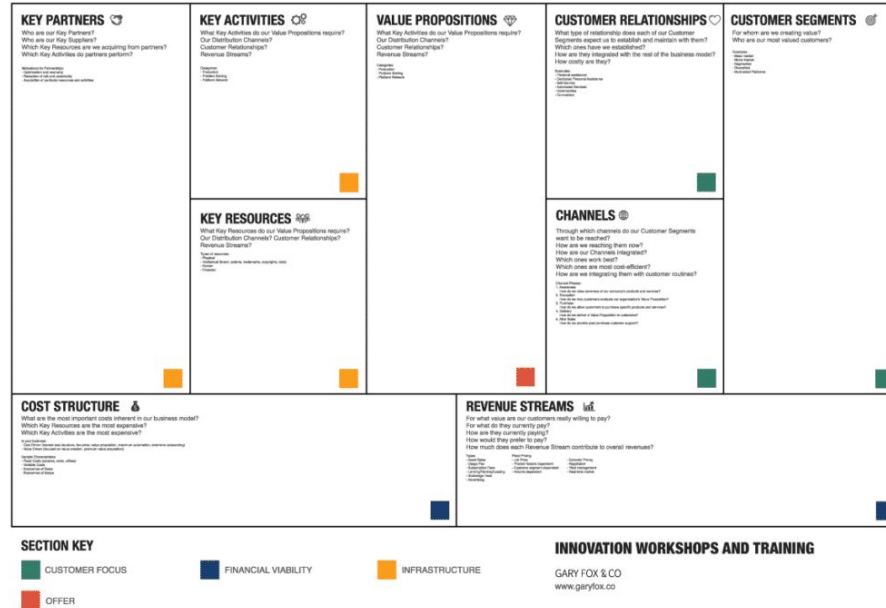
Startup vs company: looking for business model vs optimizing it

Scale vs Repeat

Don't do a business plan until you found it

→ Resolve a problem, find the business model of your solution

The Business Model Canvas



BMC: Value proposition

What is the product or service you are building for a customer segment?

Your Value Proposition characteristics:

- Newness
- Performance
- Customization
- Design
- Brand
- Price
- Cost reduction
- Risk reduction
- Accessibility
- Usability

BMC: Customer segment

Who are you serving?

Imagine segments as groups:

- different needs?
- different channels?
- different types of relationships?
- different margins?
- different payment wills?

BMC: Channels

Own vs Partners

Direct vs Indirect

Phases:

1. Awareness
2. Evaluation
3. Purchase
4. Delivery
5. After sales

BMC: Relationships

The most important pillar

Do it like a boss!

BMC: Key Activities

Focus only on your core business

Everything else, you should outsource it!

BMC: Key Resources

Describes the core pillars of what makes your business model work

Types of resources:

- physical
- intellectual
- human
- financial

BMC: Key Partners

Non competitors partnerships

Coopetition

Joint-ventures

Buyer

BMC: Cost structure

Fixed costs

Variable costs

Understand the cost to decide the pricing

BMC: Revenue Streams

KISS

Do not optimize in the early days!

Fast is better than cheap

Find the minimum selling trigger

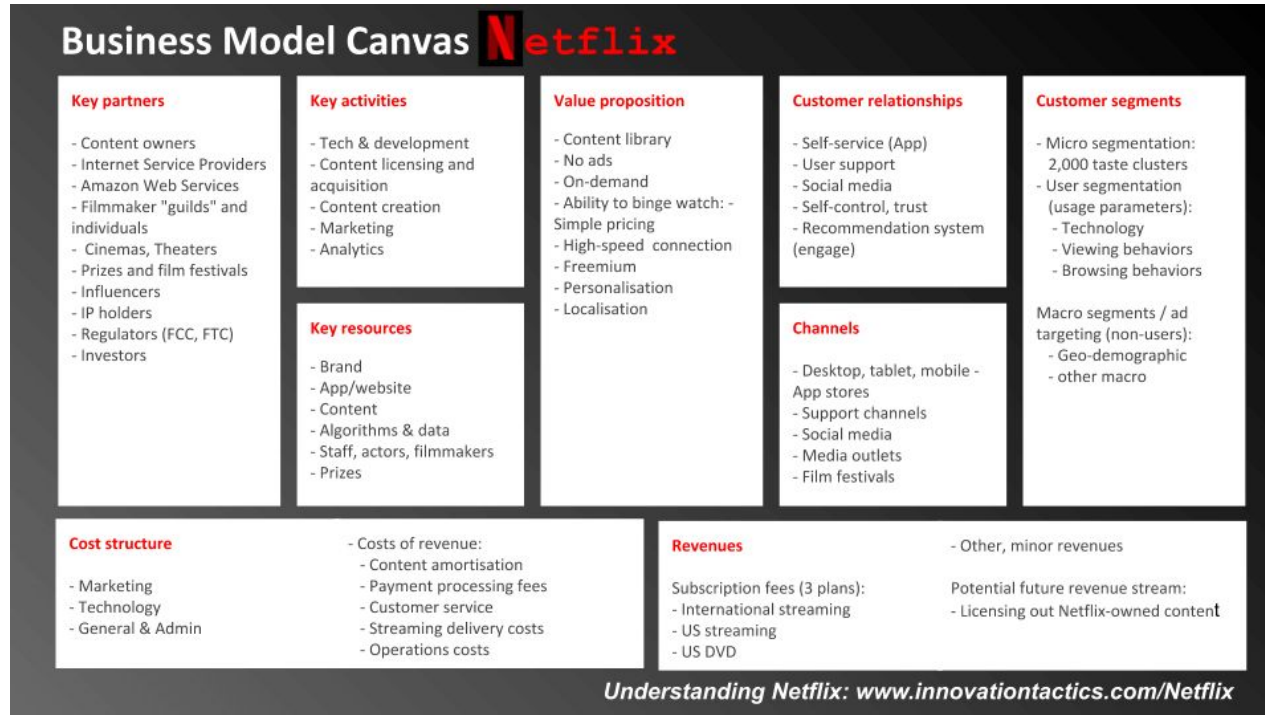
Define what you sell

Check how costs are structured

Decide how much you want to pay yourself

→ compute the quantity of units you need to sell to live!

BMC: an example



Ideation

Now you need to design

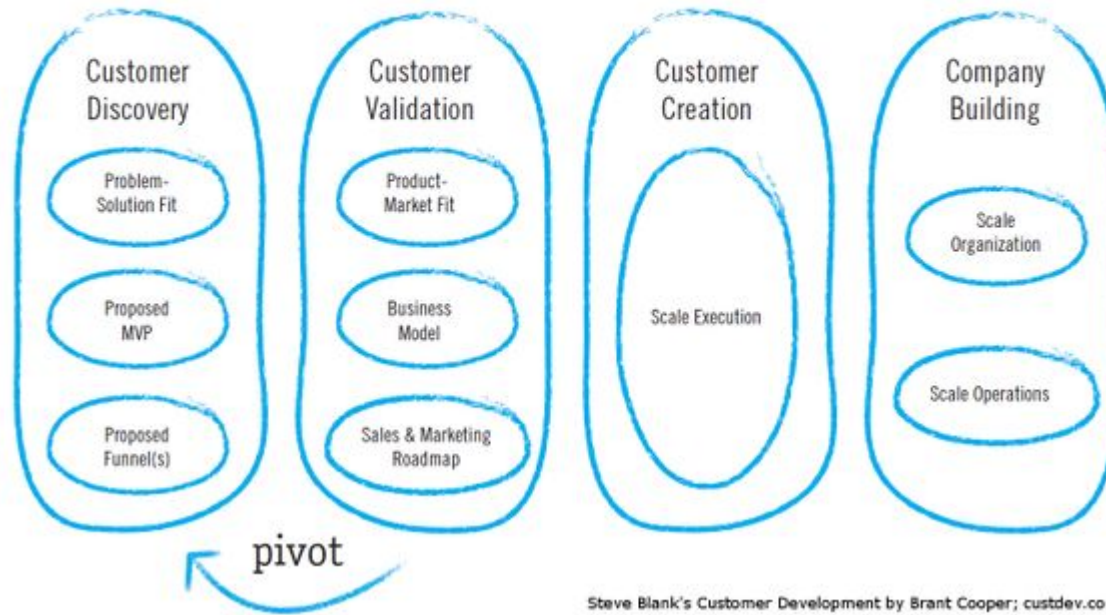
Type:

- resource driven
- offer driven
- customer driven
- finance driven

Use the “What if” method

Allow everyone to ideate!

Customer development



Session learnings

- How a business works
- Financial aspects
- Business Model Canvas

For the next session

- Do your project's **Business Model Canvas**
- Calculate the numbers of units to be sold for breakeven

Next session

- the CTO role