CREATING JOBS CHANGING LIVES

WADHWANI FOUNDATION

Next-Generation Fellowship Program

Financial Planning

Ignite. Weeks 6 and 7

https://www.wfglobal.org

CONCEPTS

- Financial planning and its importance.
- Concepts of a financial plan
- How to create a financial plan?
- The importance of having financial projections for your business.

By the end of the week, you will be able to:

- Understand the importance of financial planning.
- Know the financial definitions that entrepreneurs need to acquire at this stage.
- Create your own financial plan.

Steps:

1. Financial planning.
2. Components of a financial plan.
3. Build your financial plan.
4. Build your financial projections.

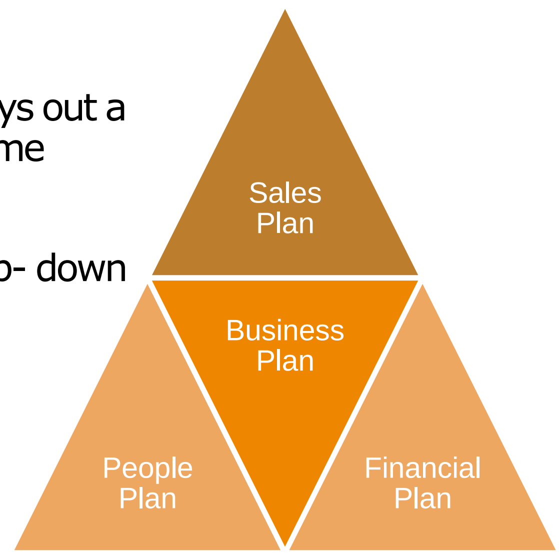
Components of a Business Plan

Business Model Vs Business Plan

A **business model** describes how an organization creates, delivers and captures value in economic, social, cultural or other contexts.

A **business plan** is a document that details the organization's strategy and expected financial performance for years to come.

The template of a Business Plan consists of 3 pillars:



→ **Sales Plan**: A sales plan is a strategy document that lays out a company's plan for improving sales results in a specified time period.

It requires you to take you calculation off Market Size – Top- down and bottom up approach and conduct the following steps:

1. Build a Sales Forecast
2. Create a Customer Acquisition Funnel

→ **People Plan/Hiring Plan**: A people plan aims to estimate the people requirements for your organization, to fulfill the sales forecast based on the customer acquisition funnel. While creating the People plan, you also need to estimate the budgets for the New Hires based on the required skill set.

→ **Financial Plan**: A financial plan is a comprehensive picture of your current finances, your financial goals and strategies to meet your financial goals. Steps in the financial plan.
1. Calculate set-up costs
2. Forecast profit and loss
3. Work out your cash-flow projections
4. Forecast balance sheet
5. Find your break-even point

How to make a Financial Plan
A Wadhwani perspective

Sales Plan – Forecasting

Business planning begins with Sales Planning.

A sales plan consists of a sales forecast and a plan to achieve the forecast. A sales forecast is a projection of the number of units of products or service you want to sell in a given period. Sales planning is divided into two parts:

1. Forecast your sales for the next one year.
2. Plan the number of leads you will need to meet your sales target.

How to make a Sales Plan
A Wadhwani perspective

Forecasting: While completing your forecasting, refer back to the two approaches we have employed in Week 2 – Top Down and Bottom-up. Use the Bottom-up approach to arrive at a realistic estimation of market size. Create your sales forecast from there while ensure that you take into account both your capacity and ambition.

You can employ the following methods for forecasting:

Lead-driven	•Based on your market research data from the previous year •Analyze each lead and assign a value to that source
Length of sales cycle	•Analyze how long a lead takes to convert to a sale.
Intuitive	•Trust your salespeople to accurately forecast their own sales
Test-market analysis	•Limited launch of your product to analyze the response •Use the result of your analysis, to make a near-accurate forecast
Historical forecasting	•Use past sales data to forecast sales considering stable growth

Creating a Sales Forecast
Forbes

Sales Plan - Customer Acquisition Funnel

Customer acquisition is the process of gaining new customers. An acquisition funnel is a place or process where you turn your prospects into actual customers.

This is a crucial step in your venture creation; hence, do analyze your target customer very carefully.

Make sure you have enough prospects/leads at each stage of the funnel so that enough remain at the next stage.

At the product/service front, once the prospective customer signs up with you, you must ensure that your customer is able to connect with the actual product and the promises made in the Unique Value Proposition block of your business model are met.

About 80% of your customers will come from your target segment or niche, but some may be from outside the target segment also, so keep your ears and eyes open.

Make sure you follow up with your customers and take feedback to make further enhancements to your product or service. This delights the customer, and there are chances that you get more customer referrals.

If your conversion rate is high, then what you should concentrate on is to increase the number of people entering that stage of your funnel. So, ensure you have enough numbers at this stage of the funnel, which will ultimately generate the revenue for your business.

The last stage in the funnel, "customers," is very crucial as this is the stage where you get paid. So, ensure you have enough numbers at this stage of the funnel, which will ultimately generate the revenue for your business.

People Plan

Before you begin working on the people plan, find out what skills you already have in the team. Consider the following questions:

- Does the existing team have the technical ability to build the product or solution?
- If yes, how many units of the product and service can they build in a month?
- Does the existing team have a sense of how the industry operates and what value your product and service can add to the industry?
- Is your existing team capable of handling the packaging and delivery of your product or service?
- Do you have anyone to handle the accounts – manage payments to suppliers, payments from customers, and salaries?

How to make a People Plan
A Wadhwani perspective

Here is the guidance to create your People Plan:

1. **Number:** How many more people you need to achieve the goals that you have set in your sales plan.

2. **Hiring:** Consider hiring people as consultants rather than as employees. Are there any roles who you may need for a limited number of months or for a limited number of hours in a week?

3. **Skills:** List the exact skills you need for the team members you want to hire.

4**. Budget:** Set a budget for their salaries. Offer pay packages as per industry standards — neither too low nor too high. Research the kind of salaries people draw for a particular skill set and experience level in salary calculator websites like Salary.com, Know Your Worth.com, Salary Survey.com, and Indeed Salary Search.com.

How to find the right talent:

- Look for potential candidates for your venture among your own contacts. People who join new ventures need to trust the founders of the venture. So, if the candidates express interest, you will already have a connect and trust.

- Use social media platforms such as LinkedIn to find good talent. Also, leverage the network of your existing employees to find and hire new people.

- Find a good balance of the young and enthusiastic and the experienced and mature in your team.

Financial Plan

A financial plan is a forecast of the future performance for a business, and it is the third part of your business plan. This includes planning your expenses, how much to plan to sell, your profits, and how you plan to spend your cash to meet your expenses. A financial plan will help you:

- Plan and optimize your expenses - startup costs, fixed costs, and cost of goods
- Plan and manage cash flows effectively
- Estimate your income and profits

Essential components of a Financial Plan:

Start-up Costs: Startup costs are the expenses incurred during the process of creating a new business . Examples of startup costs include licensing and permits, insurance, office supplies, payroll, marketing costs, research expenses, and utilities.

Forecast P&L: A profit and loss forecast shows your company's expected revenue and expenses over a given period, demonstrating whether you can expect to make a profit or a loss over the coming months.

Cash Flow: Cash flow is a measurement of the amount of cash that comes into and out of your business in a particular period of time. Cash Flow statements help track and analyze to determine the liquidity and solvency of the business. A healthy cash flow is required to fund your payroll, cover your overheads, pay your suppliers and purchase equipment.

Balance Sheet: A balance sheet is a financial statement that reports a company's assets, liabilities, and shareholder equity. The balance sheet is one of the three core financial statements that are used to evaluate a business. It provides a snapshot of a company's finances (what it owns and owes) as of the date of publication.

Break-even Analysis: The breakeven sales level is the number of units that must be sold in order to break even. This means that revenues are equal to expenses. Any units sold beyond this quantity will allow the company to generate profit.

COGS: Cost of goods sold (COGS) refers to the direct costs of producing the goods sold by a company. This amount includes the cost of the materials and labor directly used to create the good. It excludes indirect expenses, such as distribution costs and sales force costs.

How to make a Financial Plan
A Wadhwani perspective

Call to action!

Step 1: Create your Sales Forecast

Step 2: Create your Customer Acquisition Funnel

Step 3: Build your People Plan

Step 4: Create your Financial Plan

Templates provided in the Handouts.

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Unit Economics / Key Metrics

Unit economics describes a specific business model's revenues and costs in relation to an individual unit.

A unit refers to any basic, quantifiable item that creates value for a business. Thus, unit economics demonstrates how much value each item - or "unit"- generates for the business

Step 1: Define your Unit

For an airline, a unit might be single seat sold, whereas a ride share app would define a unit as one ride in their vehicle.

Product Customer Multiple Units

These units are then analyzed to determine how much profit or loss they individually produce. Some businesses require multiple unit measures. For example, an infrastructure service provider that has a geographically distributed physical infrastructure (data centres, cloud, wireless towers, etc.) have significant capital investment for each new deployment. As a result, this businesses should use each unit of physical infrastructure as their core unit and within each, use a customer unit as a secondary unit.

Step 2: Calculate cost of goods sold (COGS)
Calculate your cost of services sold (COSS)

Step 3: LTV/CAC ratios

To calculate unit you need 2 values:

Customer lifetime value (LTV): how much money a business receives from a given customer before the customer "churns" or stops doing business with the company.

Customer acquisition cost (CAC): the cost of attracting a client/ customer

Unit Economics / Key Metrics

Customer lifetime value (LTV):

LTV = A x T x R

Life Time Value(CLV) = Average Value of Sale x No. of Transactions x Retention Time Period

Higher the Lifetime value , the better it is for a business. To increase LTV:

- increase Average value of sales, margins needs to go up
- #number of transactions to increase
- Retention time period to increase, customer needs to be engaged

Customer acquisition cost (CAC):

CAC = TE / NC

CAC: Customer Acquisition Cost

TE: Total expense to attract, engage and convert a new customer

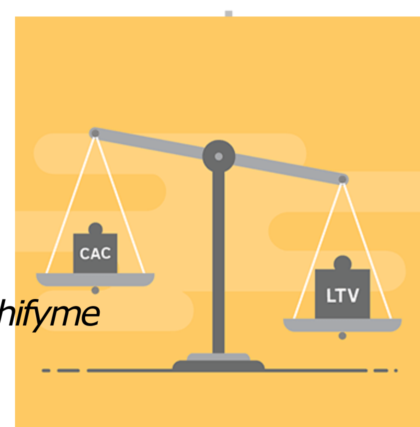
NC: Number of new customers acquired

<u>Interpretation:</u>

If your CAC is less than your LTV, it indicates that your business is strong.

If the two metrics are equal, it likely highlights a stagnant business.

If your CAC is greater than your LTV, you are looking at a financial loss.



[Unit Economics – Metrics that matter]

Learning from Entrepreneurs – Healthifyme

Funding Your Venture

Funding Strategy:

Where are we now?
- Path to current position.
- Key learnings

Where do we want to be?
- Future plans
- How is the find raise going to help you get there?

How do we get there?
Strategy to achieve your goals?

Success Indicators
Key metrics to track progress

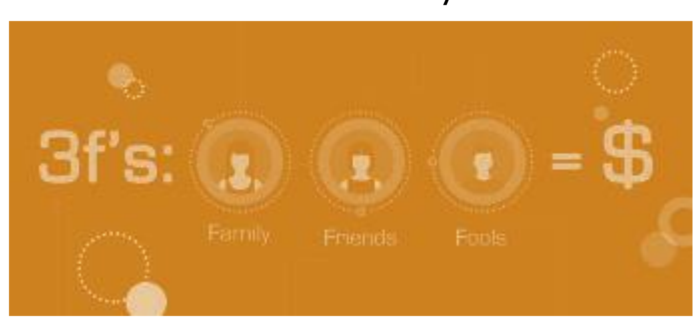
Sources of Funds:

Bootstrapping: There is a different kind of business that comes out of bootstrapping then comes out of venture money. Remember, it's your money and every dollar count. When you think like an investor, the one thing that's critical is to look at return on investment for every dollar spent. Ask yourself:

- Can we ask the customer for an advance?
- Can we get material for manufacturing on credit?
- Does this asset need to be purchased now? Could we wait?
- Are we thinking about how to get this product out faster?
- Can we start getting revenue sooner?
- Are we all going out and selling?

When you start finding solutions to these questions, you will find that your business may become cash generating earlier than you expected. Financial prudence is important.

FFF: If you really believe in your business and its outcome, and you're putting money in as well, one definite source is friends, family, and obviously fools ☺. Be cautious, as these relationships are fragile and last a life-time. Chart out a very clear repayment plan or equity percentage.



Funding Your Venture

Grants: Grants refer to a transfer of funds to a venture without the requirement of repayment, but with conditions, often in order to support the venture in advancing the objectives of the grantee. Grants are usually one-time transfers of funds and can come from many sources. Government agencies, foundations, and corporations are good potential sources of grants. There are a number of grants available.

Development grants | Research grants | Productization grants | Market grants.

Angels: Angel investors are wealthy private investors focused on financing small business ventures in exchange for equity. Unlike a venture capital firm that uses an investment fund, angels use their own net worth. ... Angel investors fund businesses in many industries.

There are Angel clubs, Angel networks, Angel funds. Do your research, and understand where the Angels reside in your region.

Debt Financing: Start-ups can also raise debt either from venture capitalists or from banks that specialize in micros and start-up funding. Banks and Non-Banking Financing Companies(NBFCs) grant loans. These loans so procured can be used for various business needs like:

- Purchase of inventory and equipment
- Operating capital (working capital)
- Fund requirement for expansion etc

However, there are several drawbacks of this funding option. The interest on loan has to be paid periodically irrespective of how your business is faring. The bankers ask for substantial collateral and you need to prove a good credit record

Equity Financing through Venture capitalists: Venture Capitalists are companies/funds that raise funds from various sources and use the corpus to further fund startups. They are ready to invest in small businesses, funding young, unproven companies that appear to have a great idea and a great management team.

- An A level VC is an organization with deep experience, recognition, backing, and team members like Sequoia or Benchmark
- B level investor is a Sequoia wannabe. A good fund, who's thinking on their own and trying to find out unique investment opportunities.

Based on your needs, chart out your Funding plan.

Call to action!

Step 1: Calculate your Unit economics and Key Metrics

- **Gross Margin**
- **Net Margin**
- **COGS / COSS**
- **CLV or LTV**
- **CAC**
- **CLV / CAC ratio**

Step 2: Create your Funding Plan

Templates provided in the Handouts.

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