Input from the revenue module

1. Total subscribers / demand / users of a product (after step 2 – i.e., multiply by effective rate) per revenue product such as LLM1, LLM2, LLM3
2. Total Revenue of all subscriptions (i.e., all revenue from revenue products, excluding other revenue)
3. Total Revenue including other revenue

Example on #1

**LLM1: Monthly or Yearly Bundle**

LLM1 Total Subscribers = LLM1 Monthly Subscribers + LLM1 Yearly Subscribers.

**LLM2: Monthly or Yearly Bundle**

LLM2 Total Subscribers = LLM2 Monthly Subscribers + LLM2 Yearly Subscribers.

**LLM3: Monthly or Yearly Bundle**

LLM3 Total Subscribers = LLM3 Monthly Subscribers + LLM3 Yearly Subscribers.

**LLM4: Monthly or Yearly Bundle**

LLM4 Total Subscribers = LLM4 Monthly Subscribers + LLM4 Yearly Subscribers

So we are looking for LLM1 Total Subscribers, etc.

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We have five key costs buckets that typically comprise any cost tab in a financial model. The goal is to replicate the following, with a slight customization across sectors and presented companies / business topics as required. Examples on optimizations will be provided in the below.

**First step:** would always be to size the personnel. Sizing the personnel can follow three different approaches. For the sake of getting a MVP up and running, only two would be presented for now, with the default being the first approach, however users would have the ability to switch to the alternative module.

Approach 1:

* Take assumption on number of staff per demand available, split across two segments: production and back-office staff
* Take assumption on the salary per staff available including benefits
* Take assumption on any contractors or subject-matter-experts / SMEs onboarded
* Take assumption on the average cost per contractor and subject-matter-expert
* Take assumption on other personnel costs
* Take assumption on salary growth rate per annum

Example of Approach 1:

1. We know that total demand across products is Users 1000 per year
2. Assumption on staff per user:
   1. 1 staff for every 10 users on production side
   2. 1 back-office staff for every 1 production side staff
3. Assumption on salary per staff
   1. Production side – average per annum salary: USD 12,000
   2. Back-office side – average per annum salary: USD 9,000
4. Assumption on salary growth (2-3% per annum)
5. Assumption on any contractors
   1. Total Contractors / SMEs onboarded: 10
   2. Average Duration onboarded per SME: 0.5 months
   3. Cost per SME: USD 3000/month
6. Other personnel costs as a share of the above salaries: 2%

Therefore:

Personnel costs = [ (b.i \* c.i + b.ii \* c.ii) \* (1+d)+ e.i \* e.ii \* e.iii ] \* (1+f)

Approach 2:

* Take a share of revenue to represent total Staff cost

Example of Approach 2:

* Salary as a share of revenue: 5%

Therefore:

Total revenue = USD 1000, INCLUDING OTHER REVENUE

Personnel costs = 1000 \* 5%

**Second step:** would be to identify the cost to produce the solution beyond the personnel costs. Some calculations would differ on the industries. For example, a physical product would differ from the airline which would also differ from an LLM subscription service or a dog walking service.

For an LLM subscription:

Note: *Assuming 12 in the calculations given it is annual modeling. If quarterly modeling or semi-annual, then per period of modeling \*3 and \*6 respectively.*

* **LLM Costs:** Number of users per subscription type \* average cost per subscription type per month \* 12
* **Software Subscription Costs:** Number of users per subscription type \* average cost per subscription type per month \* 12
* **Database Hosting Costs:** Number of users per subscription type \* average cost per subscription type per month \* 12
* **Other Server Costs:** Number of users per subscription type \* average cost per subscription type per month \* 12
* **Maintenance and repairs:** share of total revenue \* total revenue

For selling tires, it would be the cost to produce a tire including the material, the rubber, the steel, etc.

**Third step would entail estimation of the Sales and Commission costs.** This cost is incurred to sell a product whether that was a physical product or subscription or airline seat or event seat or dog walking slot. This cost would be paid to third parties and would be consistent across sectors.

* **Commissions and incentives:** number of subscriptions \* (assumption of costs)

Assumption of costs = variable commission + fixed commission per subscription

* **Reservation systems:** fixed fee per month assumption
* **Payment Costs:** Percentage of subscription revenue, excluding other revenue

**Fourth Step** is to estimate Other Overhead; the following are near common across all sectors

* **Marketing and Promotions:** Marketing as a share of revenue \* revenue products’ revenue
* **Rent:** Fixed fee per month \* 12 \* (1+inflation rate) where inflation should be an assumption
* **Office Supplies:** Office Supplies as share of revenue \* total revenue including other revenue
* **Utilities:** Utilities as share of revenue \* total revenue including other revenue
* **IT and Communications:** IT and Communications as share of revenue \* total revenue including other revenue
* **Professional Services:** Fixed fee per month \* 12 \* (1+inflation rate) where inflation should be an assumption
* **Insurance:** LLM style insurance cost per subscriber \* number of subscribers
* or
* insurance cost per product \* products sold – wheel selling style

**Fifth step** is a buffer of other costs which might entail bad debt costs, new hiring and training costs, and other non-core activities which are always budgeted for by the entity at hand.

This is calculated as a share of other costs in steps 1 to 4.

Approach:

* Assumption: Share of costs as buffer (0.1%)
* Total Costs: Step 1+ Step 2 + Step 3 + Step 4

Then share of costs \* total costs