

Finance Module

Oct 7, 14 and 17, 2024

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1. Finance & Accounting

2. Business And Financial Planning

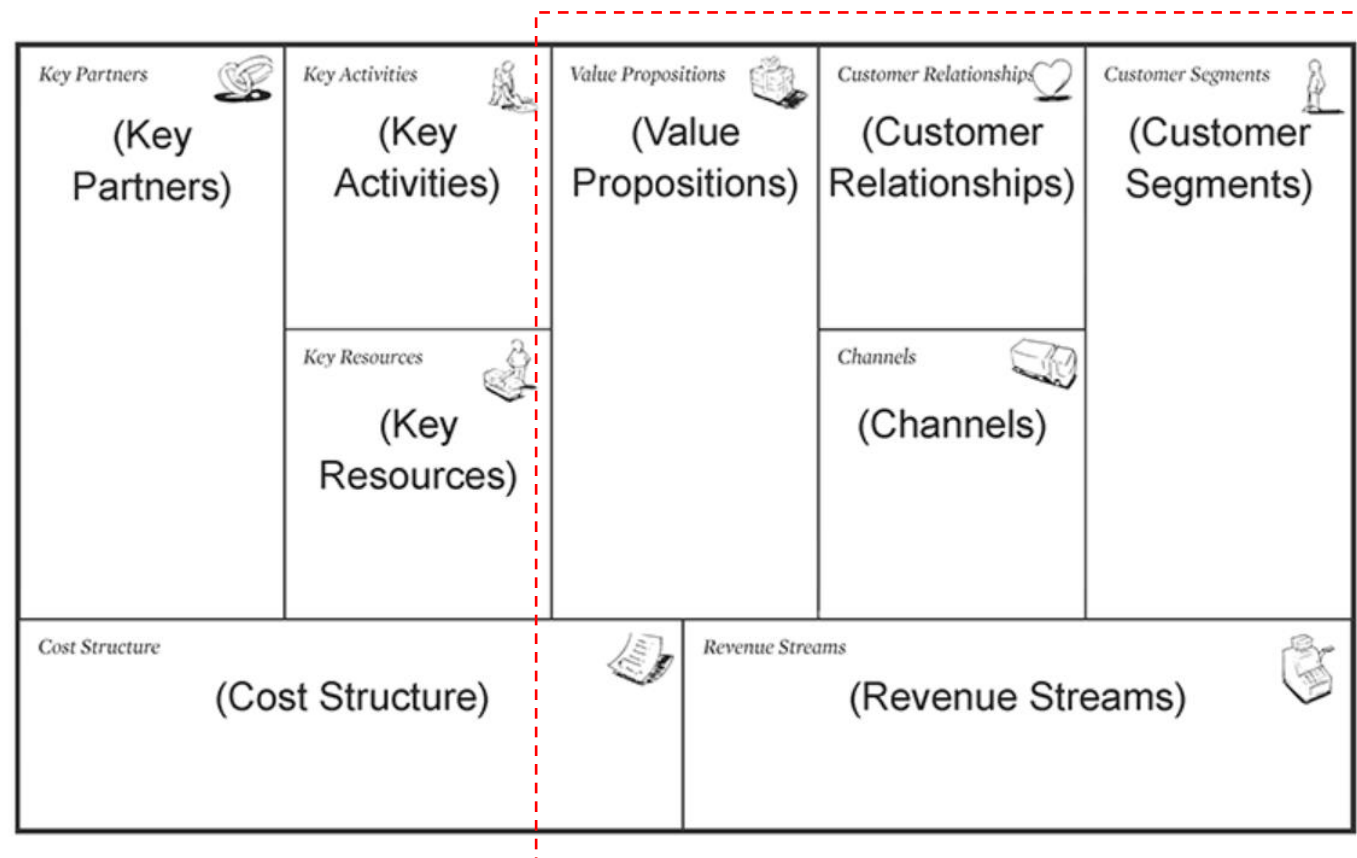
3. Valuation & Entrepreneurial Finance

Types of Business Models

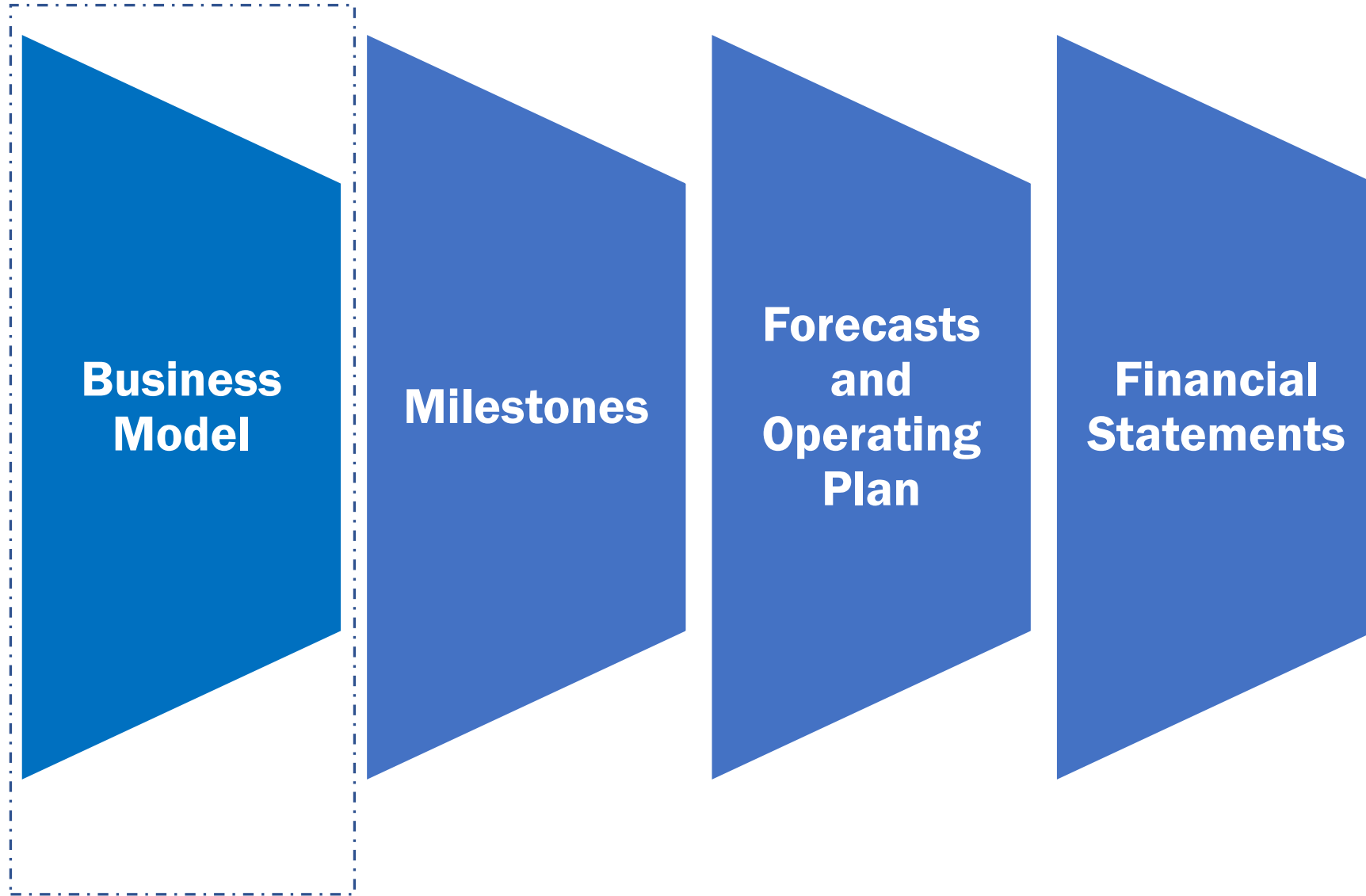
- **B2B, B2C , B2G : business models**
- **The Long Tail Businesses – D2C**
- **Multi-Sided Platforms**
- **Subscription based business model**
- **FREE as a Business Model**

Building a Business Model

- What do you sell?
- To whom do you sell it?
- How do you acquire customers?
- What is a typical transaction?
 - Purchase, subscription?
 - How much?
 - How does money change hands?
- How does product flow?
- How will you go to market?
- Who else is involved
 - Distributor / Partner
 - Advertiser
- How do you make money ?



Developing a Financial Plan



Scalable Business Model

Business Model

- What is your business?
- How do you plan to bring the product to market?
- Where does the money flow?
- How does the product move?
- What is your revenue model?

Unit Economics

What is the relevant “unit”?

What are the costs and revenue associated with that unit?

Fixed and variable?

Customer acquisition costs?

Lifetime value of a customer?

Scalability

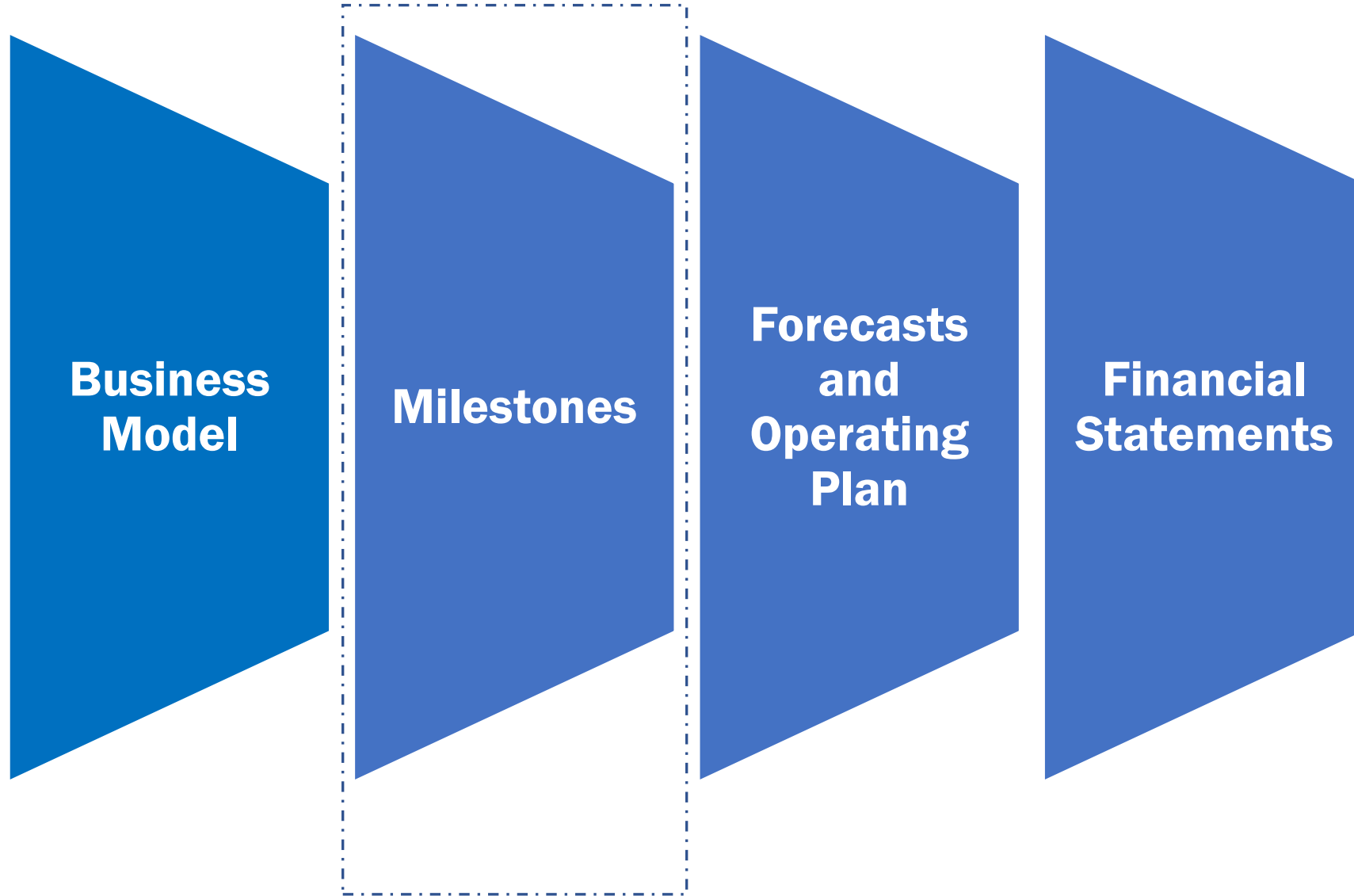
What is lifetime value of Customer?

How do economics change (improve) over time?

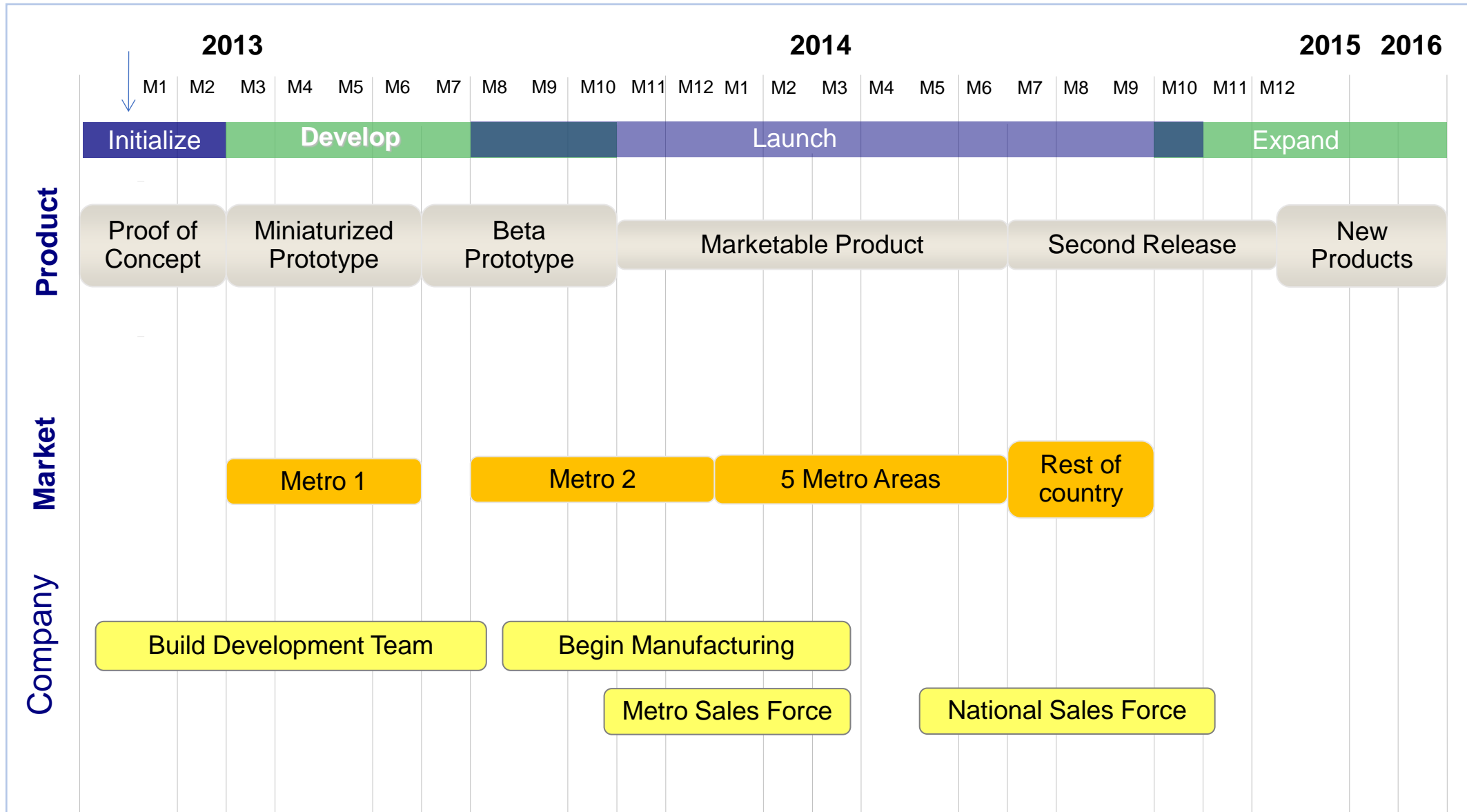
What cost, revenue, customer acquisition assumptions change and why?

How can you validate those assumptions?

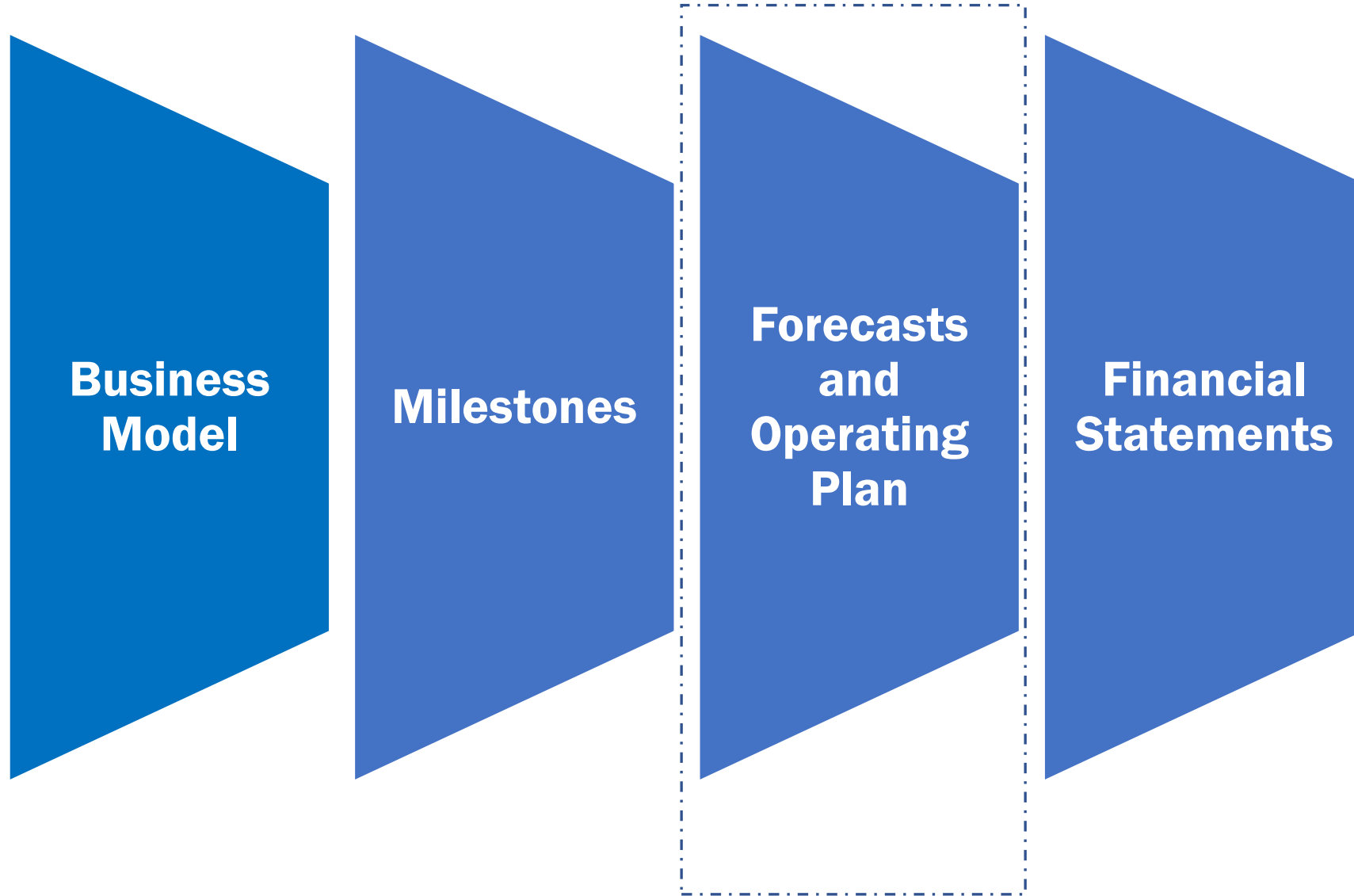
Developing a Financial Plan - Milestones



Gantt Chart for Milestones: Example



Developing a Financial Plan - Forecasts



Forecasts : Revenue & Costs



- **Revenue Plan : Proforma**

- **Product Readiness**
- **Customer Readiness**
- **Potential Pricing**
- **Bottom up plan for 1-3 years**
- **Match with Top-Down Plan for further years (4-5)**
- **Use Proxies to guide you**

- **Costs of Goods Sold / Variable Cost**

- **Bill of Materials (BOM) – Material Cost**
- **Other manufacturing Cost – Labour / Overhead**
- **Supply chain costs – Inbound + Outbound Logistics**
- **COGS varies with stage of business – can be substandard in early year(s)**
- **At maturity, reasonable COGS values vary by type of business, though <50% is important**
- **Understand how COGS is affected by distributors and other partners**

Revenue & Cost Spreadsheet – An Example

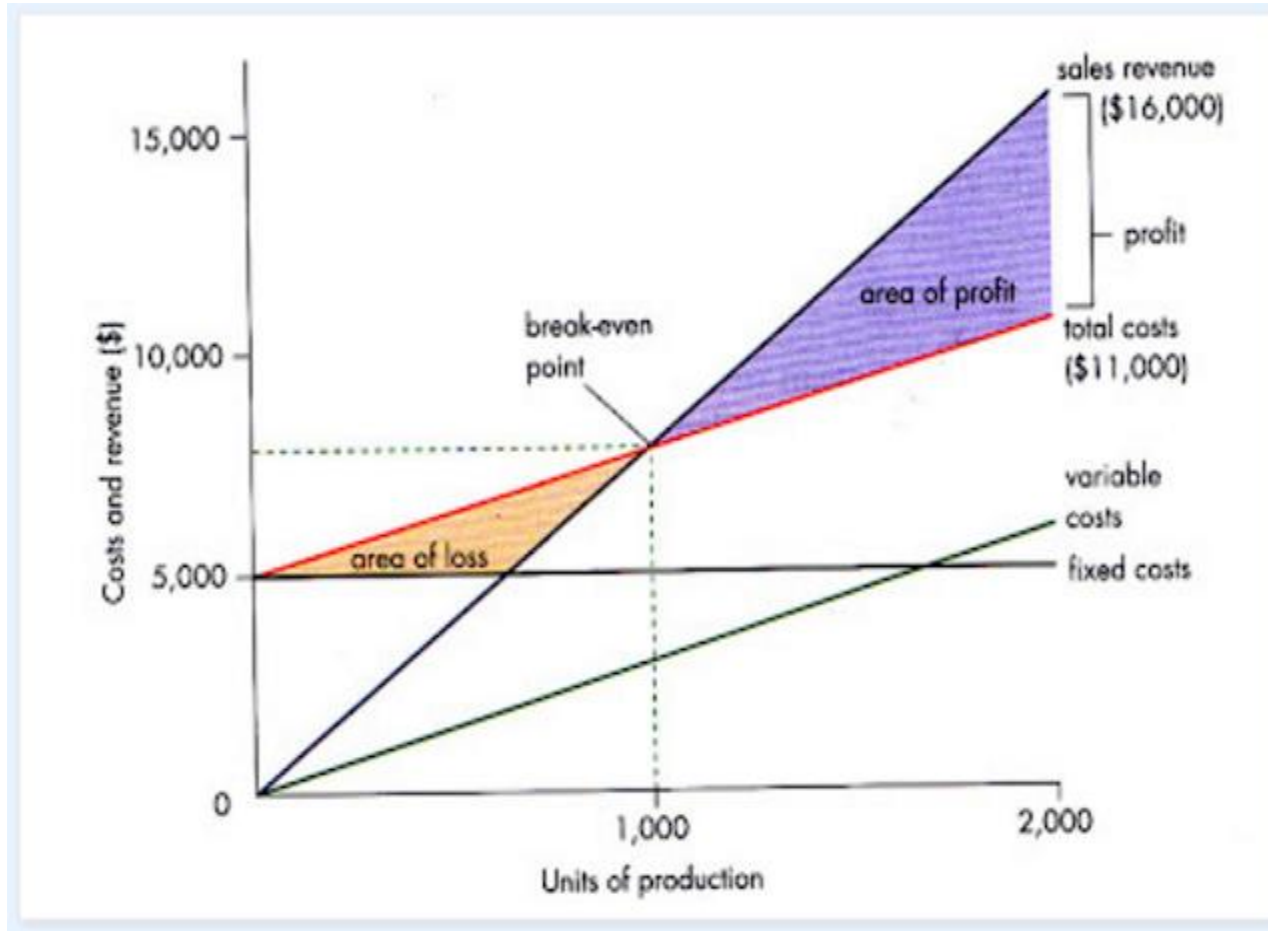


Financial SNAPSHOT - 5 YEARS

<u>UNIT ECONOMICS</u>	2022	2023	2024	2025	2026		2022 - 26
<u>REVENUE STREAM - 1 - STORES SUBSCRIPTION - SaaS MODEL</u>							
							₹ in Millions
No. of Stores	7	13	22	30	50		
REVENUE per STORE @ ₹ 1.50 lakhs per month (Subscription)	12600000	23400000	39600000	54000000	90000000		219.60
Costs of Goods Sold (Direct COSTS) - includes UV Sensors, codes, back-end Data Management software etc. @ 40% of revenue	5040000	9360000	15840000	21600000	36000000		87.84
GROSS MARGIN	7560000	14040000	23760000	32400000	54000000		131.76
GM % age	60.00	60.00	60.00	60.00	60.00		60.00
OVERHEADS + SG&A + Promoters' Time Spent @ 40% of Gross Margin	3024000	5616000	9504000	12960000	21600000		52.70
DEPRECIATION [No Borrowing - No Interest] @ 8% of Revenue	1008000	1872000	3168000	4320000	7200000		17.57
Net Profit / Loss - Stores Software revenue stream	3528000	6552000	11088000	15120000	25200000		61.49
Net Profit / Loss % age	28.00	28.00	28.00	28.00	28.00		28.00

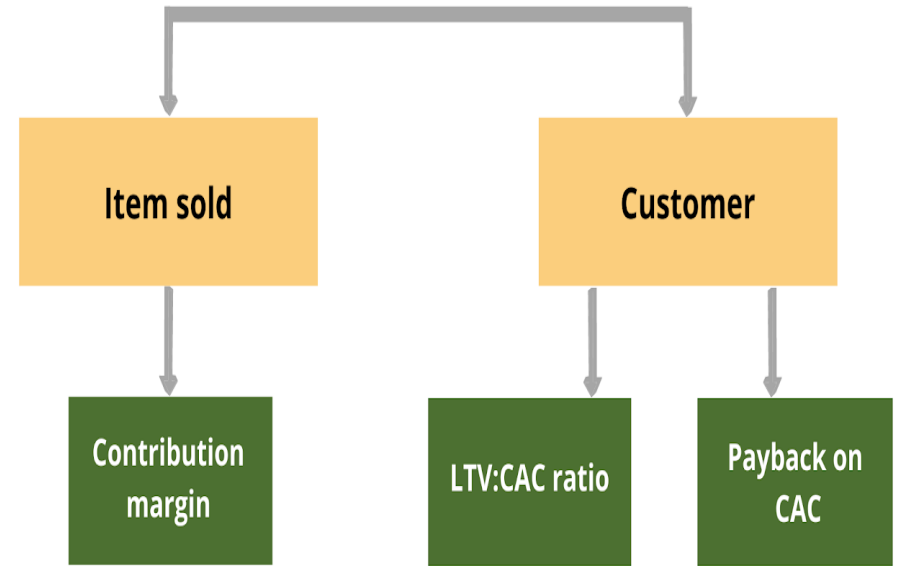
Team CheckitOut,
ENT 603, 2021

Unit Economics



Items sold

UNIT ECONOMICS MODEL



CUSTOMER LIFETIME VALUE

$$\text{CLV} = \text{Average value of purchase} \times \text{Number of times the customer makes a purchase each year} \times \text{Average length of the customer relationship in years}$$

CUSTOMER ACQUISITION COST

$$\text{CAC} = \frac{\text{Sales and marketing costs}}{\text{New customers won}}$$

Unit Economics : Example (Cookies)



Retail Price	142	
GST/Excise	24	
Distributor Markup	6	
Retailer Markup	12	
Company Revenue	100	
Cost of Material	46	Flour, Fat, Sugar, Flavour, SMP etc
Variable Cost of Production	16	Mfg / Supply chain employees, Logistics, Factory
Total Variable Cost	62	
Gross Margin	38	Revenue - Variable Cost
Advertising	15	
S & GA	8	People, Rent, Electricity, R&D Etc
Profit before Tax	15	

