

Transcription

Creating an Effective B-Plan: Part 3

Building Business Plan Projections



So far we have spent time understanding various things like the traffic on our website costs per lead various other marketing cost revenues etc. but while building an effective business plan there are so many other costs involved outside marketing cost, simple things like your electricity bills big cost heads like employee salaries etc. are very critical to understand. So I think it will be important for us to understand the various other elements of a business plan and now let us listen to our professors who can help us fill in the final details to create a clean and complete business plan.



Cost of goods sold is basically the cost you end up paying for the product you are selling to the consumer. So it is important to first do your research and understand what could be those components which could be directly related to the product you want to sell. If you are selling jewellery online, typically jewellery cost would involve: Labour of the skilled goldsmith for making that ornament, which could either be a per day charge or a per ornament charge, depending on the arrangement you have, Then it would involve cost of Raw material being processed, which could be basis weight or basis count, The next probable component would be the designer's fee, which again could be per day, per consignment, per piece or whatever the arrangement is.

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	UNITS	YEAR 0	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
REVENUE							
COGS	INR Million		23	109	361	507	707
Cost For Goldsmith Labour Charges	500 / Order		3.75	13.65	38.03	49.43	64.36
Cost Of Raw Material	50%		15.00	81.90	285.19	407.82	578.36
Cost Of Designer	500 / Order		3.75	13.65	38.03	49.43	64.36



Thus, in our excel mode, we are assuming cost of the goods with labour charges, cost of raw material and cost of designer. There can be many other components depending upon the product you are looking to sell, and the way you are putting it together. Just to make it simple, in our specific excel model, we have assumed the labour and designer costs basis number of orders and cost of raw material as a percentage of order value.

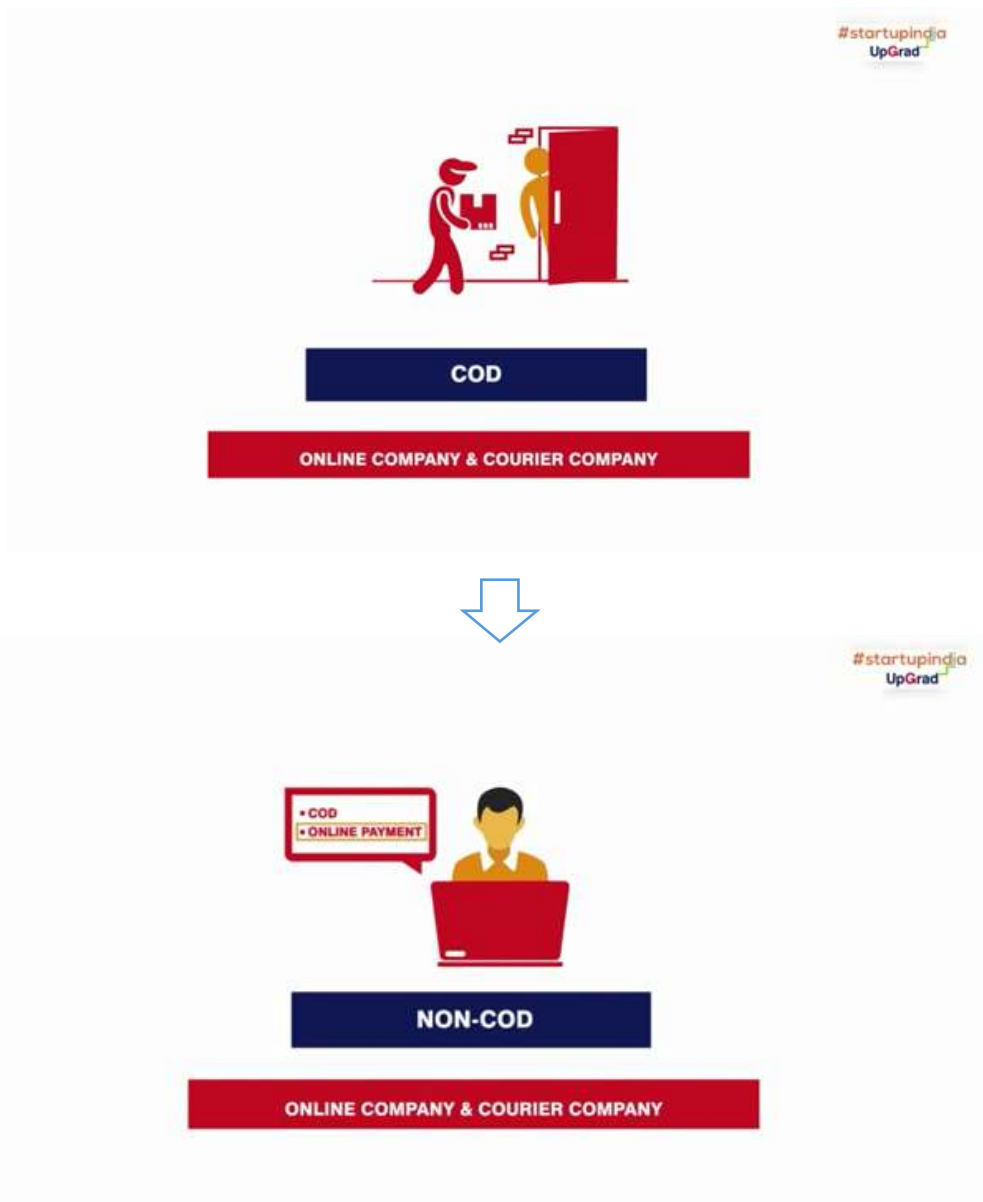
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	UNITS	YEAR 0	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
SHIPPING, PACKAGING, GATEWAY, COD							
COD Orders (Postpaid)	%		80%	55%	50%	50%	50%
Non COD Orders (Prepaid)	%		40%	45%	50%	50%	50%
Shipping & Packaging Cost Includes Shipping Cost Of Returns							
Shipping + Packaging (Per Order)	INR		100	90	80	80	80
Shipping + Packaging Total	INR		0.75	2.46	6.08	7.91	10.38
COD Total (Charges Higher Of Rs.50/2%)	INR Million		0.36	1.80	5.70	8.16	11.57
Payment Costs - Prepaid @ 3.7%	INR Million		0.81	4.43	15.40	22.02	31.33



Shipping, Logistic cost. There are certain cash on delivery orders and also pre-paid delivery orders for which some assumptions have been taken in our example model. We have taken an assumption that in our first year, 60% of the customers would pay cash on delivery while 40% would prepay while placing an order. Then we have assumed that this would become a 50-50 proportion by the fifth year. This reflects how your business model will evolve.





Most online businesses in the current day and age partner with courier companies and dispatch their products. So what you essentially do is you setup a warehouse, you have to setup a packing facility where your products are packed up and then sent out through the courier agency or courier partners. When this venture starts off, it may be that individual customers want more cash on delivery options. It is your business model that defines over the long run how you can convert people from cash on delivery to paying upfront.

Consumers often take time to adapt to paying upfront by credit card because they are afraid of using credit card on the internet, especially on new websites. Thus, cash on delivery becomes an important element of most business models. Understanding these kind of details will give you a better sense of cost of delivery, and other associated costs also because all of this has an association with the cost that comes out at a per unit level.

Secondly, in this case there are certain assumptions that have been taken regarding the shipping and packaging costs per order which are Rs. 100 in the first year, reducing to 80 by the fifth year. These assumptions are not imaginary - You have to benchmark such aspects against industry benchmarks and by talking to vendors in the market. As an entrepreneur, you need to think about your own business model and what drives certain elements of that. You should have a good understanding of the kinds of benchmarks that exist in the market. These cost benchmarks will give you the line items of logistics costs or shipping and packaging costs. In our example we have taken the associated costs of packaging, Cash on Delivery and payment gateway charges, based on the strategy we discussed just before this. Typically all of these costs are per transaction and depend on the value of the transaction.



Now, let's look at the manpower cost. Basically, manpower cost is the number of people multiplied by the average salary level. It requires you to understand the overall structure of your organization.

MANPOWER COST FOR ONLINE JEWELLERY

1. Vendors- Provide Standardized Diamond and Gold cuts
2. Photographers- Click & Upload Pictures
3. Engineers- Create a Platform
4. Sales & Marketing Team- Sell the Product



- Firstly, In your online jewellery business, there will be vendors who will provide you with the standardized sets of diamond cuts or gold cuts etc
- Secondly, there will be a set of people who would be working with you as photographers who will take these photos and upload them in a particular position
- Thirdly, you will have an engineering team who will create a platform where people can come and search for the products
- Fourthly, you will have a sales and marketing team who will actually go out and sell these products. So on and so forth

	UNITS	YEAR 0	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
MANPOWER COST							
Avg No of Head Counts	##	5	25	49	57	72	82
Founders		1	1	1	1	1	1
Marketing			2	5	7	8	10
Sales & Customer Support			10	20	25	35	40
Technology		3	10	20	20	23	25
Finance & Support		1	2	3	4	5	6
Avg Salary	INR Million	2.00	1.50	1.00	0.80	0.80	0.80
Total Employee Cost	INR Million	10.00	37.50	49	45.60	57.60	65.90



There will be 3 to 6 divisions that you will have for each of these divisions, you will have to get a good sense of how many people you would like to hire. Each division is slightly different. You may get a technical person slightly more expensive as compared to, say, a sales person.

You can see that in the first year the number of headcounts is 5 only comprising of 3 from the technology division, a finance support guy apart from the founder. Average salary will be higher in the initial year as the team members are a part of the core team and thus are paid 2 million average that leads to the manpower cost of 10 million in our model. Although, we have built manpower cost here in a very simple way, it actually required you to think deeply about organizational structure, team strength, and growth of the team, as well as the efficiency a person brings in etc.

OTHER EXPENSES

1. Office Premise Rent
2. Warehouse Rent
3. Electricity
4. Other Office Expense
5. Travelling
6. Communication



Other Expenses – Till now, we have looked at the major cost heads for our online jewellery business, that are directly relatable to the product and the business. Besides those cost heads, there are certain other expenses or overheads that one would incur to carry on business.

These would include typically

- The rent for office premises
- The warehouses
- Related electricity costs
- Other office expenses
- Travelling
- Communication expenses



The office rent expenses, for instance, will depend upon the earlier estimates for the team or manpower we plan so that the office space can be looked at accordingly. The warehouse expenses, as another example, would depend upon the number of orders and the inventory we store to estimate the warehouse space and how and when we need to scale these.

As an entrepreneur you would want to be frugal about these expenses in the beginning stages of your business. You may not want to have these heavy fixed expenses, as your resources are lower. For this reason, many start-ups take up shared spaces, and keep these variables lower such that it is easy to scale up and scale down without committing much of your capital upfront.

	UNITS	YEAR 0	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
CASH FLOW							
Less : Working Capital Required	INR Million	20.00	35.00	40.00	50.00	80.00	80.00
Less : Capital Expenditure Required	INR Million	20.00	35.00	50.00	75.00	50.00	50.00



Capex and working capital expenses – Apart from the above, the other two components which you should consider while planning would be the amount of cash flow required for working capital requirements, and also the fixed assets that you may need to invest in, and the quantum of that. These components will add

to your funds requirement – and you may want to plan these well in advance as building fixed assets may have a lead time, and can be a bottleneck to your business if not planned in advance.

Summary - Creating an Effective B-Plan: Part 3



So in this session we understood the various other elements that go into creating a complete business plan at least the complete basic structure.

We looked at various other costs that are involved like the

- Cost of goods sold
- Shipping and
- Logistics costs if that's applicable to you, then the biggest expense probably would be
- The man power cost and the man power cost is calculated as the no. of people × total average salary



We also saw that while evaluating the man power cost you need to carefully consider head count and the organization structure in order to get to right number.

We saw that there are various other minor costs which go into other expenses like

- Travel and Entertainment

- Rent and electricity
- Office equipment

Post that we also discussed working capital and capital expenditure involved for your venture which also goes into the business plan. So, with this we complete the skeleton of our business plan with the various components involved and of course as you keep moving forward and your business evolved we keep adding and deleting stuff to the basic skeleton. It was great meeting you for the session and I look forward to seeing you again soon

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