

Planning Business Logistics

Financials

- Revenue Models
 - Startups must start with one revenue model in order to maintain focus, similar to with other decisions.
 - Options tend to include full purchase, rental or subscriptions, licensing or other fees, and other creative fees such as some freemium and microtransactions for mobile applications.
- Pricing
 - Pricing has a huge impact on net income, so getting it right makes a big difference on the value of a business. Raising price can be difficult as well, and early customers tend to have the biggest need, so startups should be careful not to set prices too low to begin.
 - Other considerations should include competitor prices, since customers will benchmark against competitors.
 - Costs should not be the main driver of pricing, though you should make sure costs are being covered. There are often hidden costs beyond just the material costs as well, such as selling costs.
- Sales Projections
 - There are two main ways to project sales – top-down and bottom-up. Top-down uses total market size and the potential market share, while bottom-up uses actual market reach.



Business Logistics Worksheet

Let's go through a series of calculations for Frank's cookie business.

First, let's determine how much Gross Profit he makes on each batch of cookies.

- One batch is 24 cookies.
- Frank starts by selling cookies for \$1 each.
- It costs Frank \$10 in materials to make one batch of cookies (sugar, butter, chocolate chips, packaging, etc.)

What is the gross profit per batch of cookies? _____

Operational calculations:

Frank discovers a trade show that would be perfect for selling his cookies! He wants to see how many cookies he'll be able to make for the trade show, with the following constraints:

- He can only make cookies for two days in advance of the trade show to make sure they're fresh.
- Each batch of cookies takes 40 minutes and he works for 8 hours per day for the two days in advance of the show.

How many batches of cookies can Frank make for the trade show? _____

How much will it cost Frank for the materials up front? _____

Breakeven calculation:

Frank is excited to bring his batches of cookies to the trade show.

In addition to the investment in the cookie materials, it will cost Frank the following to have a booth at the trade show:



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- \$200 fee for the booth
- \$60 for booth signage and displays, plus business cards
- \$60 for a sales person to help support him during the event
- \$30 in travel for gas, tolls, and parking

How many batches of cookies does Frank need to sell in order to breakeven on the marketing and sales costs of the booth? _____

Adapting

Oh no! Frank would need to sell almost all of his cookies to barely recover his costs. So even if he sells out ALL of the cookies, he would still take a loss on the booth. He could see a few options here:

- Consider the event an "investment" and hope that customers will buy more in the future - a very risky strategy that rarely pans out.
- Don't attend the event and find other marketing channels that would have a better payoff - certainly an option, especially if there are a lot of options that you need to assess between.
- Play with the number to see what it would take to make the event make sense - let's start here!

The first thing to test with the numbers is pricing - this can have a huge impact on your profit. Let's say that you start charging \$2 per cookie. Keeping the other assumptions the same (\$10 / batch of materials, 24 batches capacity, \$350 cost of attending the event), what do your numbers look like now?

Gross profit per batch: _____

Batches to break even on booth investment: _____

Net profit if all cookies are sold: _____



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Other Considerations:

Hooray! Frank can make a profit at the trade show. Or can he? Here's a few things that he should consider before making the decision to attend:

- What portion of his cookies will he expect to sell? Will it change a lot based on the price?
- Are there other costs he hasn't considered yet? What about the cost of using the kitchen to bake, the wear and tear on his kitchen supplies, and the value of his own time?

As a company scales, these hidden costs need to be factored in. Let's assume that Frank sells all of the cookies he brings to the trade show and has a profit of \$562. If he were to pay himself for his time, or pay someone else for their time as he needs to make more cookies than he can produce on his own, is this enough profit to cover a reasonable rate?

If preparing for the event, cooking, and running the booth totaled 4 days of work at 8 hours for each day, the profit distributed over these hours would result in him being paid \$17.56 per hour. If Frank would be able to hire others to make cookies at the same rate and quality as his cookies, and for a lower rate than \$17.56, he would be able to sustain the business at the price of \$2 per cookie.



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