

Cost Structure, Revenue Model & Channels:
The Curious Case of Intuitive Planning

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Introduction



Small or big vision – it needs resources to become a reality:

- Time & work
- Money.

Money can be the most important and the most scarce resource.

Three ways to finance your business.

- Debt
- Equity
- Revenue or working capital.

For someone to trust you with their money you need to prove you can manage it.

Budget is one of the ways to show it:

- Math is simple: $\text{profit} = \text{revenue} - \text{costs}$.



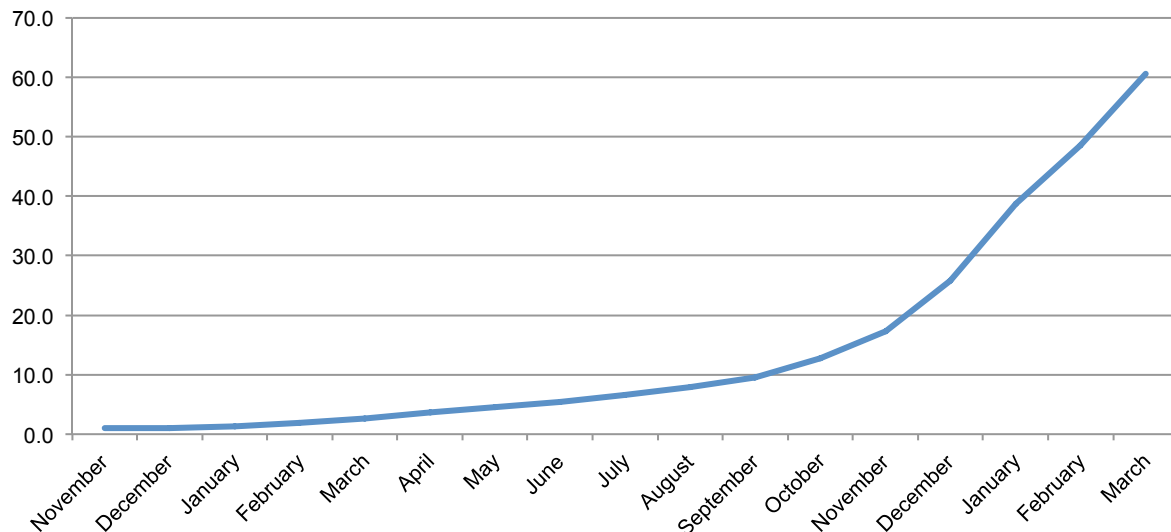
Example Budget

EUR	2015 November	2015 December	2016 January	2016 February	2016 March	2016 April	2016 May	2016 June	2016 July	2016 August	2016 September	2016 October	2016 November	2016 December	2017 January	2017 February	2017 March
Opening Cash Balance	6,429	43,332	36,457	29,669	23,001	975,479	913,224	845,036	775,510	696,232	610,957	523,152	433,427	344,500	257,556	182,692	112,586
Sales	2,670	1,853	2,594	3,631	5,083	7,117	8,896	10,675	12,810	15,372	18,446	24,902	33,618	50,427	87,278	109,097	136,371
Total Sales	2,670	1,853	2,594	3,631	5,083	7,117	8,896	10,675	12,810	15,372	18,446	24,902	33,618	50,427	87,278	109,097	136,371
COGS	2,303	1,637	2,291	3,208	4,440	6,143	7,589	9,106	10,798	12,957	15,361	20,738	27,655	41,482	68,251	85,314	106,642
Total COGS	2,303	1,637	2,291	3,208	4,440	6,143	7,589	9,106	10,798	12,957	15,361	20,738	27,655	41,482	68,251	85,314	106,642
Gross Profit	368	216	302	423	644	973	1,307	1,568	2,012	2,415	3,085	4,164	5,963	8,945	19,027	23,783	29,729
Gross Profit Margin	14%	12%	12%	12%	13%	14%	15%	15%	16%	16%	17%	17%	18%	18%	22%	22%	22%
Labour costs	3,876	5,602	5,602	5,602	5,602	30,284	32,010	32,010	36,325	41,503	41,503	41,503	41,503	41,503	41,503	41,503	41,503
Facilities and operations	489	489	489	489	15,564	5,944	6,685	6,085	9,966	9,187	7,387	7,387	8,387	7,387	7,387	7,387	8,387
Marketing	1,100	1,000	1,000	1,000	7,000	7,000	10,000	13,000	15,000	17,000	22,000	25,000	25,000	27,000	25,000	25,000	27,000
Other expenses	8,000	0	0	0	0	0	800	0	0	0	0	0	0	0	0	0	0
Operating Expenses	13,464	7,091	7,091	7,091	28,166	43,228	49,494	51,094	61,290	67,690	70,890	73,890	74,890	75,890	73,890	73,890	76,890
Operating Profit/Loss	-13,097	-6,875	-6,788	-6,668	-27,522	-42,255	-48,187	-49,526	-59,278	-65,275	-67,805	-69,725	-68,926	-66,945	-54,863	-50,107	-47,161
Investment Cash Inflows	50,000	0	0	0	1,000,000	0	0	0	0	0	0	0	0	0	0	0	0
Purchases of Inventory	0	0	0	0	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Other Cash Inflows/Outflows	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash Flow Adjustments	50,000	0	0	0	1,020,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Financial Result	-13,097	-6,875	-6,788	-6,668	-27,522	-42,255	-48,187	-49,526	-59,278	-65,275	-67,805	-69,725	-68,926	-66,945	-54,863	-50,107	-47,161
Cashflow	36,903	-6,875	-6,788	-6,668	952,478	-62,255	-68,187	-69,526	-79,278	-85,275	-87,805	-89,725	-88,926	-86,945	-74,863	-70,107	-67,161
Closing Cash Balances	43,332	36,457	29,669	23,001	975,479	913,224	845,036	775,510	696,232	610,957	523,152	433,427	344,500	257,556	182,692	112,586	45,425
Cumulative Cash Burn	13,097	19,972	26,760	33,428	80,950	143,205	211,393	280,919	360,197	445,472	533,277	623,002	711,929	798,873	873,737	943,843	1,011,004



Revenue

Sales Daily Units



Product, price, quantity:

- Is product fit for the markets you are planning to enter
- Price is determined based on competitors, test runs and other reliable data
- How much items are you planning to sell.

Relate your budgeted numbers e.g.:

- Marketing affect on sales numbers
 - Spend more on marketing:
 - Sell more
 - Higher margin

Derive KPI's:

- Simple KPI's in example below
- Spend on marketing for each sold item.

	Units	November	December	January	February	March	April	May	June	July	August	September	October	November	December	January	February	March
SALES	EUR	2,670	1,853	2,594	3,631	5,083	7,117	8,896	10,675	12,810	15,372	18,446	24,902	33,618	50,427	87,278	109,097	136,371
Number of Daily Sales	Units	1.0	1.0	1.3	1.9	2.6	3.6	4.6	5.5	6.6	7.9	9.5	12.8	17.2	25.9	38.8	48.5	60.6
Average Price	EUR	89	65	65	65	65	65	65	65	65	65	65	65	65	65	75	75	75
Days for Sales	Units	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
Sales Returns	Units	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?
Seasonality affect	%	10%	-5%	40%	40%	40%	25%	20%	20%	20%	20%	35%	35%	50%	50%	25%	25%	25%



Revenue - Sales Channels

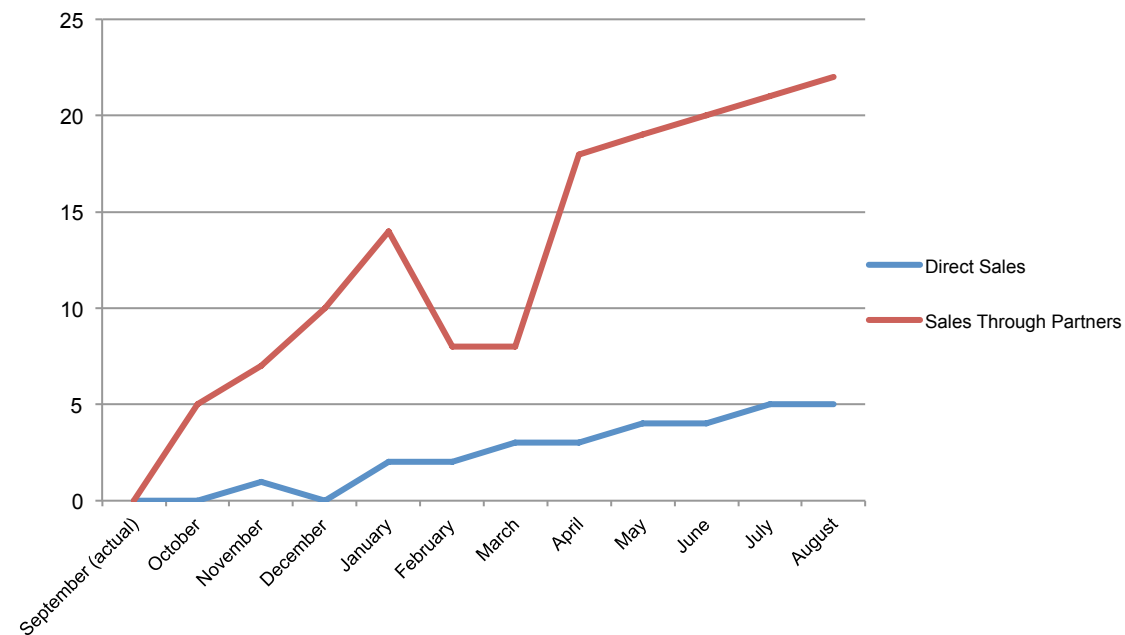
	Units	September	October	November	December	January	February	March	April	May	June	July	August
SALES	EUR	0	5,750	9,950	11,500	19,900	13,000	14,900	26,400	29,450	30,600	33,650	34,800
Units sold directly	Units	0	0	1	0	2	2	3	3	4	4	5	5
Price	EUR	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900
Units sold through partners	Units	0	5	7	10	14	8	8	18	19	20	21	22
Price	EUR	1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,150

Different sales channels have different features:

- Direct – expensive way to sell your goods/services at higher price
- Distributors – cheaper way to sell your goods/services cheaper

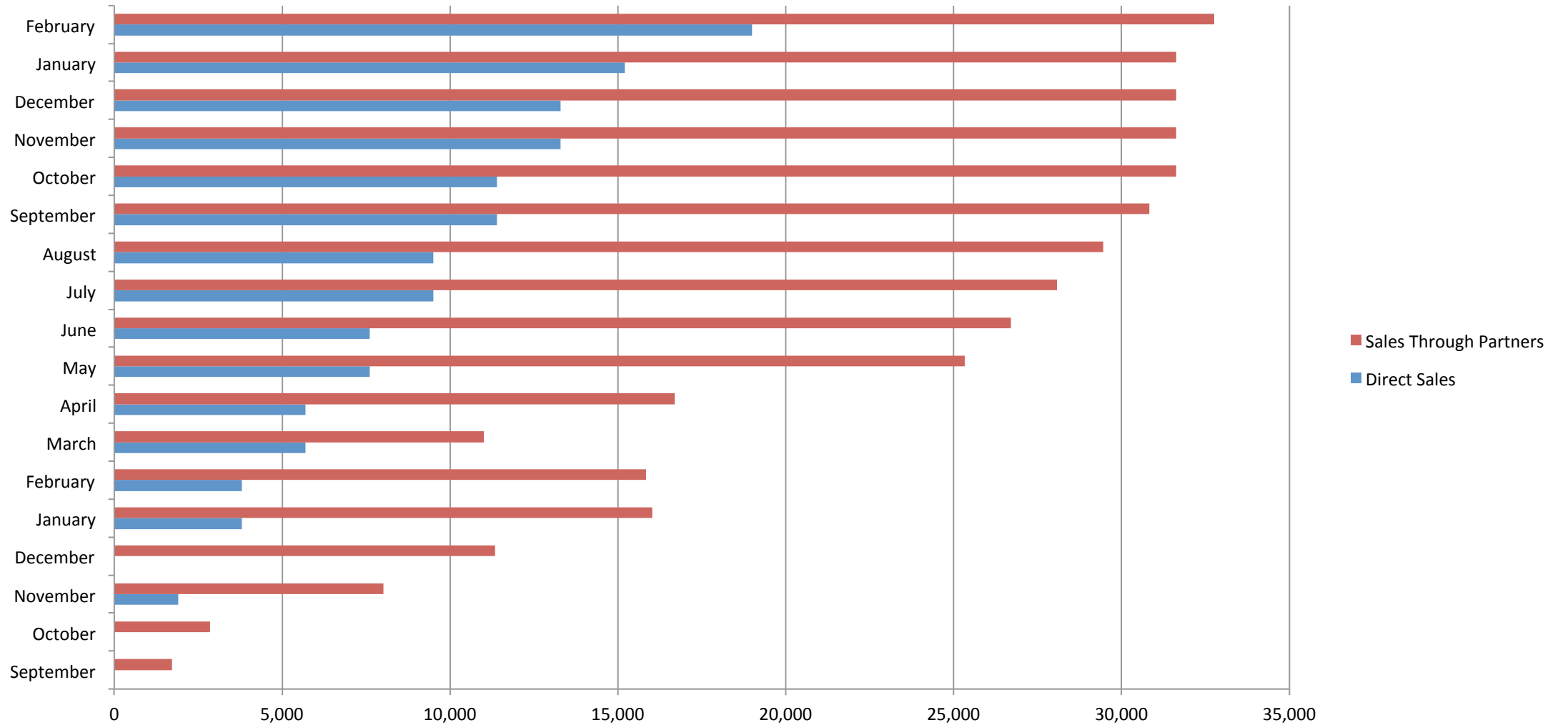
Examples:

- Hardware – furniture
- Software – computer games.



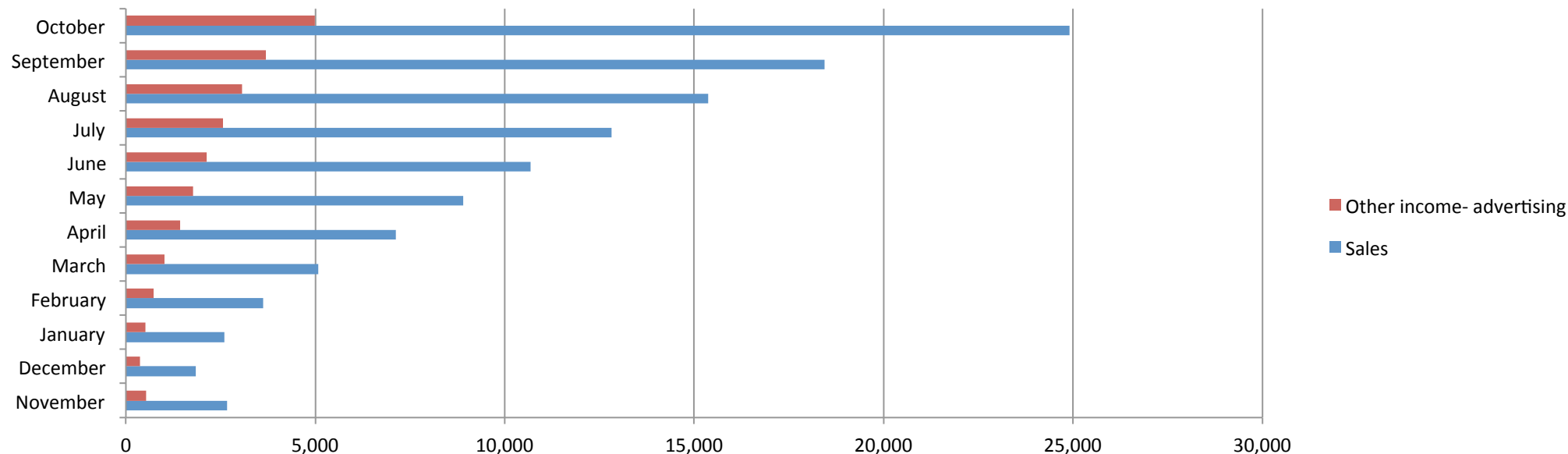


Revenue – Sales Channels





Revenue - Streams

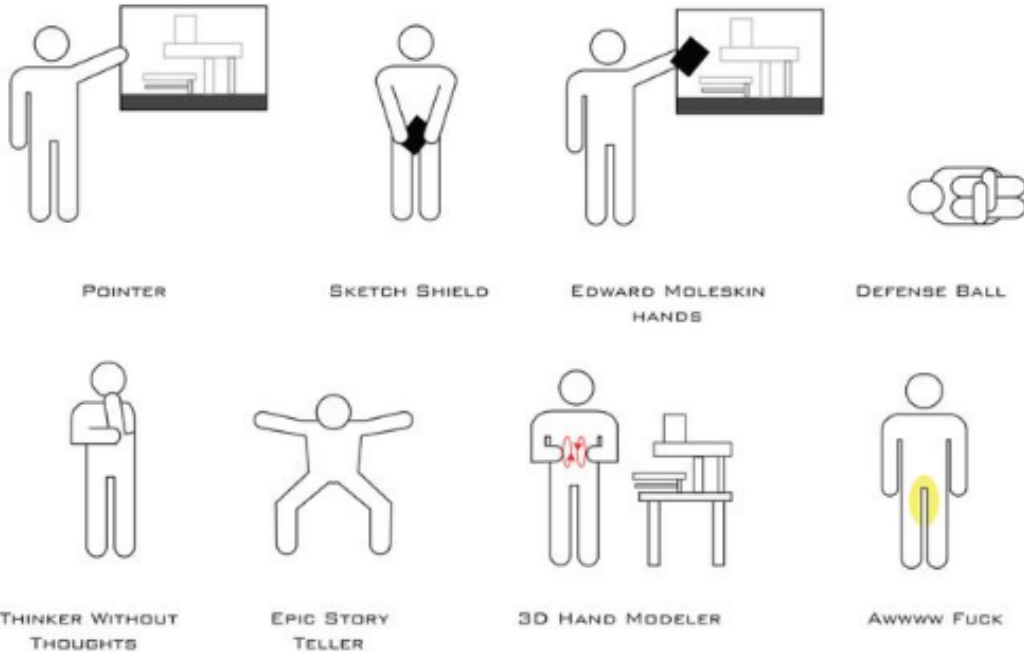


	2015	2015	2016	2016	2016	2016	2016	2016	2016	2016	2016	2016
EUR	November	December	January	February	March	April	May	June	July	August	September	October
Sales	2,670	1,853	2,594	3,631	5,083	7,117	8,896	10,675	12,810	15,372	18,446	24,902
Total Sales	2,670	1,853	2,594	3,631	5,083	7,117	8,896	10,675	12,810	15,372	18,446	24,902
Other income- advertising	534	371	519	726	1,017	1,423	1,779	2,135	2,562	3,074	3,689	4,980
Total Other Income	534	371	519	726	1,017	1,423	1,779	2,135	2,562	3,074	3,689	4,980
Subscribers	29,030	34,836	41,804	50,165	50,000	51,400	53,400	56,000	59,000	62,400	66,800	69,800
Active subscribers	4,355	5,225	6,271	7,525	7,500	7,710	8,010	8,400	8,850	9,360	10,020	10,470
New purchasers per period	8	7	10	14	20	27	34	41	49	59	71	96
Old purchasers per period	23	21	30	42	59	82	103	123	148	177	213	287
Cost of new subscriber	5	5	5	5	5	5	5	5	5	5	5	5
Marketing Cost per Purchaser	37	35	25	18	90	64	73	79	76	72	78	65



Revenue Exercise

TYPES OF PRESENTERS



Build your company's revenue model for 12 month period:

- Calculate revenue:
 - Predict quantity
 - Selling price
 - Other variables: selling channels, seasonality etc.
- Think of 3 KPI's for your revenue model
- Think of other possible revenue streams and show them separately.

Present with passion , demonstrate strong belief!



Cost

Payroll Cost to the Firm
Management
CEO
CMO
CTO
IT
Frontend Developer
Backend Developer
Buying & Merchandising
Buyer (Apparel)
Buyer (Shoes)
Buyer (Handbags & Accessories)
Logistics Coordinator
Buying Assistant
Merchandiser 1
Merchandiser 2
Creative Designer
Unknown
Marketing
Business Development Manager
Inbound Marketing Manager
Affiliate and E-mail Marketing Manager
Total:
Facilities and Operations
Rent+warehouse
Utilities
Heating
Internet
Maintence
Cleaning
Security
Furniture
Legal, Accounting and Consulting
Phones
Software (SaaS)
Hardware
Office Supplies
Travel & Meals
Marketing
Other expenses

Understanding the costs specific to your business:

- IT
- Hardware

Cost of sales, cost of goods sold:

- Stock
- Cost of labour spent on a project

Main costs:

- Salaries
- Rent
- Hardware

Largest expense is payroll:

- The person you can trust the most is yourself
- Talented and passionate people can create a lot more

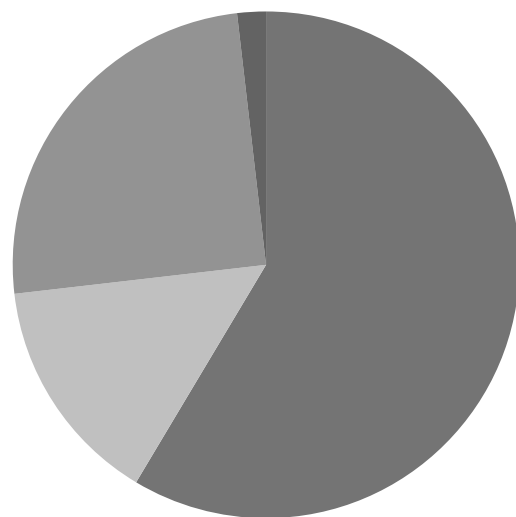
KPI's:

- Marketing expenses per sale
- Customer acquisition costs
- Other.



Cost

EUR	November	December	January	February	March	April	May	June	July	August	September	October	Total
Sales	2,670	1,853	2,594	3,631	5,083	7,117	8,896	10,675	12,810	15,372	18,446	24,902	114,047
Total Sales	2,670	1,853	2,594	3,631	5,083	7,117	8,896	10,675	12,810	15,372	18,446	24,902	114,047
COGS	2,303	1,637	2,291	3,208	4,440	6,143	7,589	9,106	10,798	12,957	15,361	20,738	96,571
Total COGS	2,303	1,637	2,291	3,208	4,440	6,143	7,589	9,106	10,798	12,957	15,361	20,738	96,571
Gross Profit	368	216	302	423	644	973	1,307	1,568	2,012	2,415	3,085	4,164	17,476
Gross Profit Margin	14%	12%	12%	12%	13%	14%	15%	15%	16%	16%	17%	17%	169%
Labour costs	3,876	5,602	5,602	5,602	5,602	30,284	32,010	32,010	36,325	41,503	41,503	41,503	281,419
Facilities and operations	489	489	489	489	15,564	5,944	6,685	6,085	9,966	9,187	7,387	7,387	70,160
Marketing	1,100	1,000	1,000	1,000	7,000	7,000	10,000	13,000	15,000	17,000	22,000	25,000	120,100
Other expenses	8,000	0	0	0	0	0	800	0	0	0	0	0	8,800
Operating Expenses	13,464	7,091	7,091	7,091	28,166	43,228	49,494	51,094	61,290	67,690	70,890	73,890	480,479
Operating Profit/Loss	-13,097	-6,875	-6,788	-6,668	-27,522	-42,255	-48,187	-49,526	-59,278	-65,275	-67,805	-69,725	-463,002



- Labour costs
- Facilities and operations
- Marketing
- Other expenses

- Show cost structure either as average monthly or as total in the whole period, but have a reason for your decision.
- What can you tell about business looking at cost structure?



Cost Exercise



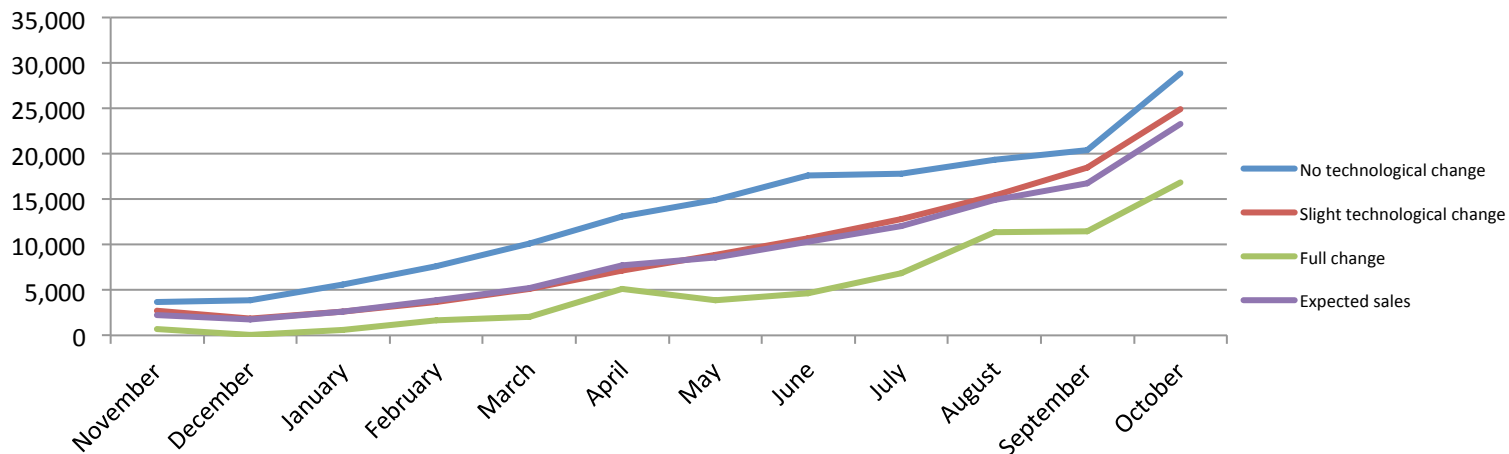
Build your Company's cost model for 12 month period:

- Total costs
 - Predict needed staff
 - Calculate office rent
 - Predict marketing expenses
 -
- Think of 3 KPI's for your cost model
- Draw cost structure graph.

Present with passion , demonstrate understanding of costs and why are they there!



Risks to Your Business



- Analysing your budget can help to identify the risk that your business is facing.
 - Revenue – change in technology, economics conditions can have a huge affect on your plan.
 - Cost – unexpected growth in labour costs, change in costs of one of your key ingredients or
- Risk related to e.g. revenue can be incorporated in your budget by using expected values.

Likelihood of Change in Technology		
No change	Slight change	Full change
0.2	0.5	0.3

No change

EUR	November	December	January	February	March	April	May	June	July	August	September	October	Total
Sales	3,670	3,853	5,594	7,631	10,083	13,117	14,896	17,675	17,810	19,372	20,446	28,902	163,047

Slight change

EUR	November	December	January	February	March	April	May	June	July	August	September	October	Total
Sales	2,670	1,853	2,594	3,631	5,083	7,117	8,896	10,675	12,810	15,372	18,446	24,902	114,047

Total change

EUR	November	December	January	February	March	April	May	June	July	August	September	October	Total
Sales	670	53	594	1,631	2,083	5,117	3,896	4,675	6,810	11,372	11,446	16,902	65,247

Expected Sales

EUR	November	December	January	February	March	April	May	June	July	August	September	October	Total
Sales	2,270	1,713	2,594	3,831	5,183	7,717	8,596	10,275	12,010	14,972	16,746	23,302	109,207



Revenue and Costs Exercise

Prepare all inclusive budget for 12 month period:

- Revenue
- Cost of goods sold
- Operating expenses
- Cash opening - cash closing
- Monthly Cash burn

Well prepared budget shows how much money you need to achieve set goals.

You should be able to:

- List main KPI's
- Derive the amount of cash needed for your operations
- Find a number of time periods needed to reach cash break- even
- Draw revenue streams graph and cost structure.



Final Remarks

- **Create the future story of your Company using numbers that you believe in**
- **Analyse your budgets monthly**
- **Don't create sliding budgets.**



And we are here to help you!

Thank You!

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