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Using Strategic Finance as a Growth Hacking Tool



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Before we jump into the topic, let's understand the finance landscape

FINANCE LANDSCAPE

- Bookkeeping
- Audit and
- Reporting

ACCOUNTING



COMPLIANCE



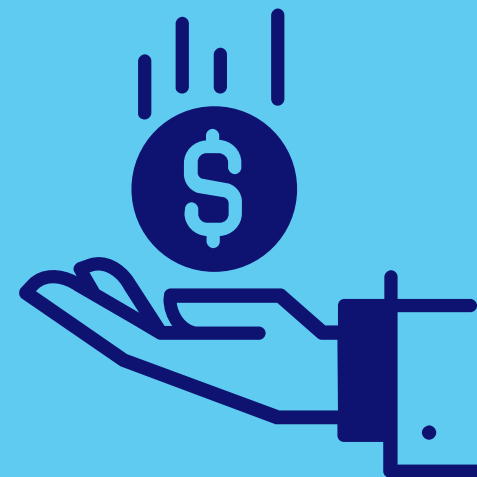
- Income Tax
- GST
- RoC/FEMA



- Strategic Planning
- Business Modeling
- Business Plan



STRATEGY

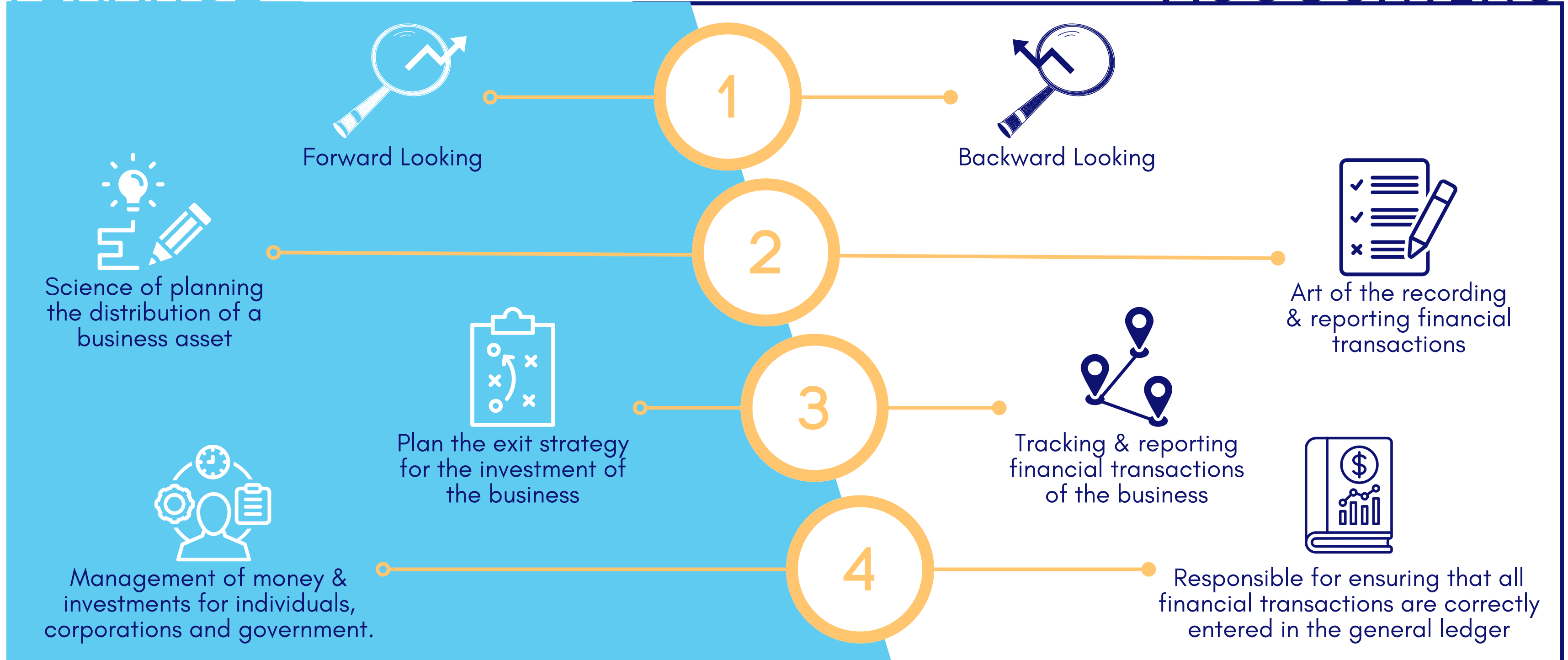


FINANCE

- Budgeting and Forecasting
- Profitability Analysis
- Performance Management
- Sales process and funnel management

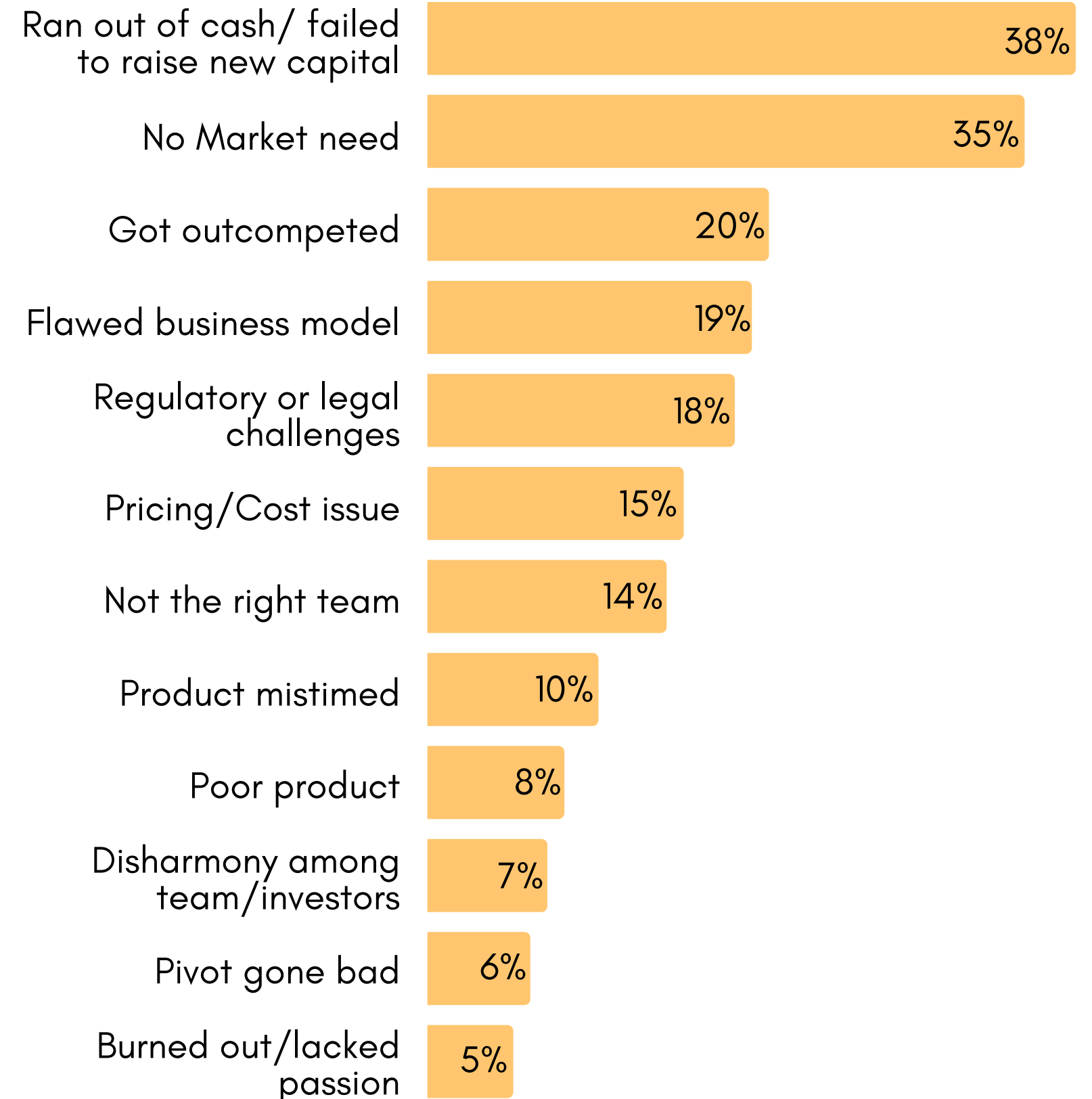
FINANCE

ACCOUNTING



WHY DO START-UPS FAIL?

- CB Insights studied over a 118 failed startups between 2018 and 2022, identifying 12 reasons for startup failure.
- Unsurprisingly, unsustainable cash burn rates top the list with 38% of startups failing due to them being financially inefficient.
- Better financial planning can make startups more resistant to failure and exogenous shocks.
- The next slides will discuss how financial planning can strengthen startups



WHY DO START-UPS FAIL?

- Startup entrepreneurs have multiple facets of concern when it comes to achieving business growth.
- Broadly, startup entrepreneurs face issues in the following areas:
 1. Creating a long term strategy
 2. Evolving the strategy as the company transforms
 3. Resource planning to meet objectives set by the founders

**THIS PROGRAM WILL EXPLORE
HOW STRATEGIC FINANCE CAN
HELP YOU RESOLVE THESE ISSUES
AND ACHIEVE GROWTH!**



PRODUCT PHASE

PRODUCT MARKET FIT

SALES TESTING

SCALE UP

COMPANY STAGE

Existence

Survival

Success-
Stagnancy

Success-
Growth

Maturity

ORG STRUCTURE

- Very simple
- little delegation of responsibility
- founder & businesses are virtually identical
- Continuous innovation in decision making to ensure survival

- Moderately complex
- Greater delegation of responsibility
- Greater separation of founder and business
- Those in the growth sub-stage continue to practice innovation in decision making

- Complex
- Clear delegation of responsibility
- Clear distinction between founder and the business
- Continued innovation in decision making

FINANCIAL REPORTING SYSTEMS

- Formal recording, reporting and review of finances
- High level business plans

- Formal recording, reporting and review of finances
- Detailed business plans

- Formal recording, reporting & review of finances
- Detailed business plans
- Market, industry and economic research
- Strategy documentation

KEY LEVERS TO BE PULLED

Weekly reviews

Monthly reviews

Budgets + Forecasts

Weekly reviews

Monthly reviews

Budgets + Forecasts

Weekly reviews

Monthly reviews

Budgets + Forecasts

KPIs focusing on cost drivers, revenue conversion

STAGES OF GROWTH

KPIs focusing on cost drivers, revenue conversion

Product/service wise profitability analysis

Product/service wise profitability analysis

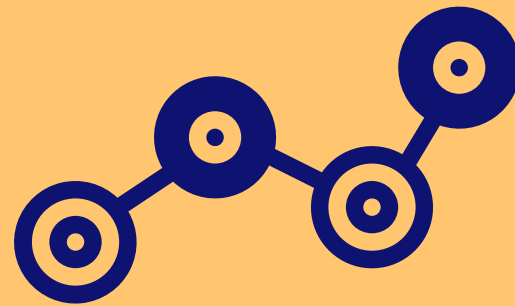
Quarterly and annual strategy & financial review

GROWTH HACKING

VIEWS OF GROWTH HACKING EXPERTS



Focus on growing volumes



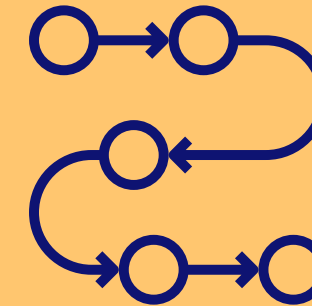
Metrics considered include things like DAU, MAU, growth



Targets are more consciously used in strategy creation



Goal is to reach as many people as possible



It is a short term process and cannot be pursued forever

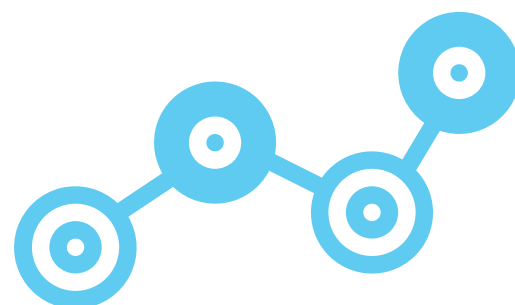


Key stakeholders: management, investors, employees

VIEW OF GROWTH HACKING FROM A CFO LENS



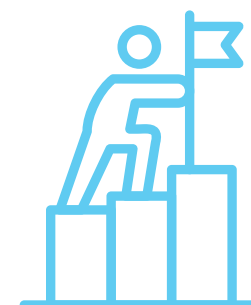
Focus on growing values



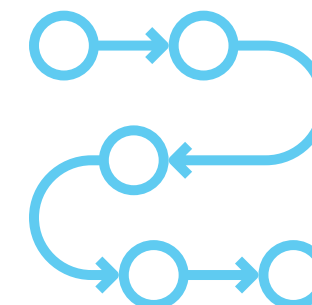
Metrics considered include things like ARPU, break-even point



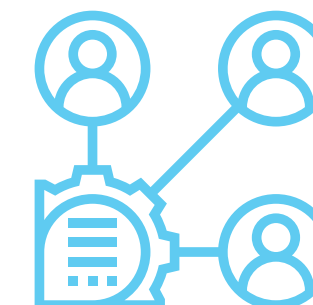
Runway and targets are consciously used in strategy creation



Goal is to keep organization efficient



It is a perpetual process



Key stakeholders: investors, board of directors & management



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The Importance of Financial Management Systems for Each Stage

KEY FINANCIAL MANAGEMENT SYSTEMS

- Financial reporting systems can be explained through a 3 tiered system:
 1. Strategic planning and execution
 2. Tactical planning and execution
 3. Operational planning and execution
- Under each of these tiers, there are key levers that need to be pulled in order to maximise organisation's growth value.

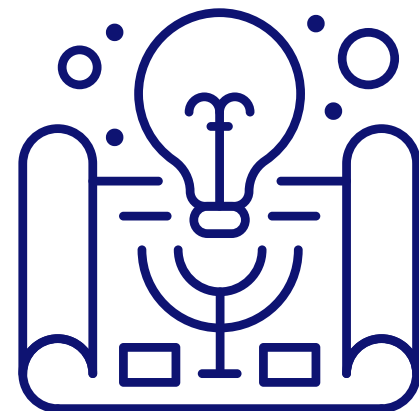


STRATEGIC FINANCIAL PLANNING AND EXECUTION

- Strategic financial planning is a forward-looking tool that ensures that the company meets its short and long term goals, and it enables the maximization of organizational value.
- Strategic financial planning provides a basis for performance measurement and management to the management and founders so that they can correct course accordingly
- Moreover, it is an implicit risk management tool- that signals to financiers and other external stakeholders of the company's potential.
- Some key levers used in this tier are:



1. Economic, industry and market research



2. Detailed long term business plans



3. Strategy documentation

ECONOMIC, INDUSTRY AND MARKET RESEARCH

- An important aspect of strategy creation and documentation is to assess the external environment of a business and understand its impact.
- The external environment is subject to volatility through various factors, be it political, economic, technological or others, thus requiring to be monitored consistently.
- Research enables entrepreneurs to keep track of trends, developments and key indicators to further improve on their product, business model or internal decision making process,
- Research also serves as a base for the business plan and the strategy documentation



BUSINESS PLANS

- A business plan is a forecast of company performance over the course of 3 to 5 years
- The details of a business plan are dependent on the maturity of the product, the organization and the complexity of the environment it operates in
- It provides granular information on the expected financial performance of the company, its assets, liabilities, working capital needs, CAPEX needs and cash requirements.
- Business plans can be taken as long term performance management tool that keeps founders and managers accountable.
- They are also signals of a proper risk management practice to the board of directors and investors- thus proving useful in acquiring capital
- Research in the Journal of Business Venturing has shown that companies that write business plans are 2.5x more likely to get funded.

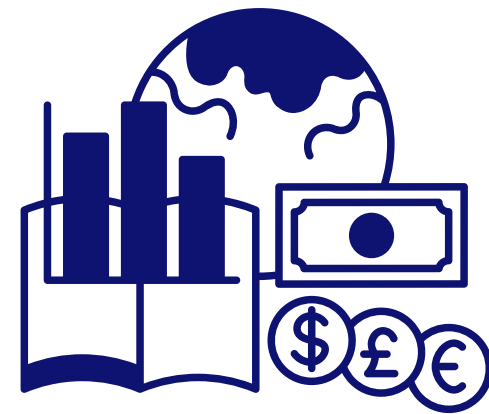


STRATEGY DOCUMENT

- A strategy document is a qualitative explanation of how a company plans on achieving its goals.
- It incorporates economic, industry and market research to supplement the logic of the strategy
- It is written keeping various intrinsic and extrinsic factors in mind such as:



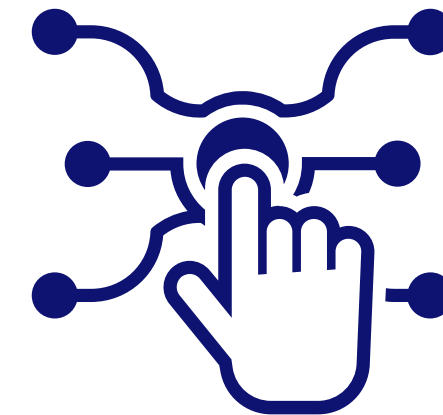
1. Political and regulatory factors



2. Economic factors



3. Socioeconomic factors



4. Technological disruption & comparison to existing players in the market.

- It also includes a SWOT analysis that outlines the market positioning of the company
- Strategy is an ever-evolving subject, hence, the strategy document must also evolve and reflect new conditioning information.

TACTICAL FINANCIAL PLANNING AND EXECUTION

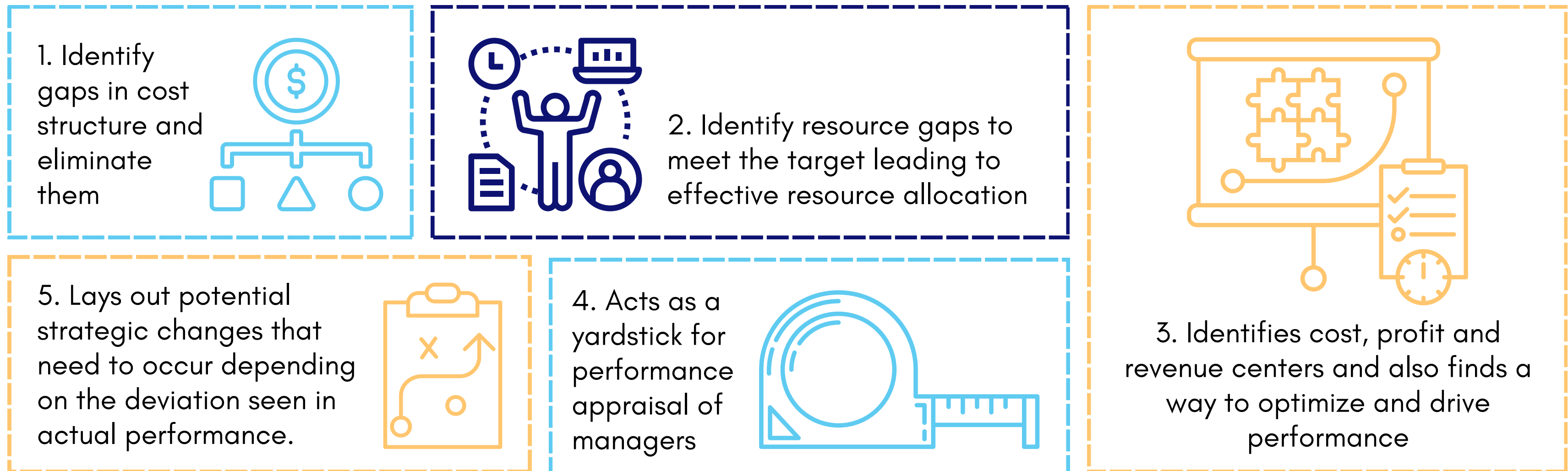
- Tactical financial management focuses on the company's current position in the market, with a deep dive on developing specific performance targets
- Goals are focused towards improving the efficiency of the company's operations and increasing income
- Companies may use these performance targets to develop specific expectations, regulations, or workflows for each department

TACTICAL PLANNING TOOLS INCLUDE ANNUAL BUDGETS, MONTHLY FORECASTS AND QUARTERLY REVIEWS OF COMPANY STRATEGY AND PERFORMANCE.



BUDGETS

- An annual exercise which shows planned performance for the following year
- Budgets help identify key levers of performance that could be leveraged to improve efficiency and effectiveness over the next financial year
- Some key improvements that budgets bring are:



FORECASTS

- Forecasts can effectively be thought of as short term budgets, that look at performance on a monthly basis
- Forecasts look to identify and explain the reason for short term deviations in performance
- They help managers in course correction from a short term perspective.
- They also help managers capitalise on any opportunities in the short term and deliver on better performance
- Managers with astute forecasting abilities tend to deliver growth efficiently



QUARTERLY REVIEWS OF STRATEGY AND PERFORMANCE

- Most successful companies are aware that their goals are fixed while their strategies are not
- Strategies need to be proactively evaluated for them to evolve according to market and other external conditions
- Quarterly reviews allow for this exercise to occur and thus set the tone and stage for the next few quarters.
- The importance of this exercise is highly required in dynamic environments, like one faced by startups, given the nature of the game.



OPERATIONAL PLANNING AND EXECUTION

- While strategic and tactical tools create confidence in stakeholders and keep management accountable and efficient, these tools need to be fed with the correct data for them to be successful
- Faulty or incorrect data will result in faulty decision making process
- Startups must be particularly wary of data integrity issues because of the lack of formal processes to ensure data integrity.
- The perfect start for most startups would be to set up apt processes for data integrity through operational planning and execution.
- Some operational planning tools include:



1. Weekly reviews



2. Monthly closing of accounts



3. Cash flow forecasts

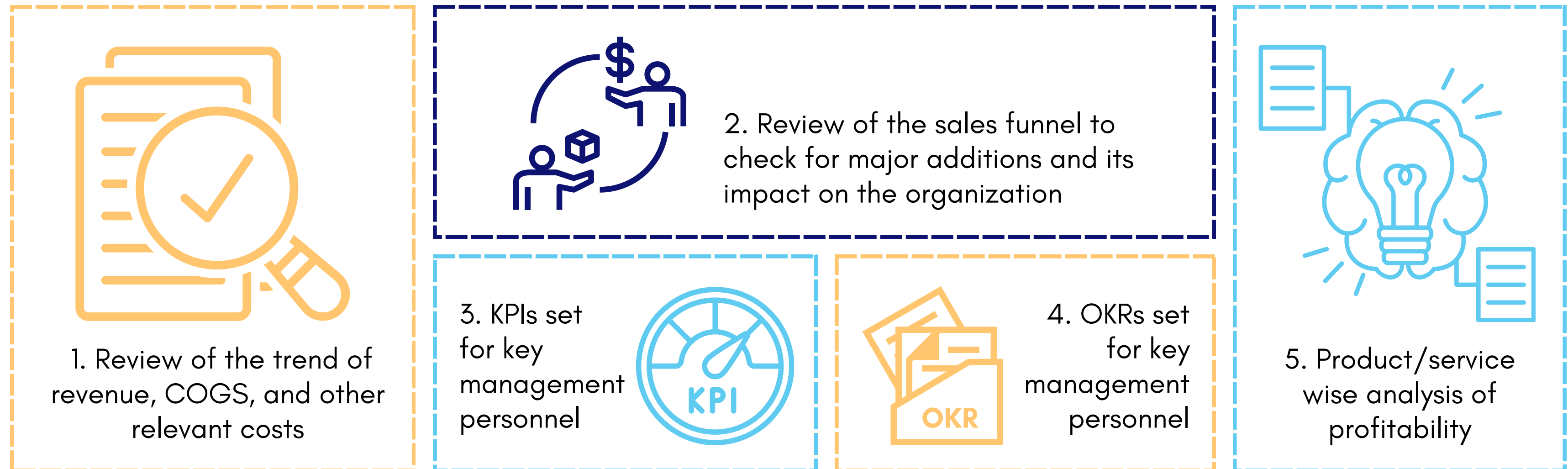
WEEKLY REVIEWS

- Weekly reviews achieve the goal of keeping track of short term changes in a company's finances.
- Tracking these changes is important as it is an indicator of success of the revenue and business model employed, and can signal for course corrections if needed
- Some of the topics covered in these reviews include:
 1. Review of the trends of revenue, COGS, and other relevant costs
 2. Review of the sales funnel to check for major additions and its impact on the organization



MONTHLY CLOSING AND REVIEW

- Monthly reviews compile changes seen in the weekly reviews and analyze them on a monthly basis
- Monthly reviews track changes in company's financial performance and employ course correction if required.
- Some topics covered in these reviews include:



CASH FLOW FORECASTS

- A cash flow forecast keeps track of the cash income and expenditure of an organization.
- It is important to note that cash flows are the most robust metric of financial health of an organization because they cannot be easily manipulated unlike revenue and earnings
- Lastly, cash flows dictate the quality of earnings, if cash incomes are a small proportion of earnings, the quality of earnings is poor.



1. Poor quality of earnings also creates issues in working capital management, causing further operational headaches.



2. Poor quality of earnings deters investors

ALL IN ALL, CASH FLOW FORECAST IS A ROBUST INDICATOR OF FINANCIAL HEALTH!

OTHER OPERATIONAL TOOLS

A non-exhaustive list of tools that can be used to ensure data integrity are as follows:

- Reconciliations of bank statements
- Reconciliations of bills with accounts receivable
- Reconciliations of bills with accounts payable
- Dashboards that explain financial performance
- Using a compliance checklist to ensure all tax and other compliances are adhered to.

SETTING UP THESE FORMAL PROCESSES AT THE BEGINNING WOULD ENSURE SOPHISTICATED TACTICAL AND STRATEGIC PLANNING.



CONCLUSION

- In this presentation, we explored the 3 stages of growth that a young company must pass through to become successful and economically viable
- A key characteristic that separates successful companies from unsuccessful ones is the presence of formal financial and operational procedures
- Particularly for a function like finance- formal management systems are needed to ensure long term sustainable scaling
- Without appropriate financial management, resources are misallocated, inefficient practices are encouraged and this leads to organizational failure

SIMPLY PUT- GROWTH HACKING FOR VALUE CREATION IS A FUNCTION OF HAVING STRONG, FORMAL FINANCIAL REPORTING AND MANAGEMENT SYSTEMS IN PLACE



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Thank you!



CASE STUDY 1: CAMPUS SUTRA

- Fashion brand aimed at young, college age adults
- Revenue jumped nearly 5x between 2018-19 to 2020-21 (over 3 years)
- Top seller on e-commerce platforms like Flipkart, Myntra and Amazon

How Did They Achieve This?

- Tight control over supply infrastructure
- Exclusive manufacturing units
- Shorter mind-to-market times
- Procurement plan and growth plan are laid out in detail

Campus Sutra remains bootstrapped and growing profitably.



CASE STUDY 2: TINY OWL

- A food-tech platform competing with Zomato, that raised INR 200cr between 2014 and 2016.
- Poorly run with extremely high cash burn rates
- Ran through Rs. 2.5cr per month on average

Why did they fail?

- Over-hiring: Scaled team to 1100 employees in 3 years
- No cross functional communication: No communication between leadership and management teams
- Business model was inappropriate: A pivot was executed at the wrong time with the wrong strategy
- Limited technology integration: No use of AI/ML to gain insights into user behaviours.

Lack of financial planning and communication led to Tiny Owl shutting operations down in 2016.