



# FINANCE ESSENTIALS FOR IDEA STAGE STARTUPS

---

ISprout2.0

# WHAT ARE WE COVERING TODAY?

- The Finance Pyramid
- Business Strategy/Model/Plan
- Building up Financial Model
- Pricing
- Revenue Plan
- Funding Foundations



# FINANCIAL PYRAMID

## STRATEGY & GOVERNANCE

- Board Communication
- Strategic Review & Benchmarking
- Dashboards & Performance Management

## FINANCIAL PLANNING

- Business Plans Reviews
- Financial Projections & Cashflow Forecast
- Pricing, Sensitivity & Scenario Analysis

## MODEL

- Business Model/Unit Economic
- Working Capital Modelling

## PROCESSES

- Month close process
- Inventory check and control
- Accrual Based Accounting

## FOUNDATION

- Compliances
- Book Keeping
- Audits

## Business Strategy

## Business Plan

## Business Model

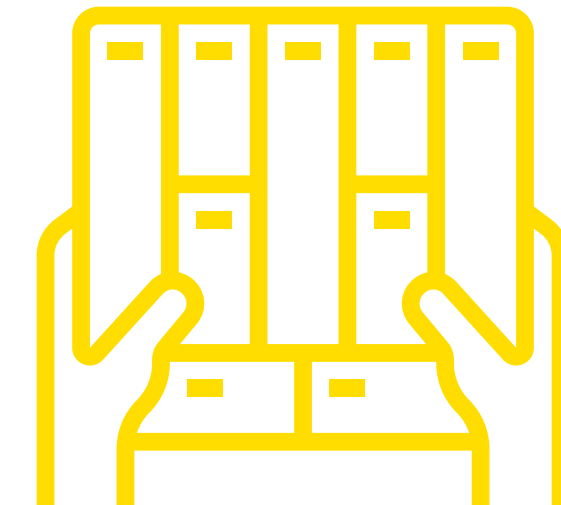
A business strategy sets out the purpose of your business, who it serves and what is the long term vision and mission. A strategy assesses and prioritizes options and then select the most advantageous. A business plan sets out how you will achieve your goals in detail, including the financial results. A business model explains how you are different to competitors and what gives you a strategic advantage.



What is your business?  
 What is your purpose?  
 Who is your customer?  
 Analysis of business environment  
 Competition and market gaps  
 How can you compete?



What business are you in?  
 What are your goals?  
 How will you achieve them?  
 What will be the financial benefit?  
 What investment do you need?



Who is your customer segment(s)?  
 What is your value offering?  
 How will you reach your customers?  
 What makes you hard to imitate?  
 What resources do you need?  
 How do you make money?

# STRUCTURE OF BUSINESS PLAN AND STRATEGY DOCUMENT

## Strategic

Business Strategy

Operating Strategy

Organisation Structure & Metrics

SWOT

Marketing Strategy

## Operational

Assumptions

Balance Sheet

Revenue Build Up

Fund Flow

Unit Economics

Projected Financials

Manpower Buildup

Projected Overheads

Key Spans & Metrics

Projected CAPEX

# BUSINESS PLANS - KEY DRIVERS

Project Based	SaaS	Product & Service Company	Manufacturing	Marketplace	E-commerce
<ul style="list-style-type: none"> <li>Operational Milestones</li> <li>Payment Milestones</li> <li>Outsourcing Cost</li> <li>Manpower cost</li> </ul>	<ul style="list-style-type: none"> <li>CAC</li> <li>LTV</li> <li>CLV</li> <li>Unit Market Cost</li> <li>Customer Conversion</li> <li>ARR + MRR</li> </ul>	<ul style="list-style-type: none"> <li>Bill of Materials</li> <li>Direct Labor Cost</li> <li>Contribution Margin</li> </ul>	<ul style="list-style-type: none"> <li>Capacity</li> <li>Capex</li> <li>Fixed Cost</li> <li>Variable Cost</li> <li>Overheads</li> </ul>	<ul style="list-style-type: none"> <li>GMV</li> <li>Customer conversion</li> <li>Market Fragmentation</li> <li>Average order value</li> <li>Net promoter score</li> <li>Conversion rate</li> <li>CAC</li> <li>LTV</li> </ul>	<ul style="list-style-type: none"> <li>GMV</li> <li>Customer conversion</li> <li>Average order value</li> <li>New vs returning customers</li> <li>Clickthrough rate</li> </ul>
B2B, B2C, B2B2C, B2G			Gross Burn, Net Burn & Runway		

# KEY INSIGHTS ON OPERATIONAL BUDGETING

Operational Overheads	Fixed Overheads	Marketing Cost	Manpower	CAPEX	Scale up Costs
<ul style="list-style-type: none"> <li>• Skill development</li> <li>• QA</li> <li>• Training</li> <li>• Cloud costs</li> <li>• Staff welfare</li> <li>• R&amp;R</li> </ul>	<ul style="list-style-type: none"> <li>• Management Salaries</li> <li>• Office Space</li> <li>• Professional Expenses</li> <li>• Legal help for</li> </ul>	<ul style="list-style-type: none"> <li>• Advertisement</li> <li>• PR</li> <li>• Events</li> <li>• Conferences</li> <li>• Research</li> <li>• Marketing Materials</li> <li>• SEO</li> <li>• Data analytics</li> </ul>	<ul style="list-style-type: none"> <li>• Linked to revenue</li> <li>• Linked to org structure</li> <li>• Annual appraisals</li> <li>• Market benchmarking for salaries</li> <li>• Span-based headcount planning</li> <li>• Stage based org structure planning</li> <li>• Tech setup</li> </ul>	<ul style="list-style-type: none"> <li>• IP development (stage-wise increase in CAPEX)</li> <li>• Plant setup (manufacturing)</li> <li>• App development (e-commerce, marketplace)</li> <li>• Technical architecture</li> <li>• IP (global vs India)</li> </ul>	<ul style="list-style-type: none"> <li>• Costs are dependent on the metric of scaling.</li> <li>• Metric of scaling is dependent upon the business model and the expansion strategy</li> <li>• Necessary to define responsibility metrics when scaling!</li> </ul>

# HOW TO CREATE REVENUE PLAN ?

Creating a revenue budget sets the foundation for your business planning process and will have impact on the entire funding strategy. Here are few ways of creating a revenue plan:

Sales  
Growth  
Modelling

Growth of price  
and volume  
inflation

Unit volume growth

Market Size and Market Market  
Share

Unit Market  
Size and  
Growth and  
impacts  
due to  
pricing of  
product /  
service

Volume  
Capacity  
Approach :  
Relevant  
where revenue  
plan is linked  
to the capacity  
to produce

Revenue Driven  
by investment in  
R&D and  
Marketing Spends

Manpower Based  
Revenue plan with  
Tiered Pricing for  
each type

Revenue Plan basis the  
produce/service roadmap





# HOW TO PRICE YOUR PRODUCTS PROPERLY

Price to the value what customer perceive and not the cost

Your pricing determines acquisition strategy and sales cycle

Innovation pricing is always hard and ensure you focus on early adopters. Growth pricing is a different ball game

Understand the relation between cost, price and value

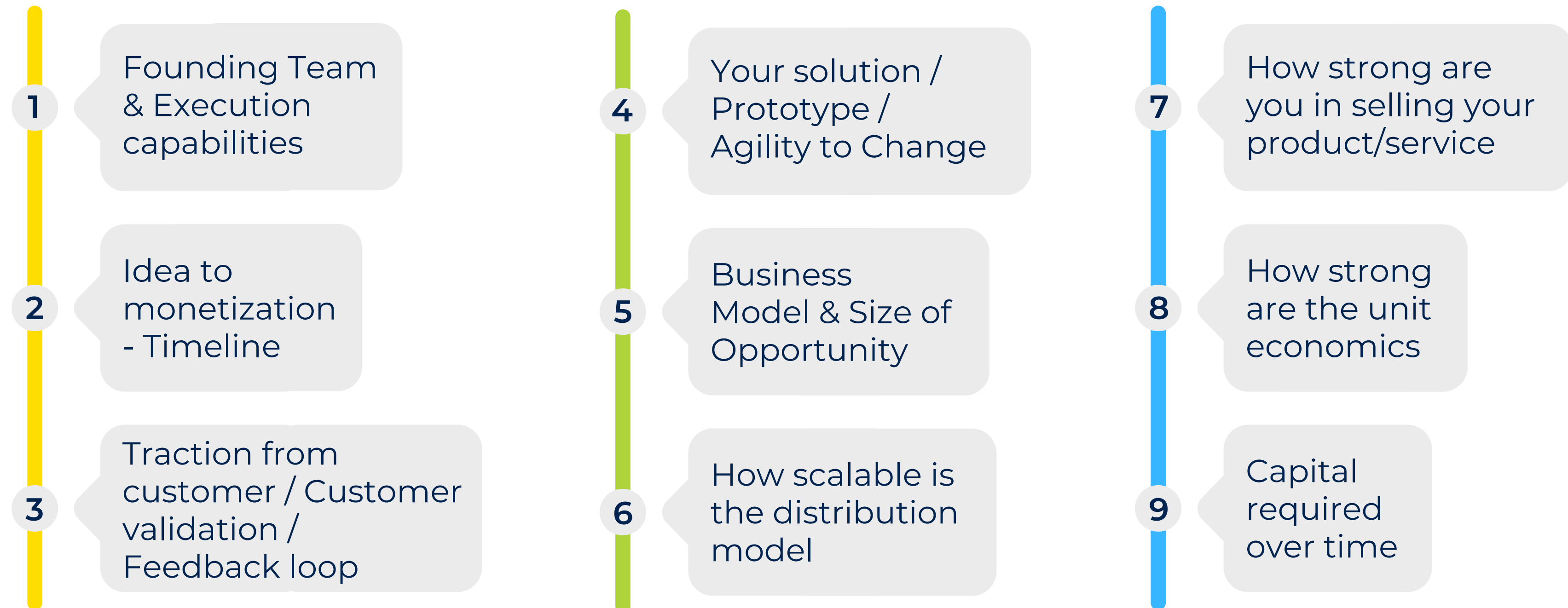
Your pricing will define your target customer

Dont press the volume button until you understand the optimal price

Keep increasing the price by 5% until you see a pushback in volume

Understand the pricing vs complexity of your product / Service

# HOW DO INVESTOR VALUE **EARLY STAGE** **STARTUPS**



# WHAT DO INVESTORS LOOK FOR AT THE EARLY STAGE

## Traction

Shows how much the market is willing to accept the new product

## Financial Plan

Detailed financial plan with proper assumptions, business strategy and corroboration with the current reality of the startup

## Prototype

Shows how far the product has come

## Pre-valuation revenues

Shows the economic effect

## Distribution channels

This shows how efficient your commercialisation strategy is and affects valuation

## Industry

Is it a blue ocean?

## Synergies with existing portfolios

Investors prefer early stage companies that can create a positive economic impact for their existing portfolio.

# FUNDRAISING FUNDAMENTALS

- Figure out the right story for your startup
- Be a great storyteller
- Find the right investors
- Get organized and be prepared, always be DD ready
- Know how much money do you actually need
- Link funding with milestones
- Incorporate a company before talking to an investor
- Don't dilute more than 10% in each stage of your startup

Stage	Typical Funding	Typical Valuation
Idea	\$50K	\$500K
Idea + Strong Team	Upto \$250K	Upto \$1 Mn
Demo + Prototype	\$500K	Upto \$5 Mn
Validated Product and Initial Traction	\$1 Mn	Upto \$10 Mn

# INSTRUMENTS OF FUNDING

Instrument	Convertible Notes and Convertible Debentures	Equity	Grant	Debt	Revenue Based Financing
Use Case	Ideation, Testing, Market Study, Initial traction, MVP	For strategic scaling, early working capital and team buildup, PMF	For new product development, Pilot, Proof of concept, Prototype	For working capital, Bridge funding	Increase your runway during the scale up phase.

# THANK YOU

---

ISprout2.0

