



Presents

**BREAKING DOWN
YOUR
MONEY MODEL (101)**

With

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Introduction

CHRIS STAIRS

- STARTED OUT JUST LIKE YOU! Sort of...
- I was not a “Finance Guy.”

BEFORE START-UPS

- MBA Training
- Sales & Marketing Specialist
- NBA, Olympics, FIFA
- Knew nothing about: *Pro Forma, Complex Budgeting, StartUps.*



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10 YEARS LATER

- Self-Taught
- \$ 9 million raised (direct | indirect assist)



My Commitment Today

Share A Bit of What I Figured Out...

This is what **YOU** Need to Know About
Your Numbers to **RUN** Your Startup

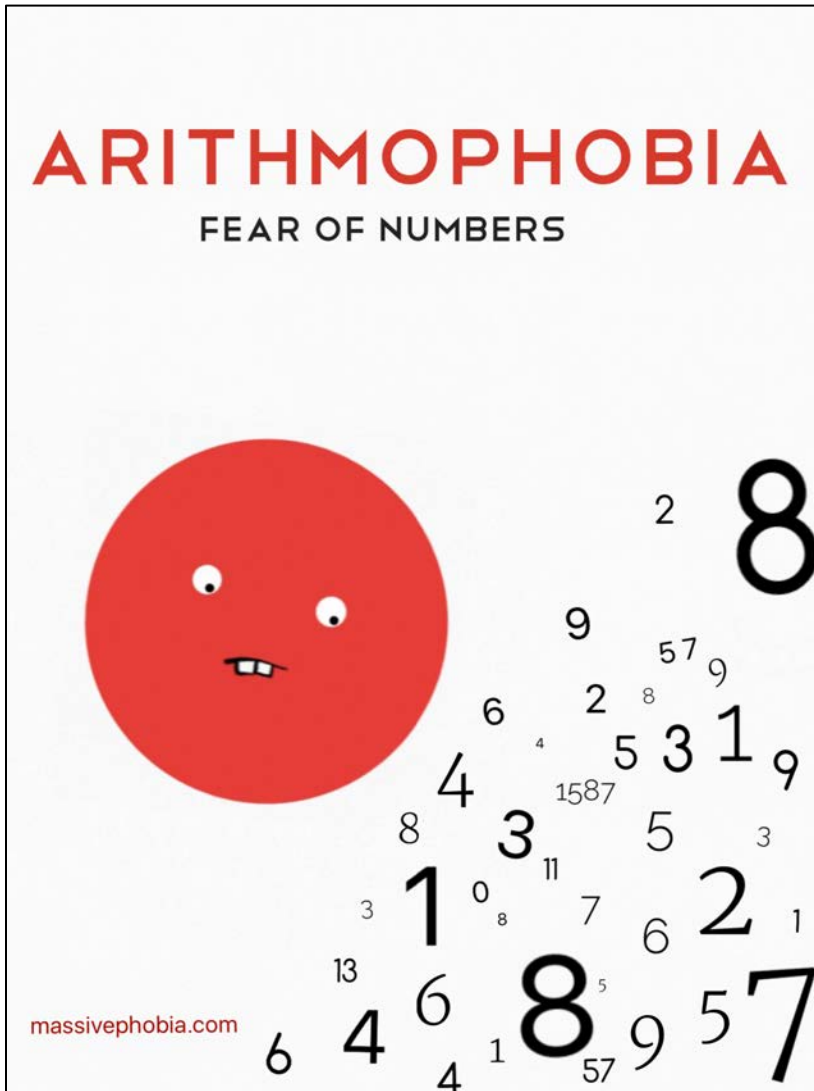
**As a Founder, Business Manager,
& Fund-Raiser!**

Some Caveats...

- Beginner to Intermediate Knowledge
- Basic “Nut-and-Bolt” Guidelines
- No Single, Universal Model
 - Tech | Non-Tech
 - SaaS vs. Physical Product vs. Service

Get You Thinking. Reach out via Volition.

The Honest Truth?

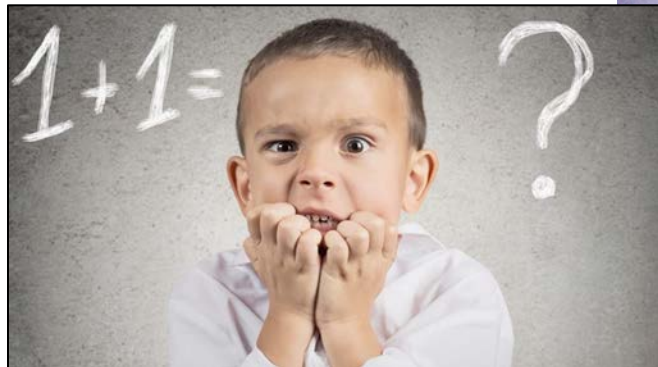


People Hate
Talking Numbers!!

[Love “Talking Ideas!!!”
Not Numbers.]

The Honest Truth?

- Intimidation
- Fear
- Procrastination
- Avoidance



The Happy Truth!!!

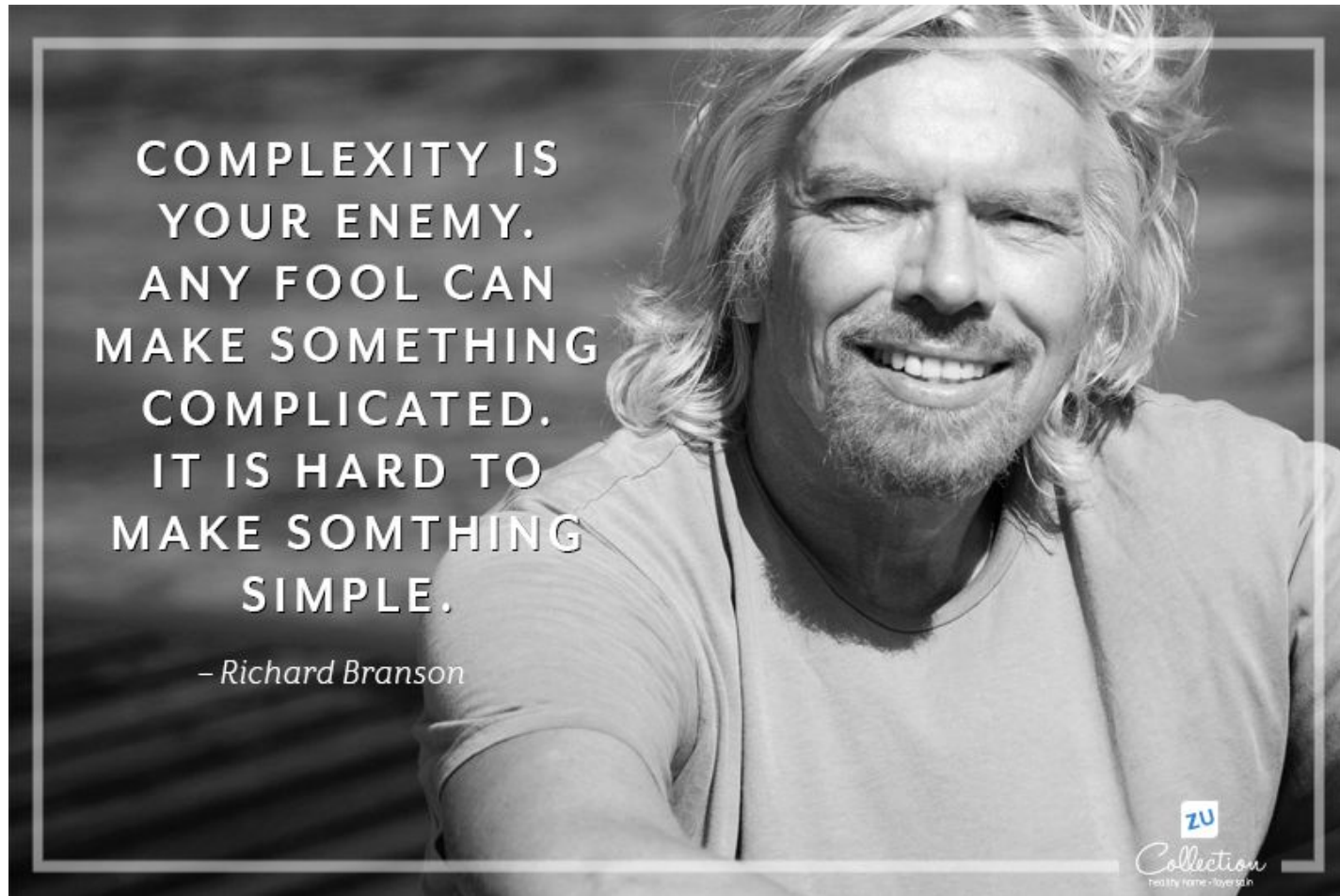
Numbers Help You Navigate Your Success!

1. Make Things “Real”
2. Provide “Clarity”
3. Cut Back on “Second-Guessing” Decisions
4. Raise Money

LEARN TO EMBRACE YOUR NUMBERS!!

Where & How Do I Start?

Start Simple. Keep it Simple.

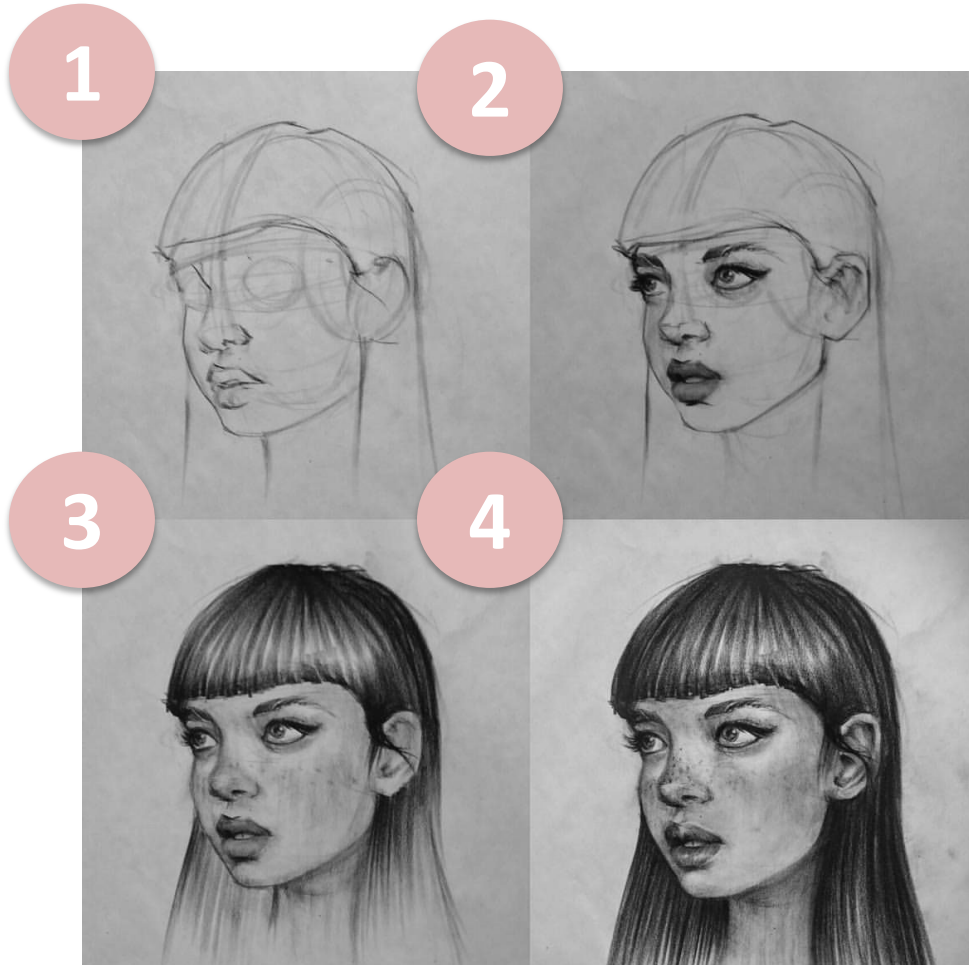


COMPLEXITY IS
YOUR ENEMY.
ANY FOOL CAN
MAKE SOMETHING
COMPLICATED.
IT IS HARD TO
MAKE SOMTHING
SIMPLE.

– Richard Branson

ZU
Collection
Healthy Home - Forever In

Building Your Money Model



Artist Approach

1. Rough It Out
2. Fill in the Details

Breaking It Down...

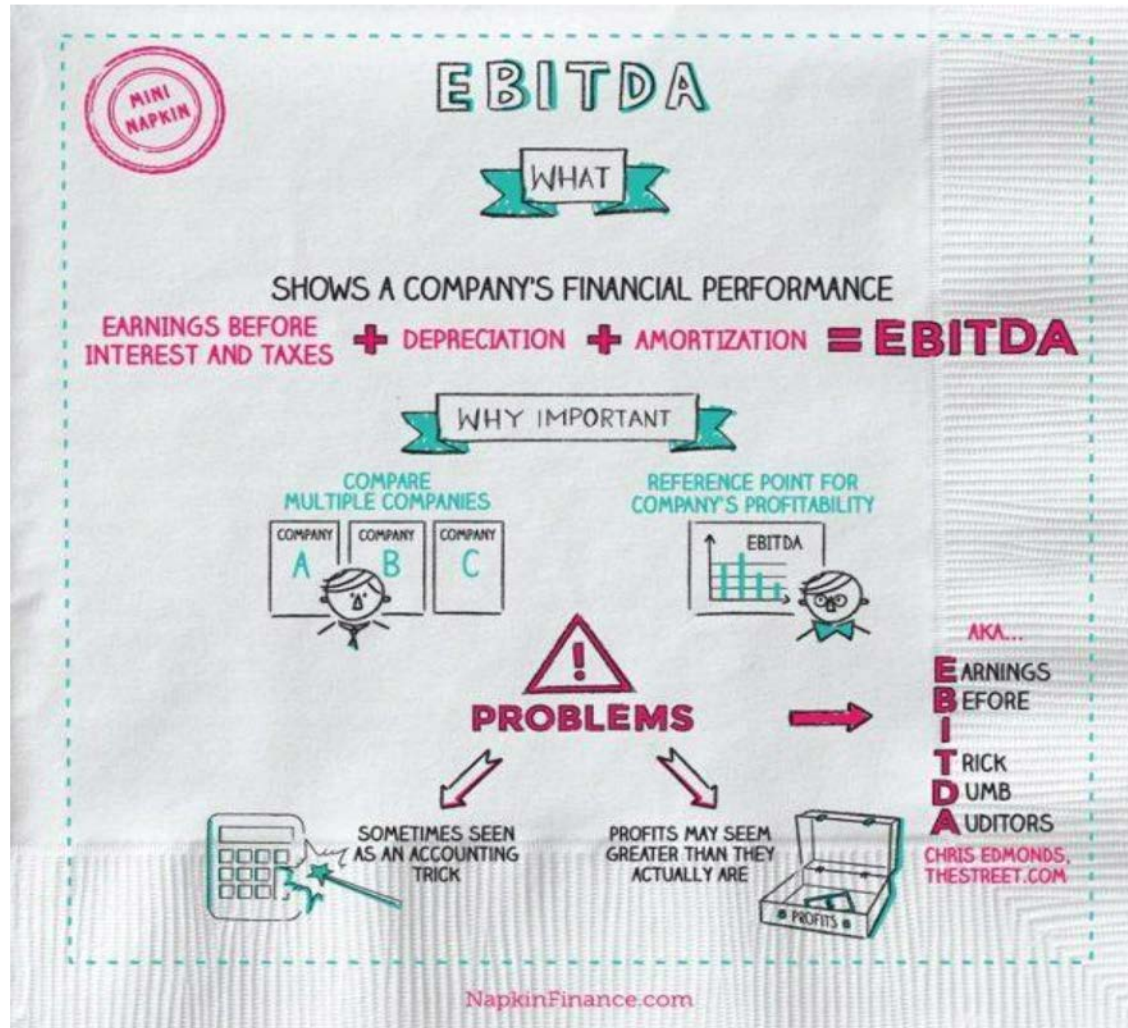
5-STEP PROCESS (...with every client)

1. Cocktail Napkin Numbers
2. Business Model
3. Goals & Milestones (vs. Projections & Forecasts)
4. Pro Forma Development (It's a "Budget")
5. Key Performance Indicators I

"What-If" Analysis

1. Cocktail Napkin Numbers

Cocktail Napkin Numbers



Cocktail Napkin Numbers

Your “Essential Economics” & “Pitch Story” [NUMBERS & MILESTONES]:

- 1. Single Sale** (Unit Economics?
Margins?)
- 2. Cash-Flow Positive** (Volume of Business?)
- 3. Accelerator Story** (Multiplier
Mechanisms?)
- 4. Capacity** (To Deliver & Grow?)

Cocktail Napkin Numbers

Your “Essential Economics” & “Pitch Story” [NUMBERS & MILESTONES]:

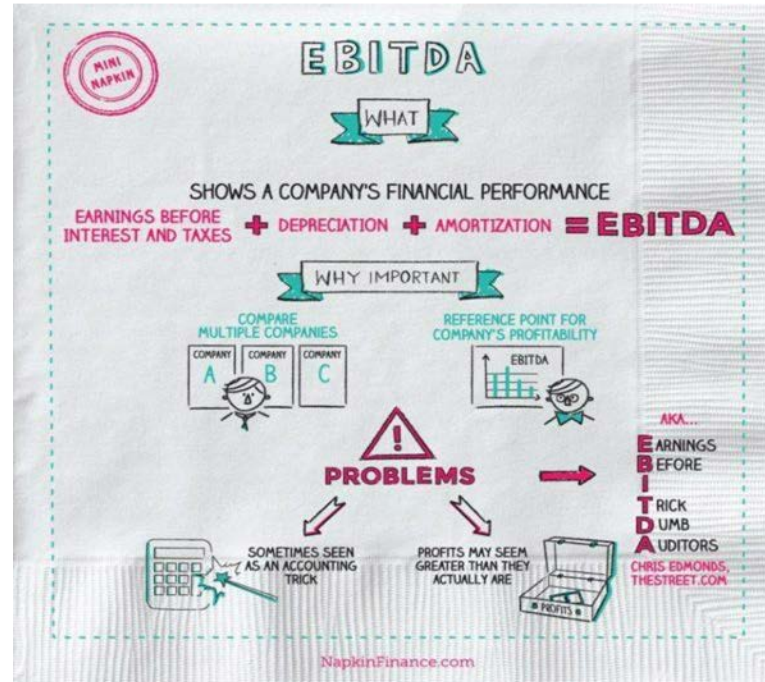
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Something I Learned Along the Way...

GROSS MARGINS – Distant Early Warning

Margin / Unit Sale	Where You Stand...
75-100%	Winner! Major “War Chest”
50-75%	Tech, Physical Product, Retail
25%-50%	Service Sector
0-25%	“Fugget about it” (Re-Think It / Re-Work It)

Money Model 101



OK... What Next?

2. Business Model

Define Your Business Model

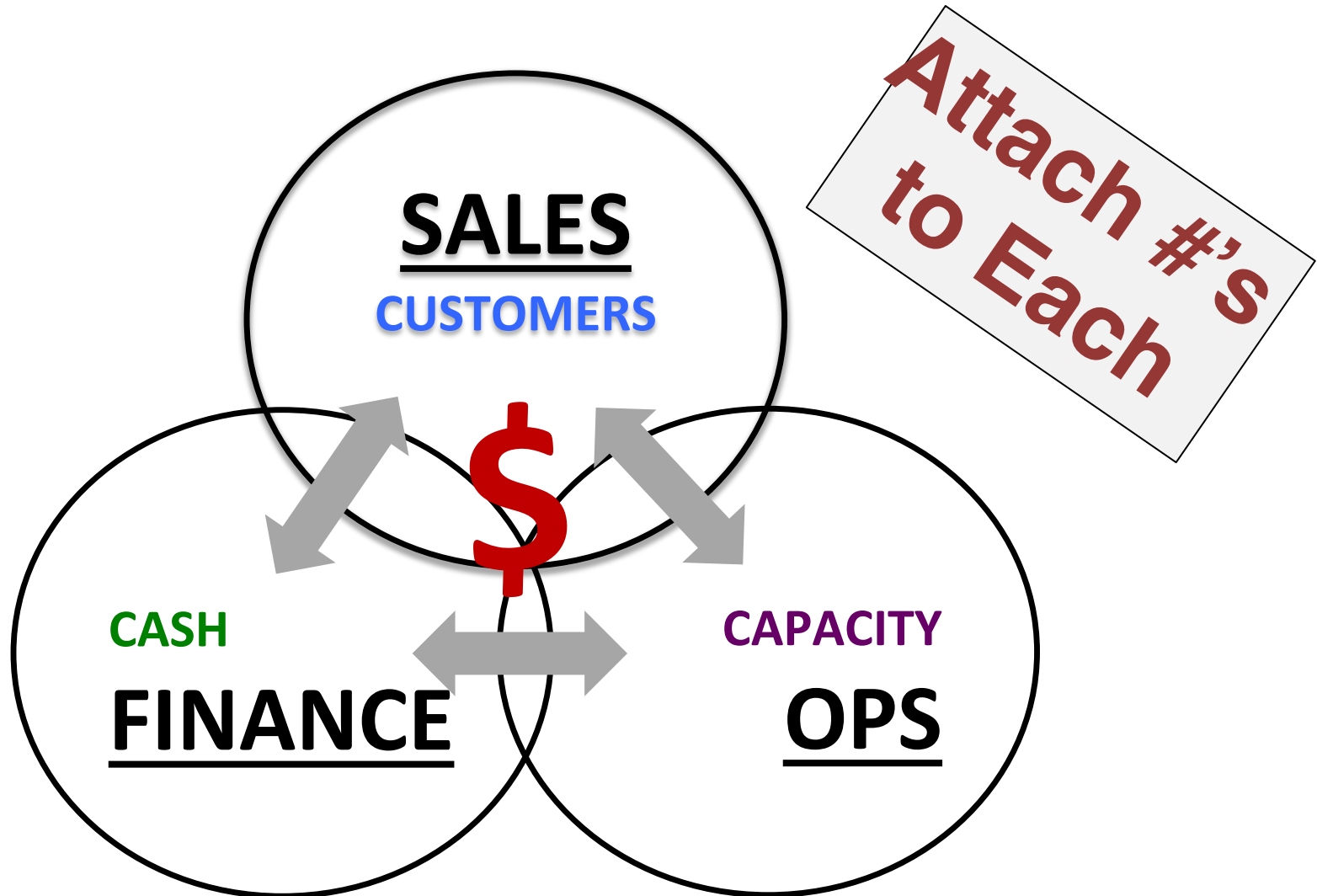
- **B2B vs. B2C vs. Marketplace**
- **Tangible vs. Digital vs. Service**
- **Device vs. SaaS vs. Consumer Good**

REVENUE vs. MARGINS vs. COST STRUCTURES

- Many different Business Models! Which one are you?

HOW TO BEGIN BREAKING IT DOWN?

Boils Down to 3 Core Functions



Deconstruct Your Business Model

OFFERING

OPERATIONS

FINANCIALS

SALES

PHYSICAL PRODUCT
(iPhone)

- Raw Materials
- Manufacturing
- Warehousing
- Inventory Mgmt
- Shipping & Distrib.

- Cost-of-Goods (V)
- Overhead (F)
- Inventory Financing
- Cash-Flow?
- Advanced Deposits

- **Brick & Mortar Sales**
- Channel Sales
- Volume Sales (Corp.)
- “Re-Fills” (Delivery?)

SELF-SERVE SaaS
(HubSpot)

- Development
- Cloud-Operations
- Security & Server Locations?
- Constant Upgrades

- Development (Sunk)
- Amortization
- Subscription Based
- Low-Cost Licenses
- Commodity?

- Self-Serve Retail
- 100% Digital Channels
- Content **Marketing**
- “Hands-Free”
- Traffic / Not “Leads”
- “Stickiness?”

Very Different Cost Structures

Very Different Cash Requirements

Very Different Sales Engine

Similar Business Models = Similar Metrics

EXAMPLE: SaaS (Software-as-a-Service)

- Once defined... there will be **common characteristics!**
SaaS share similar metrics, KPI's, and milestones.

SaaS Cash-Flow Positive Milestone:
often between **\$1.25 - \$2.5 million ARR.**

SAAS FUNDING IN 2019

	SEED	SERIES A	SERIES B
ARR	~\$0-0.2M	~\$1-1.5M	~\$3-5M
ARR GROWTH (y/y)	N/A IF PRE-REVENUE, OTHERWISE ~3x	~3x	~2.5x
VALUATION	~\$4-11M	~\$15-40M	~\$50-140M
ROUND SIZE	~\$1-4M	~\$5-14M	~\$15-40M
TEAM	<p>OUTSTANDING TEAM WITH STRONG PRODUCT SENSE</p> <p>STRONG DOMAIN EXPERTISE + UNIQUE INSIGHTS</p> <p>EXCELLENT FOUNDER/MARKET FIT</p>	<p>VISIONARY LEADERSHIP CAN GET PEOPLE ON THEIR SIDE</p> <p>TEAM HAS STRONG REASON WHY THEY WILL WIN</p>	<p>CAN HANDLE 20x THE SIZE OF TODAY</p> <p>PROVEN ABILITY TO RECRUIT HIRE 1-2 EXCELLENT VPS</p>
PRODUCT/MARKET	<p>PRODUCT IS LOVED BY EARLY USERS</p> <p>STRONG ENGAGEMENT + STICKINESS</p>	<p>CLEAR EVIDENCE OF PMF (HIGH USAGE, LOW CHURN)</p> <p>STRONG CUSTOMER REFERENCES</p> <p>COMPELLING „WHY NOW“</p> <p>LARGE TAM</p>	<p>INCREASING EVIDENCE OF STRONG PRODUCT/MARKET FIT IN A HUGE MARKET</p>

Common Benchmarks, Milestones & Thresholds to Aim For
... and they BOIL DOWN TO NUMBERS. Quantifiable.

3. Goals & Milestones

Goals & Milestones (vs. Projections)



You're Not Forecasting.
You Have NO HISTORY!

Goals & Milestones (vs. Projections)

The Big Picture?



Where are you?

- Planning
- Base Camp
- Mid-Point
- Pinnacle

Goals & Milestones (vs. Projections)

- # of Users
- Cash-Flow Positive
- % of Market
- Consistent Growth Multiple (Year-over-Year)



Goals & Milestones (vs. Projections)

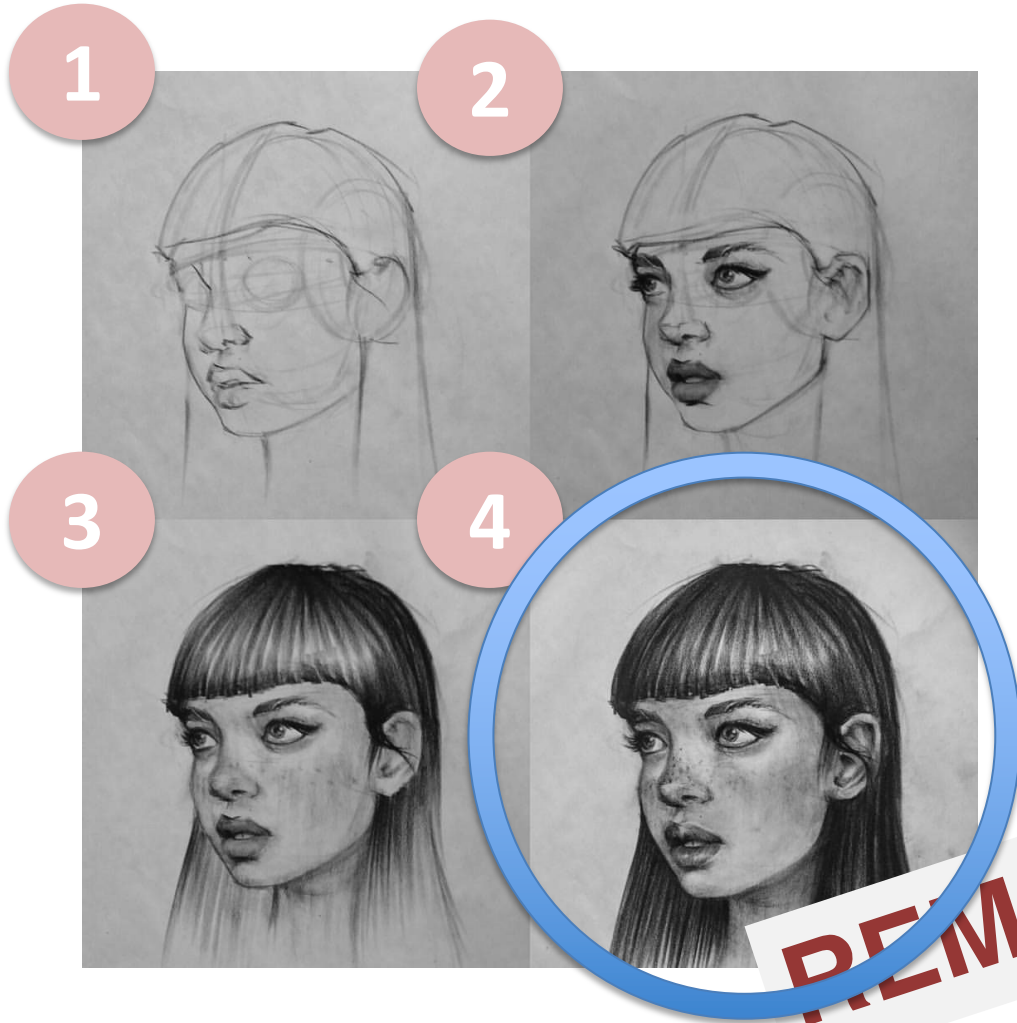
Early Days? Unsure?...

Always Start With a **Cash-Flow Positive** Target:

- When you have **No Performance History**.
- **A “Known” Quantity**. (Everything else is speculation)
- An essential **“Do-or-Die” Threshold**.
- No longer dependent on **External Funding**.

CALIBRATION – Learning Your Levers

Building Your Money Model



Artist Approach

1. Rough It Out
2. Fill in the Details

REMEMBER THIS?

4. Pro Forma Development

What the Heck Is a “Pro Forma?”

Uh-Oh. Some kinda “Latin” Term.

- Sounds Complicated...
- Do I Really Need It? ... Are you Sure?
- How Hard Is It To Do?
- Is There a “Right Way?”

What the Heck Is a “Pro Forma?”

It's Basically a Budget.

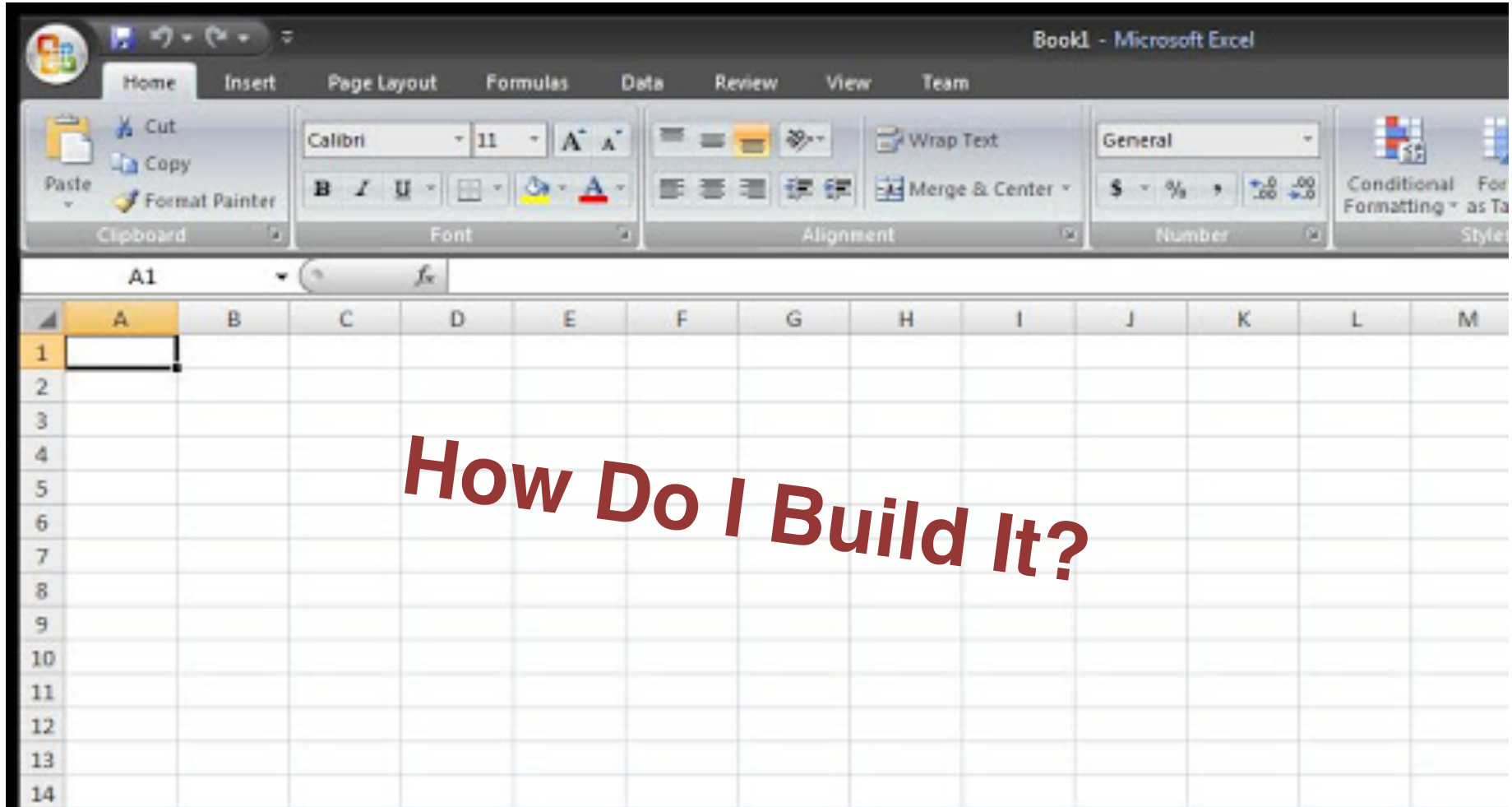
- 2-5 Year Model
 - Month-to-Month
 - Cash-Based
 - Money In (Revenue & Funding)
 - Money Out (Costs)
 - Net Cash Position
- (... And a few other things...)

Pro Forma – The Unlucky Reality

No “One-Size Fits All” : (

Difficult to Template : (

Pro Forma – Break Out Excel



Pro Forma – 8 Core “Tab” Structure

Excel Spreadsheet

1. Start-Up Expenses (One-Time Investments)
2. Product List - Price Points & Margins
3. Monthly Sales Targets
4. Monthly Operations (Aggregate Revenue & Costs)
5. 2-5 Year Summary (Year-to-Year)
6. Cash Flow (Sales, Funding, Debt, Expenses, etc...)
7. Use of Funds
8. Capitalization Table (or “Cap Table”)

Pro Forma – Additional “Tabs”

DEPENDING on BUSINESS MODEL

- **Materials & Manufacturing Tab – for “Physical Product”**
 - (raw materials, productions costs)
- **Shipping & Distribution Tab – for “Physical Product”**
 - (cost of freight, warehousing, & distribution)
- **Labour Tab – for “Complex Staffing”**
 - (full-time, part-time, seasonal, contracts-projects, speciality teams)

Pro Forma – Researching the Numbers

Step-by-Step Process

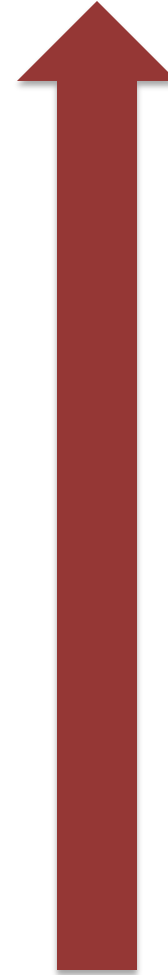
1. Fixed Cost Structures
 2. Direct Costs of Sale
 3. Pricing (& Margins)
 4. Sales Targets
-
5. Profit Potential
 6. Capacity
 - Economies of Scale

**Evaluate in
this Sequence**

Pro Forma – How To Populate?

Bottom-Up Design.

4. Sales Targets
3. Pricing
2. Direct Costs of Sale
1. Fixed Cost Structures



REVENUES

COSTS
(Variable & Fixed)

Pro Forma – How To Populate?

Pro-Forma Income Statement

XYZ, Inc.

For 2006 through 2009
(all numbers in \$000)

REVENUE	2006	2007	2008	2009
Gross sales	\$500	\$650	\$720	\$850
Less sales returns and allowances	200	230	280	320
Net Sales	\$300	\$420	\$440	\$530
COST OF SALES				
Beginning inventory	\$350	\$360	\$420	\$435
Plus goods purchased / manufactured	120	165	185	190
Total Goods Available	\$470	\$525	\$605	\$625
Less ending inventory	360	420	435	440
Total Cost of Goods Sold	\$110	\$105	\$170	\$185
Gross Profit (Loss)	\$190	\$315	\$270	\$345
OPERATING EXPENSES				
Selling				
Salaries and wages	\$35	\$41	\$46	\$52
Commissions	12	14	16	18
Advertising	10	12	14	20
Depreciation	14	15	16	16
Other	5	6	6	7
Total Selling Expenses	\$76	\$88	\$98	\$113
General/Administrative				
Salaries and wages	\$12	\$14	\$16	\$18
Employee benefits	4	5	5	6
Payroll taxes	2	3	3	4
Insurance	6	6	7	7
Rent	8	8	9	9
Utilities	2	2	2	3
Depreciation & amortization	3	4	4	5



REVENUES

COSTS
(Variable & Fixed)

NET PROFIT
(Net Cash Position)

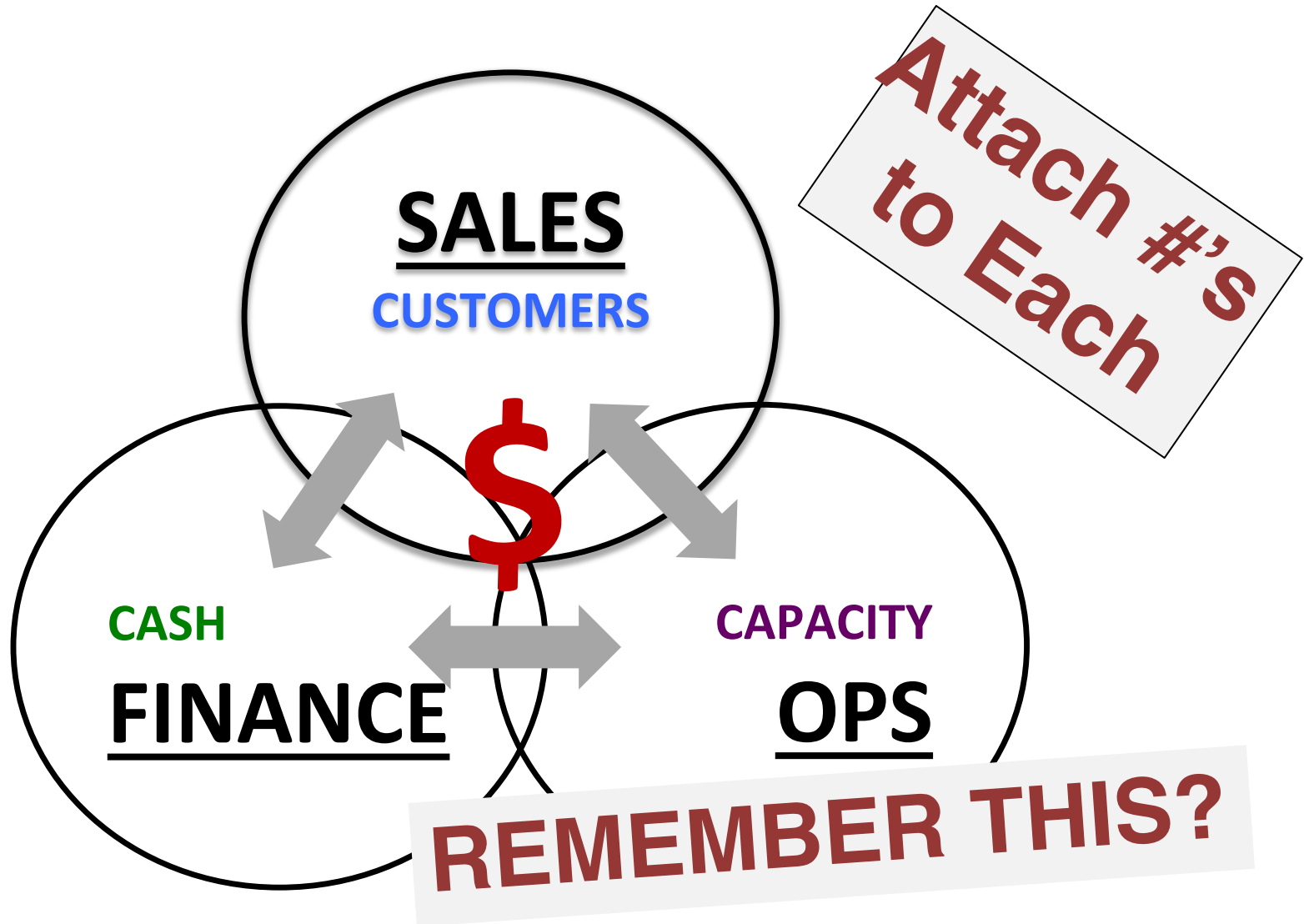
CASH RAISE??

Pro Forma -- Researching The Numbers

- We've talked about Structure of Pro Forma
- We've talked about Order of Data Population

**How Do I Come Up With
Cost Categories & Numbers
Again?**

BUSINESS MODEL: Researching The Numbers



BUSINESS MODEL: Researching The Numbers

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- **Direct Sales**
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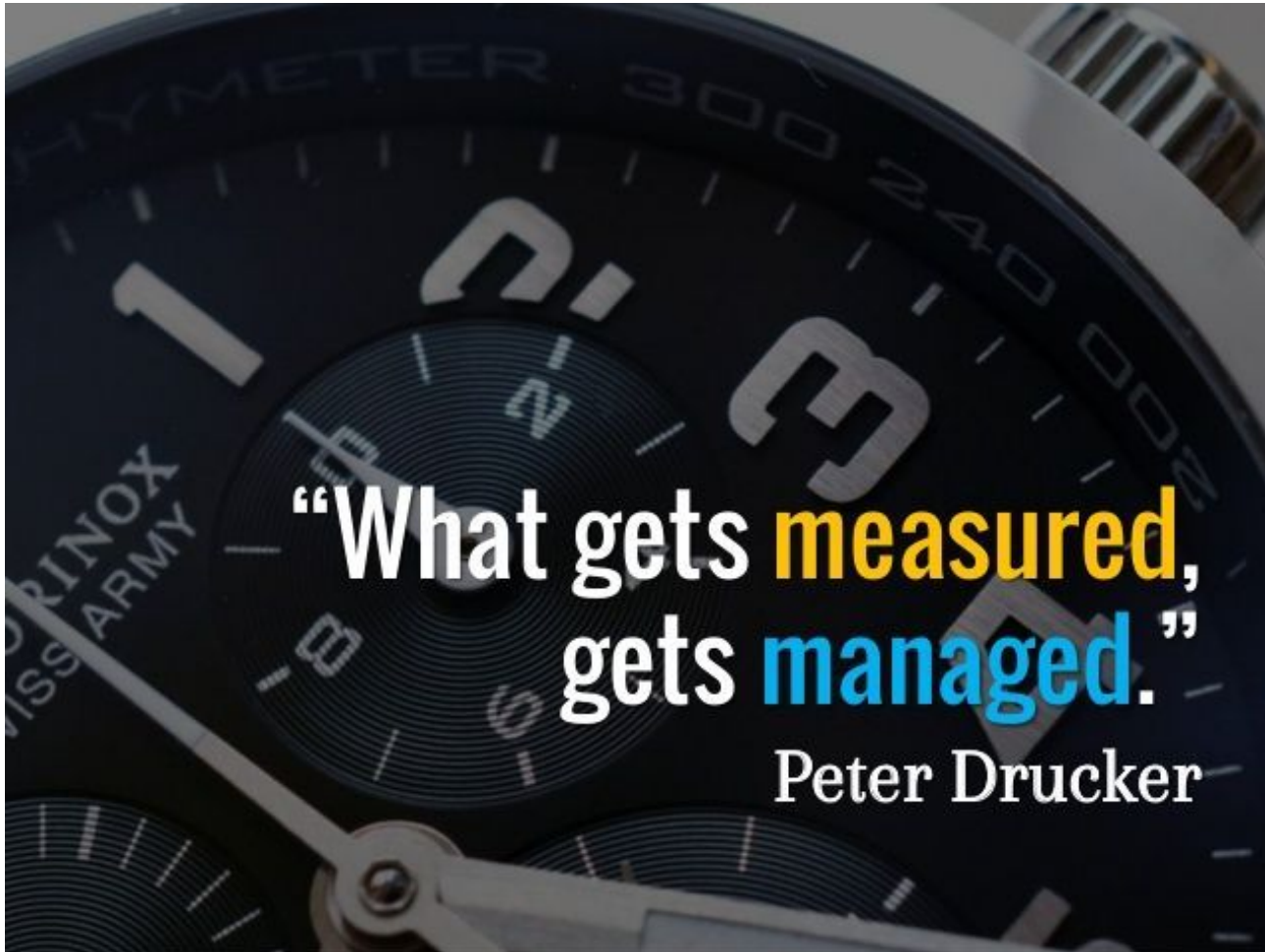
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5. Key Performance Indicators (KPIs)

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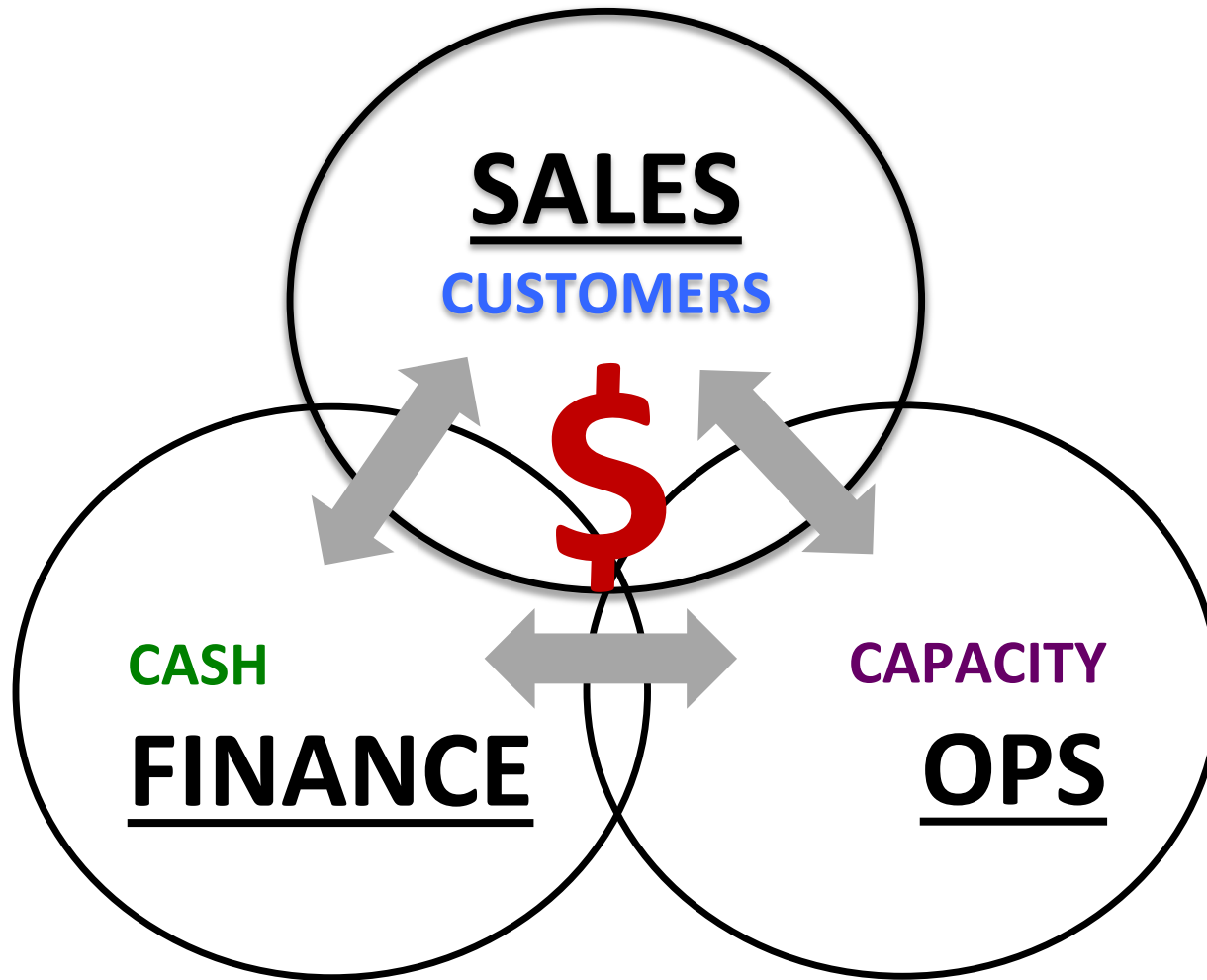


Key Performance Indicators – Sample

UNIVERSAL METRICS	RETAIL	DEVICE (B2B)	SOFTWARE (as a Service)
<ul style="list-style-type: none"> • Sales Volume • Sales Revenue • Sales by Market • Sales by Product • Sales Cycle • Average Sale Value • Contribution Margins 	<ul style="list-style-type: none"> • Avg. Customer Spend • Avg. # Items Purchased • Life-Time Shopper Value • Sell Through Rate • Stock Turnover Rate • Sales Per Square Foot • Shopper to Staff Ratio • Avg. Shopper Dwell-Time • Shopper Traffic • Shopper Duration • Customer Conversion • Repeat Traffic • Repeat Customers • Average Basket Size • Abandoned Basket Ratio 	<ul style="list-style-type: none"> • Average Deal Value • Average Deal Elements • Sell Through Rate • Stock Turnover Rate • <u>* Direct vs. Partners</u> <p><u>PIPELINE METRICS</u></p> <ul style="list-style-type: none"> • # of “Eye-Balls” • # of Leads (MQL’s / SQL’s) • # of Dialogues • # of Quotes • # of Deals <p>• <u>Cost per Lead / Source</u></p>	<ul style="list-style-type: none"> • Customer Churn • Revenue Churn • Customer Life-Time Value (LTV) • Customer Acquisition Cost (CAC) • Months to Recover CAC • LTV / CAC Ratio • Leads by Lifecycle Stage • Lead-to-Customer Rate <p>+ <u>PIPELINE METRICS</u></p>

Google Your Industry & Business Model

Key Performance Indicators – All 3!!



“What-If” Analysis. (Hmmm. I wonder...)

What Happens When Sales Double?

Or When the Cost of Aluminum Doubles?

Or When Covid-19 Shows Up?

You Now Have A Tool To Analyze...

- Feasibility
- Profitability
- Capacity
- Cash Requirements
- Time Constraints



Commander Chris Hadfield



“What’s the Next Thing That Could Kill Me?”

-- An active state of thinking, managing, and mitigating.

Always Run The Numbers!

Cocktail Napkin Numbers

Your “Essential Economics” & “Pitch Story”...

1. **Single Sale Margins?** (Unit Economics?)
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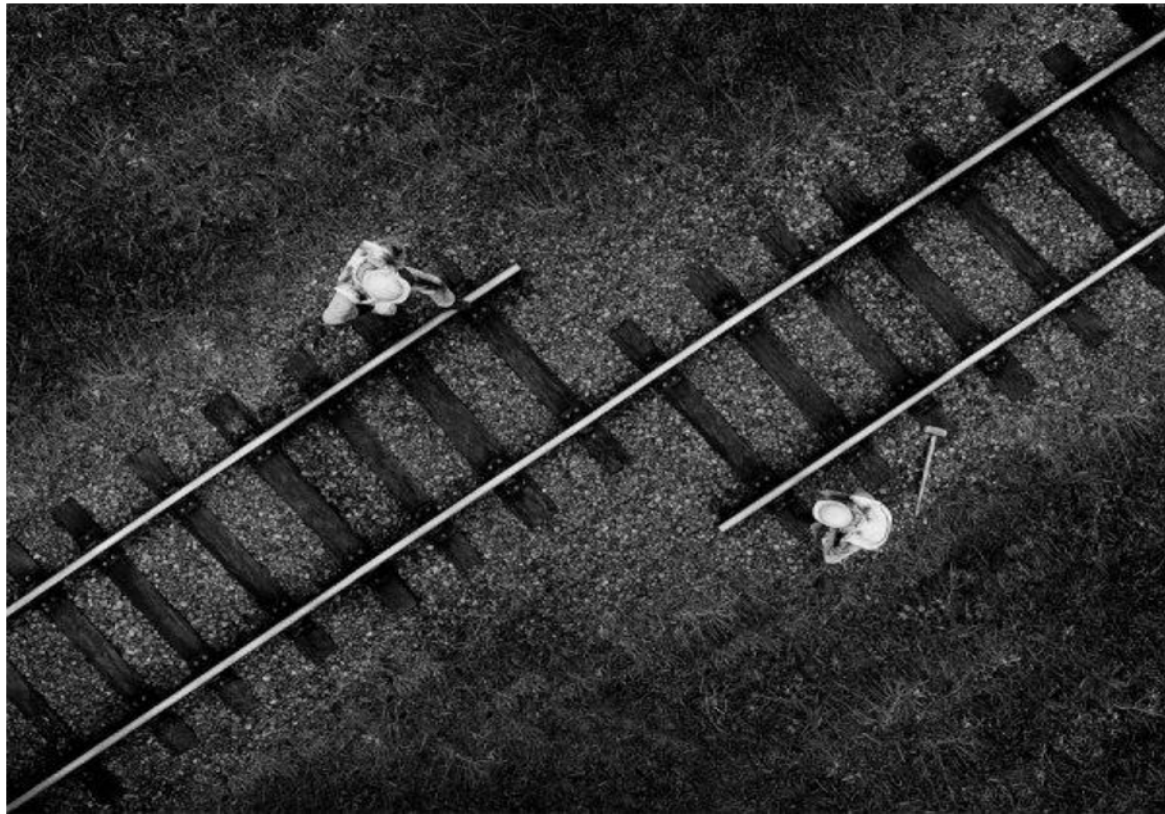
Assessment Tool (Management & Fundraising)

Clear Presentation of the Following...

- Assessing Opportunity
- Underlying Economics
- Pricing Strategies
- Cost Structure / Management
- Margins
- Potential Profitability
- Break-Even Evaluation
- Cash-Flow Positive
- Funding Required
- Burn-Rate
- Minimum Cash Position
- Seasonality of Cash Flow
- Working Capital Requirements
- Debt Service
- Risk Assessment
- Tax Assessment

Assessment Tool (Management & Fundraising)

Are You Staying On Track?



Closing Observation...

PRO FORMA & MONEY MODELS

- 1) Management Tool (First)
- 2) Fund-Raising Tool (Second)

Don't Talk to Investors....

Then Scramble To Build Your Pro Forma

Build Your Pro Forma...

To Determine Whether You Need Investors!



Thank You!

Questions?

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