





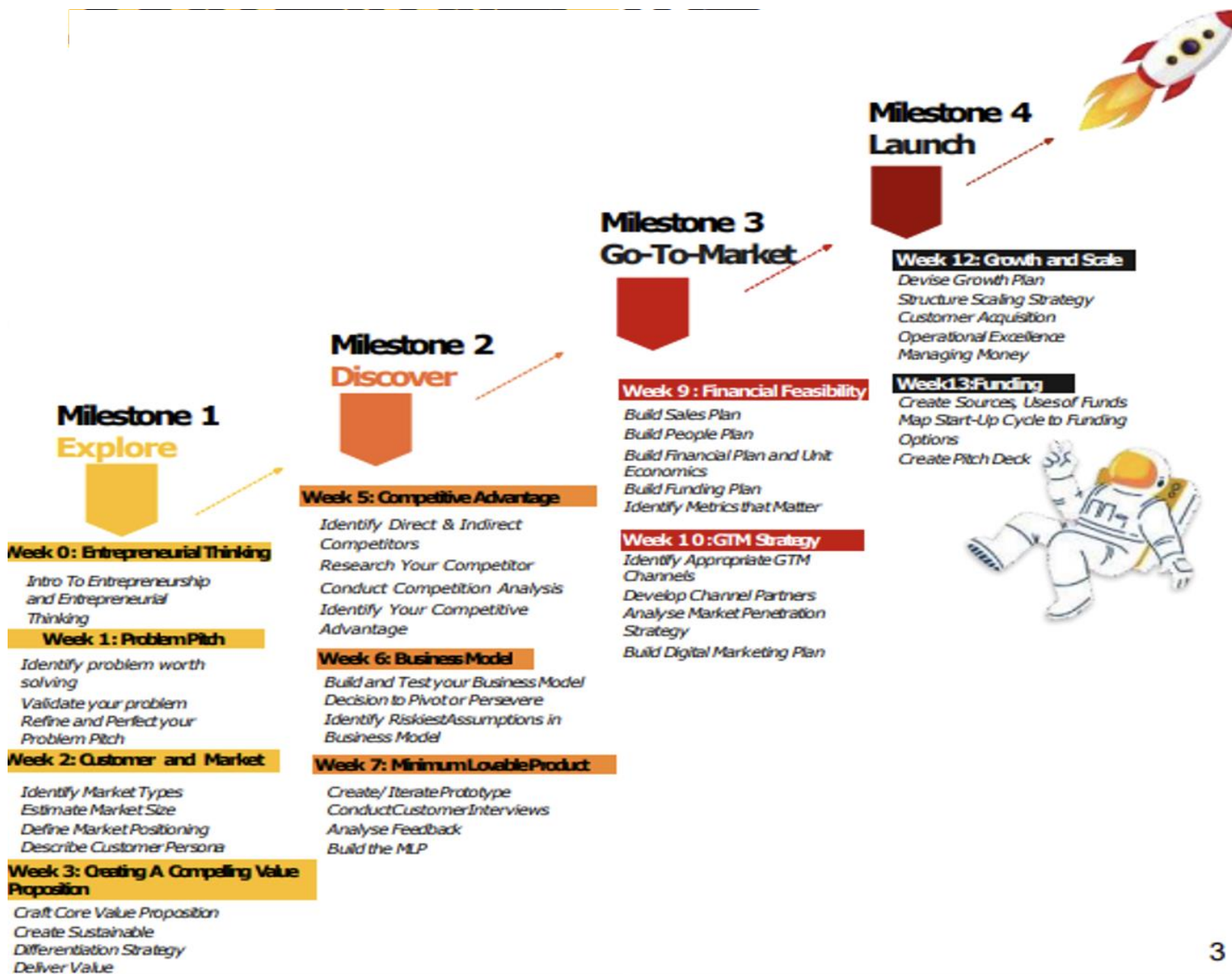
Next-Generation Fellowship Program

Financial Feasibility



<https://www.wfglobal.org>

Overview of the program and your learning journey over the 14 weeks:



CONCEPTS

- Business planning and its importance.
- Concepts of a financial plan
- How to create a financial plan?
- The importance of having financial projections for your business.
- Unit Economics
- Cost and Revenue



By the end of the week, you will be able to:

- Understand the importance of financial planning.
- Know the financial definitions that entrepreneurs need to acquire at this stage.
- Create your own financial plan.

Steps:

1. Financial planning.
2. Components of a financial plan.
3. Build your financial plan.
4. Build your financial projections
5. Arrive at appropriate pricing strategy



Components of a Business Plan

Business Model Vs Business Plan

A **business model** describes how an organization creates, delivers and captures value in economic, social, cultural or other contexts.

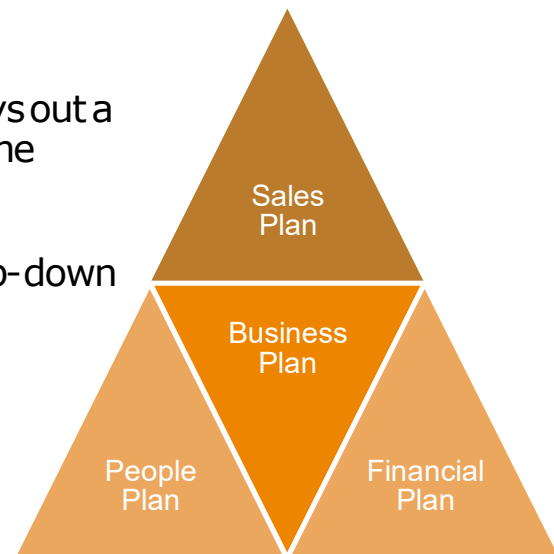
A **business plan** is a document that details the organization's strategy and expected financial performance for years to come.

The template of a Business Plan consists of 3 pillars:

→ **Sales Plan**: A sales plan is a strategy document that lays out a company's plan for improving sales results in a specified time period.

It requires you to take your calculation off Market Size – Top-down and bottom up approach and conduct the following steps:

1. Build a Sales Forecast
2. Create a Customer Acquisition Funnel



→ **People Plan/Hiring Plan**: A people plan aims to estimate the people requirements for your organization, to fulfill the sales forecast based on the customer acquisition funnel. While creating the People plan, you also need to estimate the budgets for the New Hires based on the required skill set.



→ **Financial Plan**: A financial plan is a comprehensive picture of your current finances, your financial goals and strategies to meet your financial goals. Steps in the financial plan.



1. Calculate set-up costs
2. Forecast profit and loss
3. Work out your cash-flow projections
4. Forecast balance sheet
5. Find your break-even point

Sales Plan – Forecasting

Business planning begins with Sales Planning.

A sales plan consists of a sales forecast and a plan to achieve the forecast. A sales forecast is a projection of the number of units of products or service you want to sell in a given period. Sales planning is divided into two parts:

1. Forecast your sales for the next one year.
2. Plan the number of leads you will need to meet your sales target.



[How to make a Sales Plan](#)
A Wadhvani perspective

Forecasting: While completing your forecasting, refer back to the two approaches we have employed in Week 2 – Top Down and Bottom-up. Use the Bottom-up approach to arrive at a realistic estimation of market size. Create your sales forecast from there while ensure that you take into account both your capacity and ambition.

You can employ the following methods for forecasting:

Lead-driven

- Based on your market research data from the previous year
- Analyze each lead and assign a value to that source

Length of sales cycle

- Analyze how long a lead takes to convert to a sale.

Intuitive

- Trust your salespeople to accurately forecast their own sales

Test-market analysis

- Limited launch of your product to analyze the response
- Use the result of your analysis, to make a near-accurate forecast

Historical forecasting

- Use past sales data to forecast sales considering stable growth



[Creating a Sales Forecast](#)
Forbes

Sales Plan - Customer Acquisition Funnel

Customer acquisition is the process of gaining new customers. An acquisition funnel is a place or process where you turn your prospects into actual customers.

This is a crucial step in your venture creation; hence, do analyze your target customer very carefully.

Make sure you have enough prospects/leads at each stage of the funnel so that enough remain at the next stage.

At the product/service front, once the prospective customer signs up with you, you must ensure that your customer is able to connect with the actual product and the promises made in the Unique Value Proposition block of your business model are met. About 80% of your customers will come from your target segment or niche, but some may be from outside the target segment also, so keep your ears and eyes open.

Make sure you follow up with your customers and take feedback to make further enhancements to your product or service. This delights the customer, and there are chances that you get more customer referrals.

If your conversion rate is high, then what you should concentrate on is to increase the number of people entering that stage of your funnel. So, ensure you have enough numbers at this stage of the funnel, which will ultimately generate the revenue for your business.

The last stage in the funnel, "customers," is very crucial as this is the stage where you get paid. So, ensure you have enough numbers at this stage of the funnel, which will ultimately generate the revenue for your business.



People Plan

Before you begin working on the people plan, find out what skills you already have in the team. Consider the following questions:

- Does the existing team have the technical ability to build the product or solution?
- If yes, how many units of the product and service can they build in a month?
- Does the existing team have a sense of how the industry operates and what value your product and service can add to the industry?
- Is your existing team capable of handling the packaging and delivery of your product or service?
- Do you have anyone to handle the accounts – manage payments to suppliers, payments from customers, and salaries?



[How to make a People Plan](#)

A Wadhvani perspective

Here is the guidance to create your People Plan:

1. Number: How many more people you need to achieve the goals that you have set in your sales plan.

2. Hiring: Consider hiring people as consultants rather than as employees. Are there any roles who you may need for a limited number of months or for a limited number of hours in a week?

3. Skills: List the exact skills you need for the team members you want to hire.

4. Budget: Set a budget for their salaries. Offer pay packages as per industry standards — neither too low nor too high. Research the kind of salaries people draw for a particular skill set and experience level in salary calculator websites like Salary.com, Know Your Worth.com, Salary Survey.com, and Indeed Salary Search.com.

How to find the right talent:

- Look for potential candidates for your venture among your own contacts. People who join new ventures need to trust the founders of the venture. So, if the candidates express interest, you will already have a connect and trust.
- Use social media platforms such as LinkedIn to find good talent. Also, leverage the network of your existing employees to find and hire new people.
- Find a good balance of the young and enthusiastic and the experienced and mature in your team.

Financial Plan



A financial plan is a forecast of the future performance for a business, and it is the third part of your business plan. This includes planning your expenses, how much to plan to sell, your profits, and how you plan to spend your cash to meet your expenses. A financial plan will help you:

- Plan and optimize your expenses - startup costs, fixed costs, and cost of goods
- Plan and manage cash flows effectively
- Estimate your income and profits

Essential components of a Financial Plan:

Start-up Costs: Startup costs are the expenses incurred during the process of creating a new business. Examples of startup costs include licensing and permits, insurance, office supplies, payroll, marketing costs, research expenses, and utilities.

Forecast P&L: A profit and loss forecast shows your company's expected revenue and expenses over a given period, demonstrating whether you can expect to make a profit or a loss over the coming months.

Cash Flow: Cash flow is a measurement of the amount of cash that comes into and out of your business in a particular period of time. Cash Flow statements help track and analyze to determine the liquidity and solvency of the business. A healthy cash flow is required to fund your payroll, cover your overheads, pay your suppliers and purchase equipment.

Balance Sheet: A balance sheet is a financial statement that reports a company's assets, liabilities, and shareholder equity. The balance sheet is one of the three core financial statements that are used to evaluate a business. It provides a snapshot of a company's finances (what it owns and owes) as of the date of publication.

Break-even Analysis: The breakeven sales level is the number of units that must be sold in order to breakeven. This means that revenues are equal to expenses. Any units sold beyond this quantity will allow the company to generate profit.

COGS: Cost of goods sold (COGS) refers to the direct costs of producing the goods sold by a company. This amount includes the cost of the materials and labor directly used to create the good. It excludes indirect expenses, such as distribution costs and sales force costs.

[Introduction To Financial Plan](#)



A Wadhvani perspective

Call to action!

Step 1: Create your Sales Forecast

Step 2: Create your Customer Acquisition Funnel

Step 3: Build your People Plan

Step 4: Create your Financial Plan



Templates provided in the Handouts.



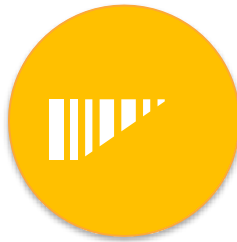
Unit Economics / Key Metrics

Unit economics describes a specific business model's revenues and costs in relation to an individual unit.

A unit refers to any basic, quantifiable item that creates value for a business. Thus, unit economics demonstrates how much value each item - or "unit" - generates for the business

Step 1: Define your Unit

For an airline, a unit might be single seat sold, whereas a ride share app would define a unit as one ride in their vehicle.



Product



Customer



Multiple Units

These units are then analyzed to determine how much profit or loss they individually produce. Some businesses require multiple unit measures. For example, an infrastructure service provider that has a geographically distributed physical infrastructure (data centres, cloud, wireless towers, etc.) have significant capital investment for each new deployment. As a result, this businesses should use each unit of physical infrastructure as their core unit and within each, use a customer unit as a secondary unit.

Step 2: Calculate cost of goods sold (COGS) Calculate your cost of services sold (COSS)



Step 3: LTV/CAC ratios

To calculate unit you need 2 values:

Customer lifetime value (LTV): how much money a business receives from a given customer before the customer "churns" or stops doing business with the company.



Customer acquisition cost (CAC): the cost of attracting a client/ customer



Unit Economics / Key Metrics

Customer lifetime value (LTV):

$$\text{LTV} = \text{A} \times \text{T} \times \text{R}$$

Life Time Value (CLV) = Average Value of Sale x No. of Transactions x Retention Time Period

Higher the Lifetime value , the better it is for a business. To increase LTV:

- increase Average value of sales, margins needs to go up
- #number of transactions to increase
- Retention time period to increase, customer needs to be engaged

Customer acquisition cost (CAC):

$$\text{CAC} = \frac{\text{TE}}{\text{NC}}$$

Customer Acquisition Cost = Total expense to attract, engage and convert a new customer / Number of new customers acquired

Interpretation:

If your CAC is less than your LTV, it indicates that your business is strong.

If the two metrics are equal, it likely highlights a stagnant business.

If your CAC is greater than your LTV, you are looking at a financial loss.



[How to get unit economics right](#)

Mint



Call to action!

Step 1: Calculate your Unit economics and Key Metrics

- Gross Margin
- Net Margin
- COGS / COSS
- CLV or LTV
- CAC
- CLV / CAC ratio



Step 2: Create your Funding Plan

Templates provided in the Handouts.



Cost and Revenue



Let's shift our focus to Cost Structure and Revenue Streams, and we'll do this by understanding the concepts of cost, revenue and pricing.

Now that you have a fixed MVP of your venture, it is vital to remember this:

- Know all your costs before you even begin your business – these will generally be based on your expected revenues. This will help you understand the likelihood of your business becoming profitable

The kinds of Costs that you will come across:

- Startup Costs – these costs (also called capital costs) are those that you would incur before you start your business
- Fixed Costs – fixed costs are those that your business will sustain regularly regardless of your production and sales. This is usually calculated for the duration of a month at a time.
- Variable Costs – Unlike fixed costs, variable costs will depend on your rates of production and sales.

It is also essential that you identify whether your venture is cost-driven or value-driven. If your venture is a low value price proposition, then your venture is cost driven. If your venture is value driven, it will focus on value proposition and premium product.

Keeping these in mind, you can see why it is important that you have a realistic understanding of your cost estimates. And it will also make it easier to fill in the cost structure space of your table.



Remember!!!!

It is always better to have variable costs rather than to have fixed costs, and better to have fixed than start-up costs.

Cost and Revenue

Pricing

Before we can work towards revenue streams, we must understand the idea of Pricing. Pricing your venture is central to profit making. The key to finding the right pricing is to make sure your product pricing retains customers while still making you a profit.

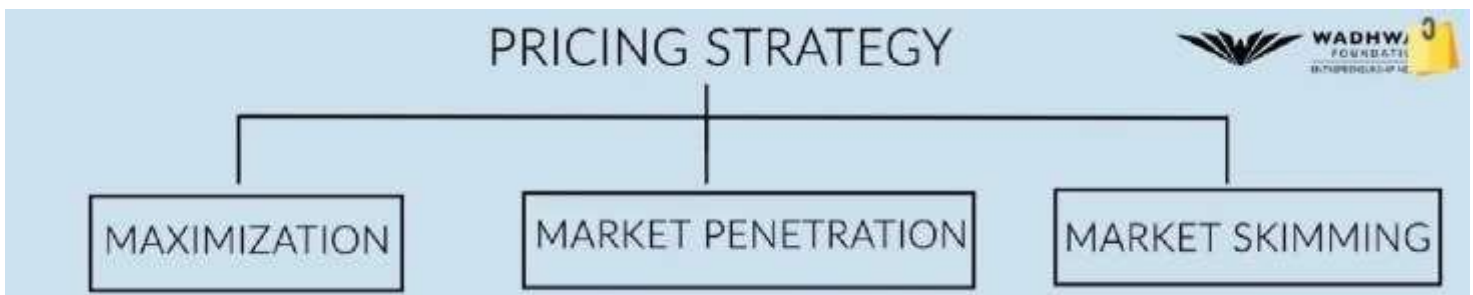
Another formula to remember under pricing is:

$$\text{PROFIT} = \text{REVENUE} - (\text{FIXED} + \text{VARIABLE}) \text{ COSTS}$$

Fixing your price will depend on your customer segment, which you have already covered in depth before. Depending on your customer segment, you can select a particular pricing strategy to suit both the customer and your venture.

Pricing strategy is largely divided into three types:

- Maximization
- Market Penetration
- Market Skimming



[12 Techniques For Selecting The Right Pricing Strategy](#)

Forbes



[Three Steps To Choose Your Pricing Strategy](#)

Forbes



Cost and Revenue



So let's talk money!

Where cost is what we spend to land our venture and keep it going, revenue is the income we get through our sales. Usually, there will just be income from your product alone. But it is always smart to look for ways through which you can increase your revenue sources.

Let's understand this better

If I open a bakery that specializes in eggless cakes and desserts, my biggest income will come simply from my niche product. However, I could begin a delivery service, or partner up with a larger delivery service group. This will become another source of income, outside of just my product alone.

Every source of income you have, through your venture, is called a revenue stream. So your biggest strategy should be to understand how you can reach out to the same customer or customer segment for revenue through multiple different ways. Since it is from the same customer, the revenue stream becomes more dependable, and you have to clearly define all your revenue streams.

These are the three things that you must state about your revenue streams:

- The source of the revenue
- The Pricing
- Their lifecycle

These factors will help you decide whether that particular stream is profitable or not. With the bakery example from above, if the delivery system costs more than it brings in, it is not a profitable revenue stream for the bakery venture. The larger implications of this is that you have to maintain a certain level of flexibility in terms of your revenue model. The best way to explore your revenue model is to explore the questions of what value your customers are willing to pay for your product, and how much each revenue stream contributes to your overall income and revenue.

Call to action!

You have now made it through the concepts of costs, revenue and bootstrapping. Through this, you have come to understand the role funding and finance has to play in your venture's set up and growth. Now, what you have to do is sit down with your venture, and work through your handouts to understand the practical application of your venture's financing.

It is now time to walk yourself through the steps of financial feasibility:

Steps to Understand the Financial Feasibility of your Venture:

Step 1: Estimate the Costs of your Venture

- Startup Costs
- Fixed Costs
- Variable Costs

Startup Costs	INR
Heat Press Equipment	16000
License	4000
Website	20000
Total	40000

Fixed Costs (for a month)	INR	Salary per employee	No. of employees
Rent	10000	20000	1
Electricity	5000		
Salaries	20000		
Total	35000		

Variable Costs (per unit)	Cost	Unit	Rate (INR)
T-shirts	100	1	100
Colours and Dye	6	1	6
Total	106		



Call to action!



Steps to Understand the Financial Feasibility of your Venture:

Step 2: Estimate your Revenue

- Identify your Price Point
- Estimate the number of units sold in a fixed time period (monthly, quarterly)

Step 3: Identify Additional Revenue Streams

Revenue (for 30 days)		Customers (per day)	No. of days
Number of customers	2500	20	30
Units per purchased	1		
Price per unit (INR)	300		
Purchase frequency	1		
Total sales in units (INR)	2500		
Total sales revenue (INR)	750000		



Call to action!

Steps to Understand the Financial Feasibility of your Venture:

Step 4: Analyze your Key Metrics

- Gross Profit/ Contribution
- Net profit
- Breakeven
- Payback Period

SUMMARY	
Revenue	INR
Sales	750000
Others	3000
Total	753000
Profit	450000
Breakeven	180
Pay back period (months)	0
Contribution	19400.00%



Call to action!

Step 5: Identify the Sources and Uses of your Funds

Funding Plan	
Which stage is your venture in? (Idea/Development/Validation/Early growth/Growth/Maturity)	
How much funding do you need to take your venture to the next stage?	
How much can you cover through self-funding/bootstrapping?	
How much funding do you need from external investors?	
Who are the investors that you can approach?	



You can always use the same model in the future and apply it on any venture you are working on to ensure proper analysis of the financial feasibility of the venture





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