

On today's agenda:

- Financial projections
- Stages of venture financing
- Sources of financing
- Best times to raise money
- 5-year financing plan



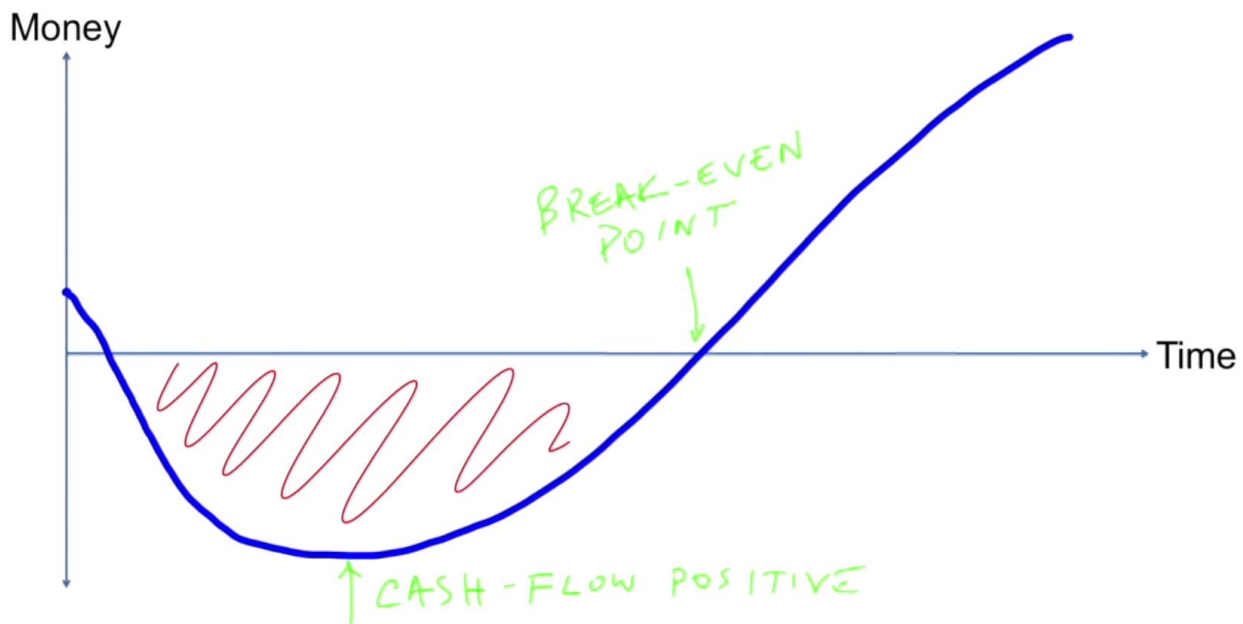
Welcome back! This is segment 4.1 on "How much money do you need?". In this segment we're going to discuss financial projections. We're going to talk about when you need money in the short run versus the medium term, versus the long term; the sources of financing; and the appropriate time to raise money. We'll go through a little bit of financial accounting projections, and work on a five year plan for your venture.

Notes

Summary



0m 07s



Launching new ventures

Let's return to our graphic that we started in the introduction. In this graphic, we're going to look at the amount of money spent or gained over time. So, on the X axis we have the passage of time, and on the Y axis we have the total amount of money that's available for the business. As we discussed previously, the entrepreneur may start out above zero. Then, as the venture goes on, the venture will spend money and eventually start making money and become profitable. Now, as we discussed, the amount of money that the venture needs will be this total amount of money. On this graphic you can see there's an inflection point right here. This is the point at which the business starts actually making money. We're going to call this the point that's "Cash Flow Positive". Then, at a later point in time, the company makes enough money that it can pay off all of its prior expenditures, and that occurs right here. We're going to call this point the "Break Even" point.

Notes

Summary



0m 34s

Fundraising is not free!



Fundraising is **expensive**.

- Interest must be paid on loans
- Shares of the company usually given to investors in return for funding

Fundraising is **time-intensive**.

- Even gifts require time

Sources of financing and your **chances** with each are **limited**.

Launching new ventures

As the venture passes through different stages, there are appropriate sources for each stage and we're going to develop those more in the next segment, but for now, we're going to talk about what is the amount of money that you might need in each stage over time. Now, you have to remember that fundraising is not free. You may have to take out a loan to fund your operations, in which case, you'll probably pay interest on the loan. Or, you may have to give up an ownership share in the company to finance your operations. And, even if you can get a gift or a donation or some other kind of free and clear money to finance your company, you have to spend a lot of time to raise and service the people that are giving you that money. So, even gifts take time. And finally, there's a limited source of financing, so you only have so many people that you can approach and you don't have very many chances with each person or organization that you approach. So, if you don't do it right the first time, or if your approach in the wrong stage, then you make it harder to get the money that you need to finance your company. So, that's why it's very important to understand how much money you need at each stage of the game, and that's exactly what we're going to talk about next.

Notes

Summary



1m 59s



How Much Money do You Need?

Launching New Ventures: Entrepreneurship & Strategy for Technology-Driven Startups

Prof. Chris Tucci and Prof. Marc Gruber

Let's look at an example of an imaginary business. This business is going to have operations that's going to cost some at the beginning, and eventually will make money. Let's look at a five year projection. We're going to examine the finances of this company every year, for five years. First, let's discuss the gross revenues of this company. This is all the receipts, all the money the company makes top line. In this particular case, the company doesn't make any money in the first year. And then in the next year, they make 50. The following 100. And then in year four, they make 200. And in year five, they finally make 400. Now, let's look at the gross costs that this company has. All of the costs associated with doing business. Now these are the gross costs. They don't include a lot of accounting details, such as interest, taxes, depreciation, and amortization. These are just the total amount of gross costs, and in this particular case, the company is going to start out with 100 costs in year one, and it's going to rise every year by 10. Now, we can develop the profits for this company. The profits, the gross profits are simply the gross revenues minus the gross costs.

Notes

Summary



0m 05s

	Y1	Y2	Y3	Y4	Y5
REVENUES	0	50	100	200	400
COSTS	100	110	120	130	140
PROFITS	-100	-60	-20	+70	+260
CUMVL.	-100	-160	-180	-110	+150

CASH FLOW POSITIVE

BREAK-EVEN POINT

Launching new ventures

So, as you can see from this example, we start out by losing 100. The next year we lose 60. And in year three we lose 20. And finally, in year four, we make 70. And in year five, we make 260. So, year four would be the year that we become cashflow positive. Now we're going to track the cumulative amount of money either lost or gained up through a certain point in time. So, what we'll do is we'll look at the cumulative amount gained through year one. In this particular case it's going to be a loss of 100. Then in year two, we're going to have an additional loss of 60. So the cumulative loss will be 160. Finally, in year three, we have another loss. We lose 20 more, so now we've cumulatively lost 180. And in year four, we start making money. We're now cash flow positive. So now, we reduce our cumulative loss to 110. And then, finally, in year five, we have made 260, so that means our cumulative gains are positive 150. At the point that we go from a negative cumulative amount to a positive cumulative amount, is going to be the "Break Even" point. So, what we would say about this business is that they have reached a cash flow positive in year four, and they've broken even in year five.

Notes

Summary



5m 01s

On today's agenda:



So what I've done in this next slide is I've typed it out. So I've just summarized all of the information we just developed on the prior slide, and now what we're going to do is simply highlight some key features of this financial projection. The first, as we mentioned before, was the cash flow positive. The second was the "Break Even" point. Now there are a few other things that we should notice about this. The first is how much money you might need in each year. So, in this particular case, you could imagine needing about 100. I'm not saying what the units are here on any of these figures. But, in this case, you'd need 100 to be able to meet your obligations for the first year. You may be able to finance part of that. If you recall from the first graph, sometimes you start with some money and you can spend down your money, so you may not need to raise entirely 100 here. Furthermore, you may be able to cut costs, in which case, if you can cut costs in that first year, you might be able to get by with less money. So, this gives you some gross ideas about how much you'd need to finance each year. Now, in year three, you see the greatest cumulative loss is 180.

Notes

Summary



So how much money do you need?

	Year 1	Year 2	Year 3	Year 4	Year 5
Revenues	0	50	100	200	400
Costs	100	110	120	130	140
Profits	-100	-60	-20	70	260
Cumulative	-100	-160	-180	-110	150

CASH FLOW POSITIVE

BREAK-EVEN

Launching new ventures

So that, theoretically, is the amount that you're going to need to raise eventually to launch this business. Either that, or your need to cut costs or spend some of your initial sums. But that's the total resources that you need for this company, and then, eventually, you'll start making money. And then you'll have to discuss later whether you need more money for scaling up the business, etcetera.

Notes

Summary



8m 32s

Today we covered:

- How much money you need
- Stages of venture financing
- Break-even point
- Cash flow positive
- Trade-offs of fundraising



So, in summary, for this segment we've covered how much money you might need to launch your venture. We discussed the stages of the venture and how much you might be expected to gain over time. We talked about financial projections, gross revenues, costs, profits, and the cumulative amount that you've gained or lost at each point in time. We talked about the "Break Even" point. We talked about when you turn cash flow positive. And we also discussed how difficult it is to raise money. That you might be giving something up, or spending a lot of time to do so. We'll discuss the different sources of financing in the next segment.

Notes

Summary



8m 56s