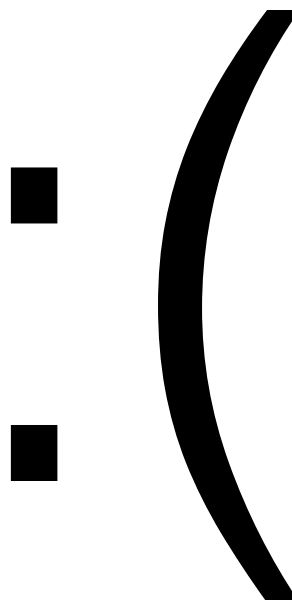




Lecture 14
Financial Projections and
Course Review



Today's Agenda

- Daily Scrum
- Mentor Matchups
- Financial Projections
- Review
- Closing Class Exercise
- What's Next
- Key Takeaways

Let's Scrum!

- Take a minute to reflect...
 - What have you done since yesterday?
 - What are you planning to do today?
 - Any impediments/stumbling blocks?

 - What else are you thinking about?

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We have surprise guests dropping
by this morning. Stay tuned!

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Which means in __ years...

- Earnings: Historical and Forecast
- For each time period, show cash balance.
 - Show how you expect the company to perform top line and bottom line three years out.
 - Show how much capital will be required now and later.
 - Prepare lots of backup slides to illustrate the assumptions behind these financials.

Financial Projections

- As a young startup, you haven't made any money (yet). So how can you determine your financial future?
- No historical record means you must make assumptions, use industry information and incorporate your own experience.
- Results will be “in the ballpark”
- Key: prove that your estimates are believable, despite your infancy.

Pre-Revenue Forecasting Models

- 2 approaches for pre-revenue forecasting:

Top-Down	Bottom-Up
<ul style="list-style-type: none">• Faster, straightforward• Good for estimates• Timing is not reliable	<ul style="list-style-type: none">• More credible, especially in the short-term• More detailed

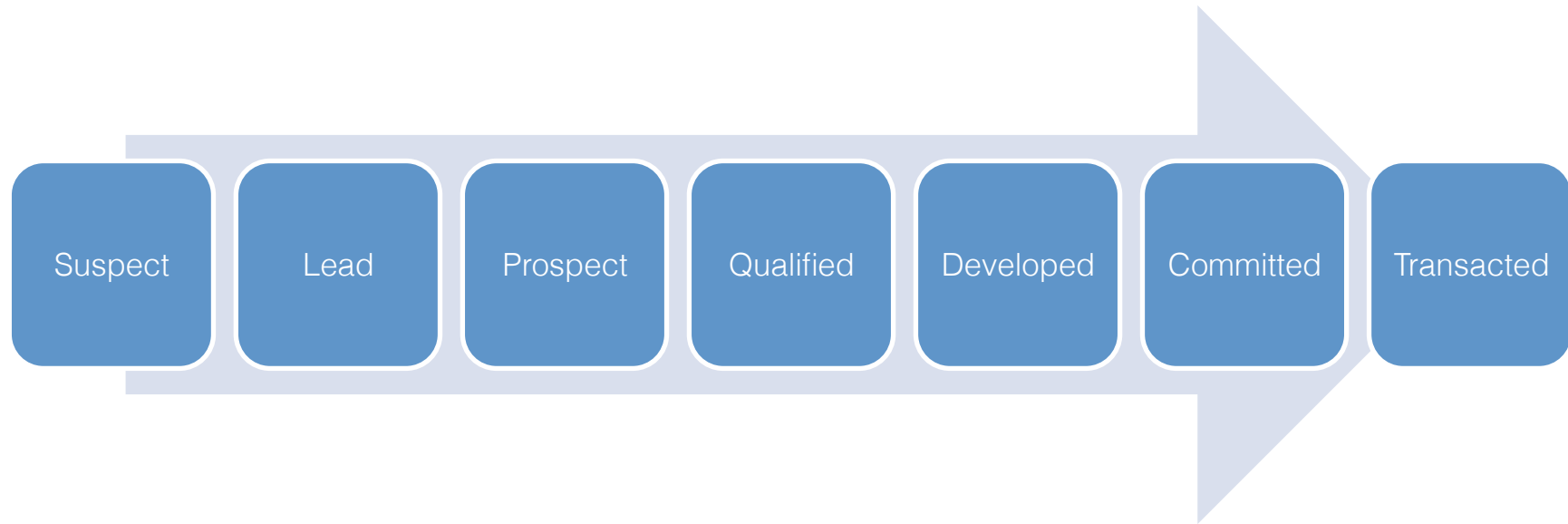
- Both approaches will give you different results. Use both and think about why they differ, and which makes more sense for your company at this point.

Bottom-Up Forecasting

1. Identify your Sales Funnel

- How many customers are in your TAM?
- How many can you convert to buyers?
- How many are already in the sales funnel?
At which stage?
- How long will it take? How much will it cost?

Sales Funnel/Sales Cycle



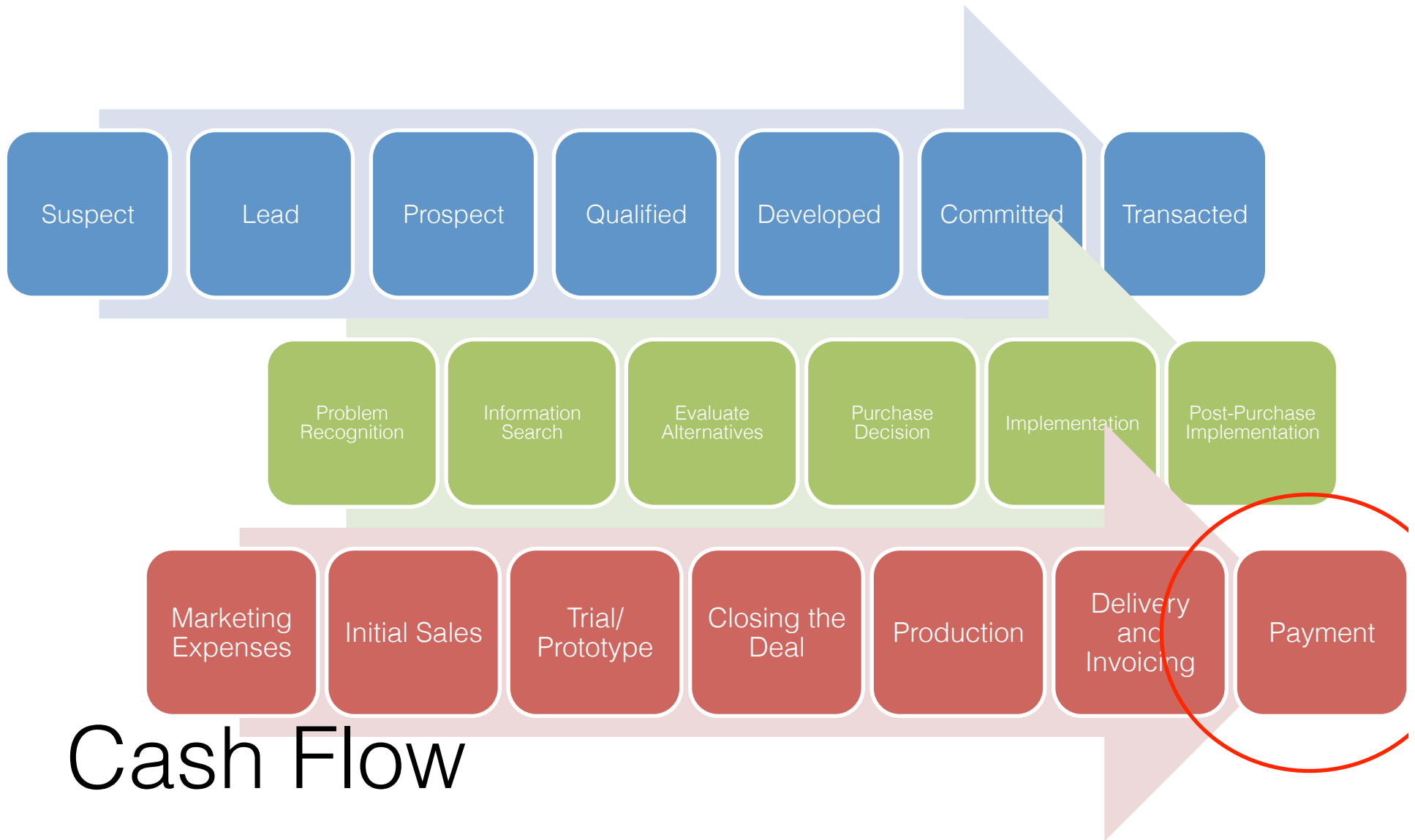
- **Suspect:** TAM
- **Lead:** initial contact, no confirmed interest
- **Prospect:** confirmed interest
- **Qualified:** Prospect with need, means and authority to purchase
- **Developed:** ready to buy
- **Accepted:** order placed
- **Transacted:** service or product delivered, invoice issued

Buying Process



- Timing depends on several factors:
 - **Familiarity:** new or previous experience?
 - **Cost level:** significant investment?
 - **Decision process:** single or multi-person purchasing decision?
 - **Clarity of value:** demo needed?
 - **Urgency of need:** any external factors/pressures?

When Does the Cash Come?



Cash Flow

Conversion Rate

Probability of moving along each phase of the Sales Cycle



Stage	Number of Opportunities	Conversion Rate
Lead	100	80%
Prospect	80	50%
Qualified	40	25%
Developed	10	50%
Committed	5	N/A



Calculating Profit

$$\text{Profit} = \text{Revenue} - \text{Costs}$$

- Revenue: Average Selling Price x Units Sold
- Costs: Fixed vs. Variable

Example: for an ASP of \$10...

Stage	Number of Opportunities	Conversion Rate	Revenue
Lead	100	80%	???
Prospect	80	50%	???
Qualified	40	25%	$0.5 \times 0.25 \times 40 \times \10
Developed	10	50%	$0.5 \times 10 \times \$10$
Committed	5	N/A	$5 \times \$10$

Fixed vs. Variable Costs

Fixed	Variable
<ul style="list-style-type: none">• Rent• Utility bills• Phone bills/communication costs• Accounting/bookkeeping• Legal/insurance/licensing fees• Postage• Technology• Advertising & marketing• Salaries	<ul style="list-style-type: none">• Cost of Goods Sold<ul style="list-style-type: none">• Materials and supplies• Packaging• Direct Labor Costs<ul style="list-style-type: none">• Customer service• Direct sales• Direct marketing

Tips

- Double your estimates for advertising and marketing costs
- Triple your estimates for legal, insurance and licensing fees
- Keep track of direct sales and customer service time as a direct labor expense to forecast this expense when you have more clients

Top-Down Forecasting

1. Estimate Market Potential
2. Determine Adoption Rate
3. Predict Market Share
4. Develop Revenue Scenarios

Estimate Market Potential

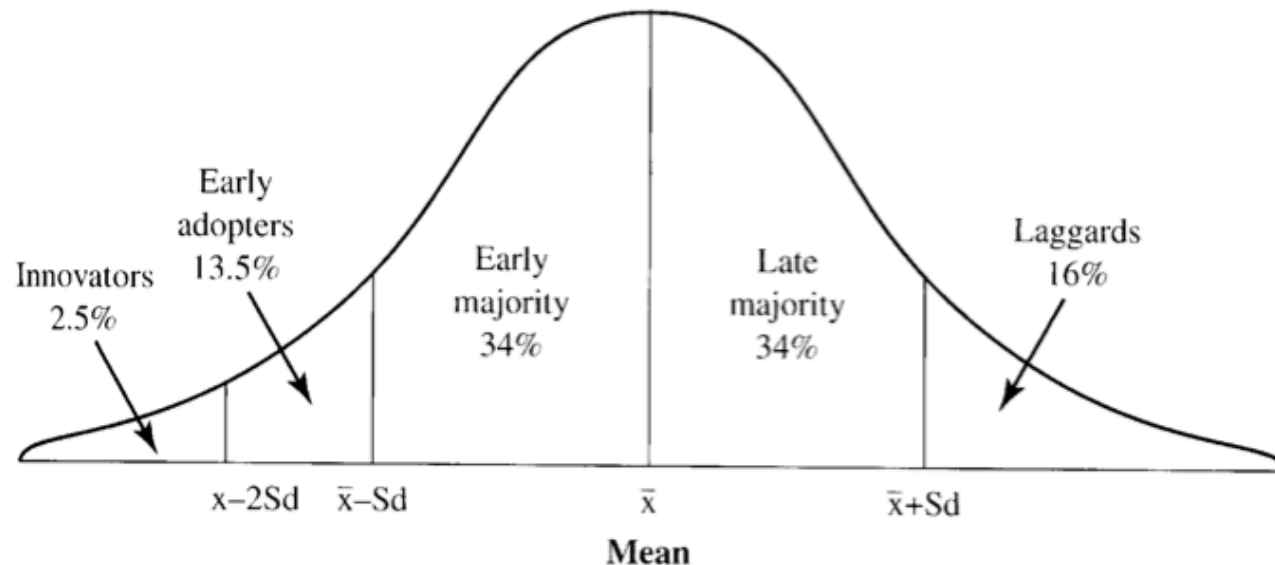
TAM

1. Know the problem you are solving.
2. Define your target customer.
3. Estimate the number of target customers who have that problem.
4. Determine Penetration Rate.
 - Penetration Rate $1/\alpha$ Product Specialization
5. Calculate potential market size.

Market Volume = TAM x Penetration Rate

Market Value = Market Volume x ASP

Determine Adoption Rate



- How fast will your technology be adopted?
 - How mature is your business model?
 - Are you using an established value chain?
 - Are you introducing a disruptive technology?
- Use industry research to inform your estimates

Predict Market Share

- How much of the market will you be able to capture?
- In mature markets,

$$\text{Market Share} = \text{Revenue} / \text{Market Size}$$

- In emerging markets, estimate your strength relative to your competitors:
 - Strength of Value Proposition
 - Amount of Capital
 - Marketing Effectiveness

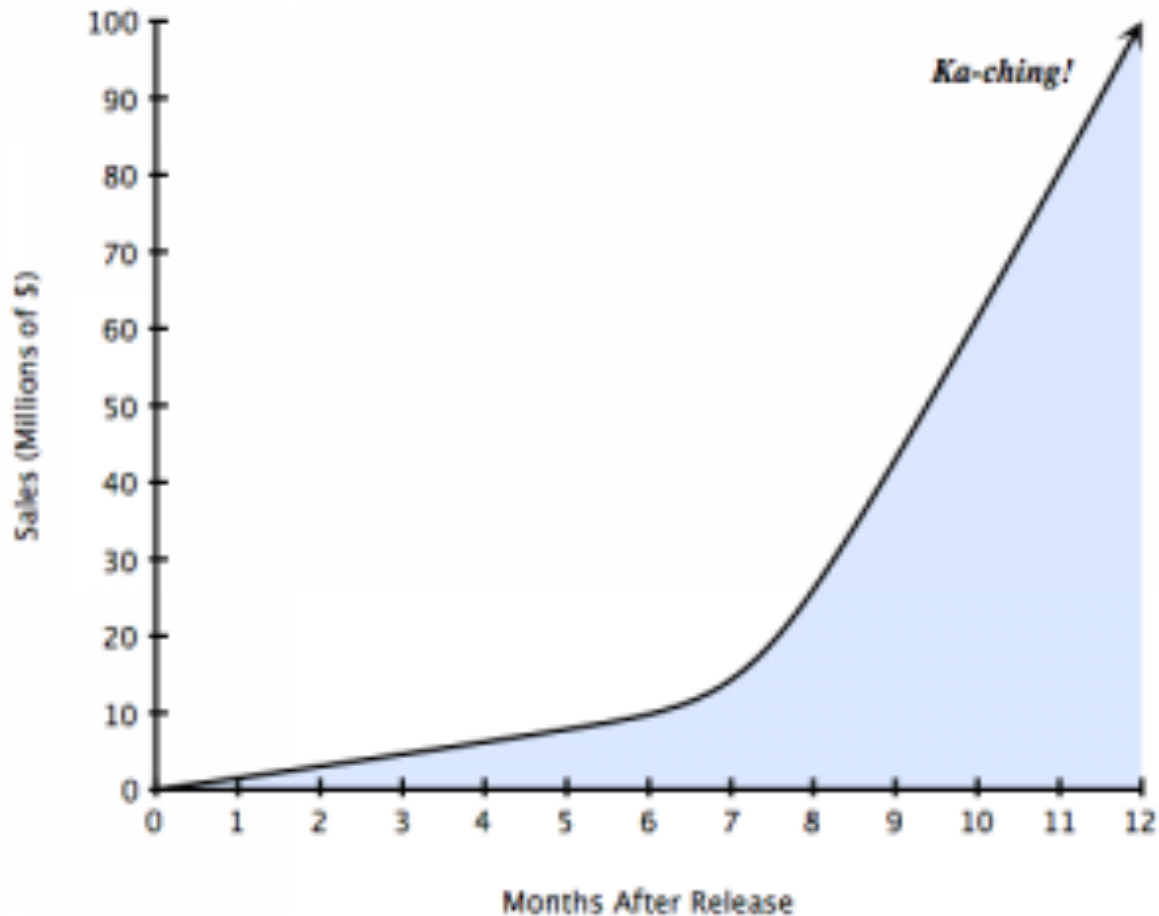
Develop Revenue Scenarios

- For each Year X , calculate top-down revenue scenario

$$\text{Market Value} \times \text{Adoption Rate}(X) \times \text{Market Share}(X)$$

- Adjust and refine:
 - Create a 5-year forecast
 - Use best, likely and worst scenarios
 - Document all assumptions!

“Hockey Stick Projection”

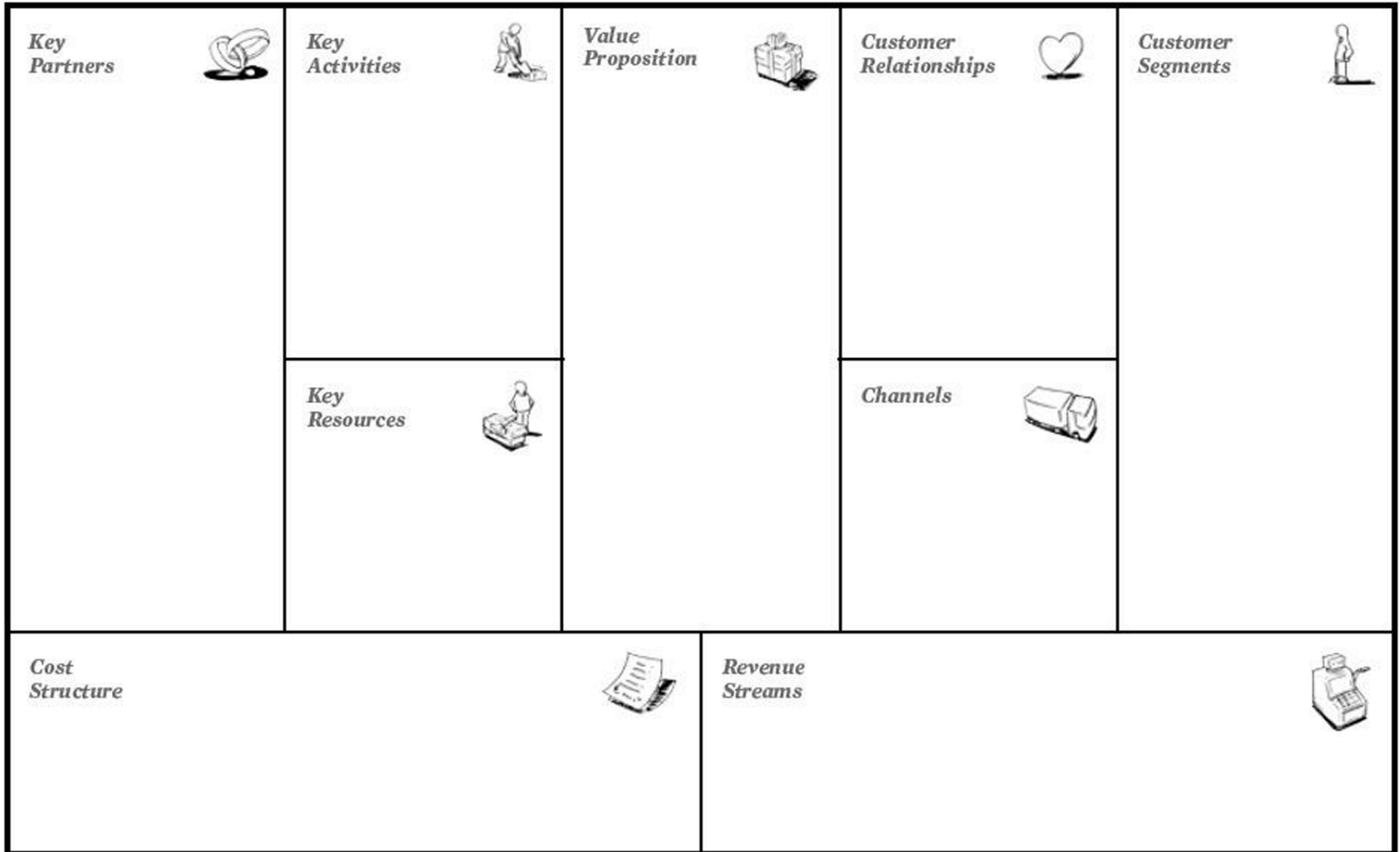


In Class Activity: Top-Down Projections

- As a team, work through the steps we just discussed to determine your expected revenues from Year 1 to Year 5.
- Document your process and all your assumptions!
- Create a graph to show your growth.
- Each team will present.

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#1: Define Yourself!

Who are you?
What do you do?
Why does it matter?

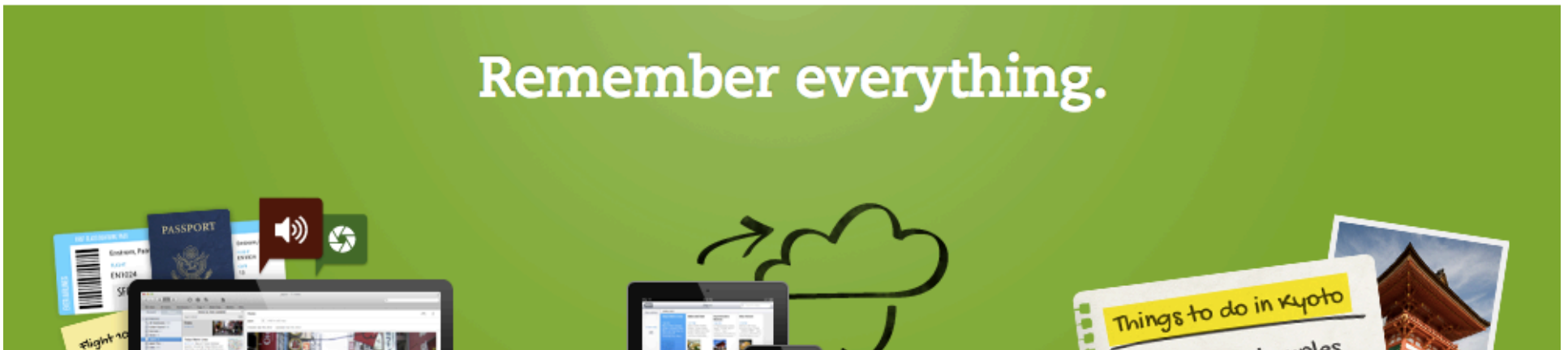
Value Proposition



PRODUCTS ▾ | BLOGS ▾ | THE TRUNK

- ▶ Web Sign In
- ▶ Create Account
- ▶ Go Premium

Remember everything.



#2: Know Your Customers

Target Customer Profile

Gender	Male, female
Age	17-40 years old
Region	Cambridge MA (during initial growth stage)
Occupation	Student, young professional, internal migrant, middle management
Social level	Medium, high
Characteristics	Has a smartphone
User category	Early adapters, technologically advanced
Other	Active users of social networking sites, outgoing personalities

Persona

Male

He wants to be unique



Lives on Kutuzovskiy Prospect in Moscow

Loves esquire, Forbes, afisha, pop, GQ

Little time

Current salary is USD 10.000/ month

Recently moved into his new flat with his girlfriend

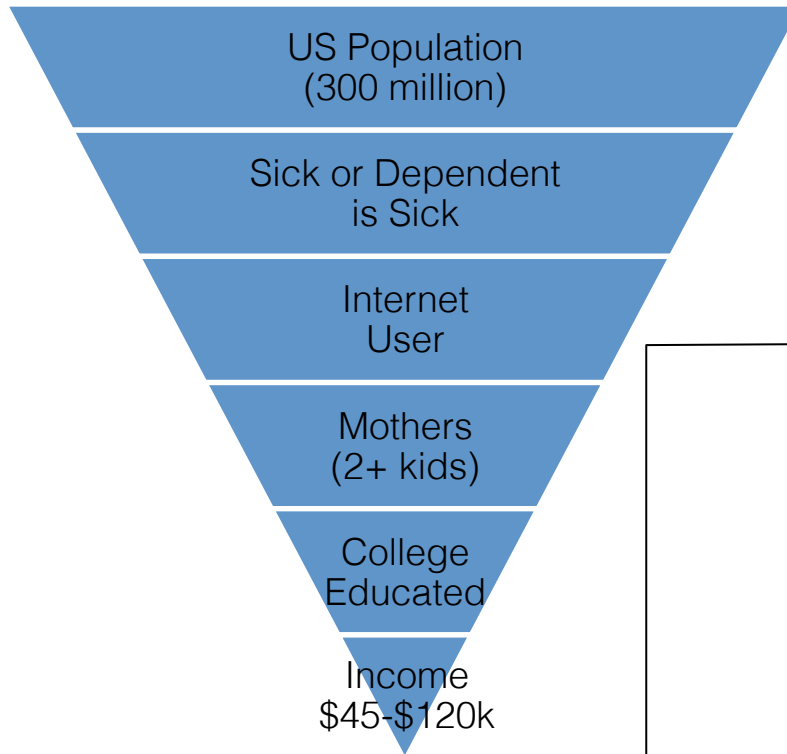
Loves Strelka and Ginza Projects

Works at VTB Investment Banking

In summer he travels around the whole world

33 years old

#3: Determine the Market Size



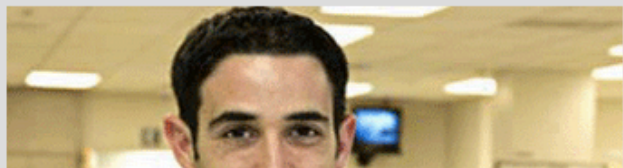
6.3 million mothers

Total Addressable Market

$$\begin{aligned}
 & \rightarrow 6.3 \text{ million mothers} \\
 & \quad 4 \text{ consultations per year} \\
 & \times \$7.99 \text{ per consultation} \\
 \hline
 & = \mathbf{\$201 \text{ million/year}}
 \end{aligned}$$



DoctorSpring



Expert doctors, Quick Replies.

#4: Possible Pricing Schemes

- Free (ad revenue)
 - Flat price for everyone
 - “Freemium”
 - Subscription/licensing
 - Direct sale of goods and services
 - Indirect sale of goods and services
 - Sponsorship
-
- What are some of the pros and cons of each?

#5: What is the Competition?

Competitor Analysis Matrix

Chart Key

	- Capability available / High Attribute Score (1)
	- Capability available, but limited / Medium Attribute Score (0.5)
	- Capability available / Low Attribute Score (0)



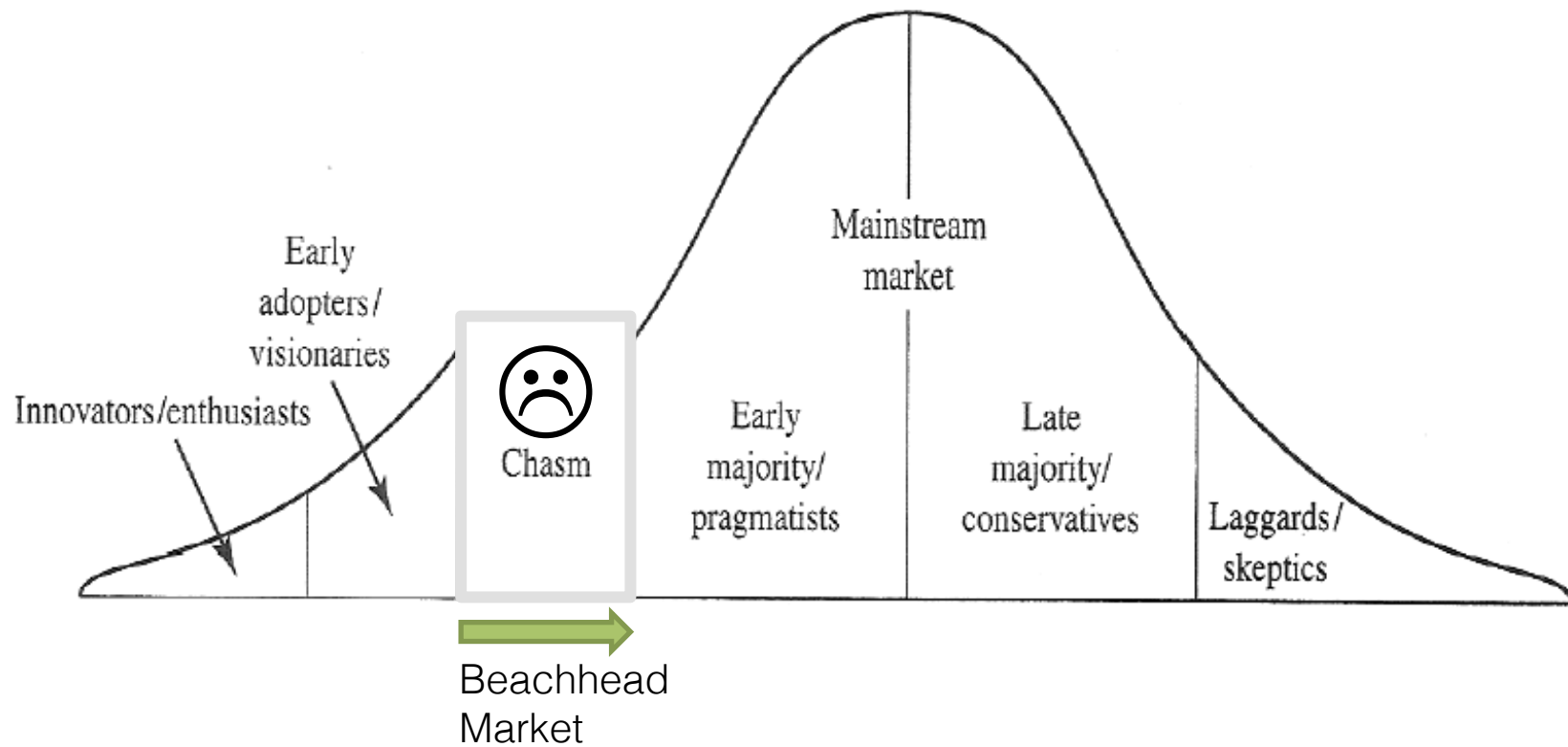
	Design Tool Capabilities				Total Score	Furniture Shopping Features				Total Score
	Design Tool Capability (None/2D/3D)	Ease of Use of Design Tool	Multiple Options to Initiate Design	Collaboration Features (Designers / Social Networks)		Furniture Shopping Available	Multiple Furniture Retailers	Dynamic Furniture Suggestions	Scale / Reliability	
Furniture Manufacturers										
IKEA	█	█	█	█	2	█	█	█	█	2.5
Crane & Barrel	█	█	█	█	0	█	█	█	█	2.5
Ashley	█	█	█	█	1	█	█	█	█	2.5
Interior Design Websites / Tools										
MyDeco	█	█	█	█	2	█	█	█	█	2
Google Sketchup	█	█	█	█	3	█	█	█	█	1
Autodesk HomeStyler	█	█	█	█	3.5	█	█	█	█	1
Online Retailers										
Amazon	█	█	█	█	0	█	█	█	█	4
FILBEE	█	█	█	█	4	█	█	█	█	3

#6: How will you reach your customers?
How will you get more customers?

Go-to-Market Strategy

- WHOM will we actively target within the market?
- WHAT will be our product portfolio for target customers?
- HOW MUCH will we charge for our products for different customers?
- HOW will we promote our products to target customers?
- WHERE will we promote and sell our products to target customers?

Crossing the Chasm



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Reflection

- We're now at the end of the formal part of the course.
- We hoped to inspire you and change the way you think about your future.
- Let's do a little exercise to see whether we succeeded.

Questions about your dream

1. What were my most important feelings about this day?
2. What type of work did I choose for myself? Why?
3. Did I work with people, ideas or things?
4. Did I use interests/hobbies/skills that I am developing now?
5. Did I work for someone else, or was I in charge of the business?
6. Was I satisfied with the job I chose? Why or why not?

What are other attributes of an entrepreneur's **mindset**?

The Entrepreneur

- Visionary
- Driven
- Optimist
- Strategist
- Articulate
- Resilient
- Diligent
- Imaginative
- Risk-taker
- Ethical
- Confident
- Ambitious
- Problem-solver
- Curious
- Crazy
- Passionate

Personal Challenge

- Choose 4 attributes from the list generated in class that you want to improve upon
- Write it down!
- Challenge yourself every day in those areas

Today's Agenda

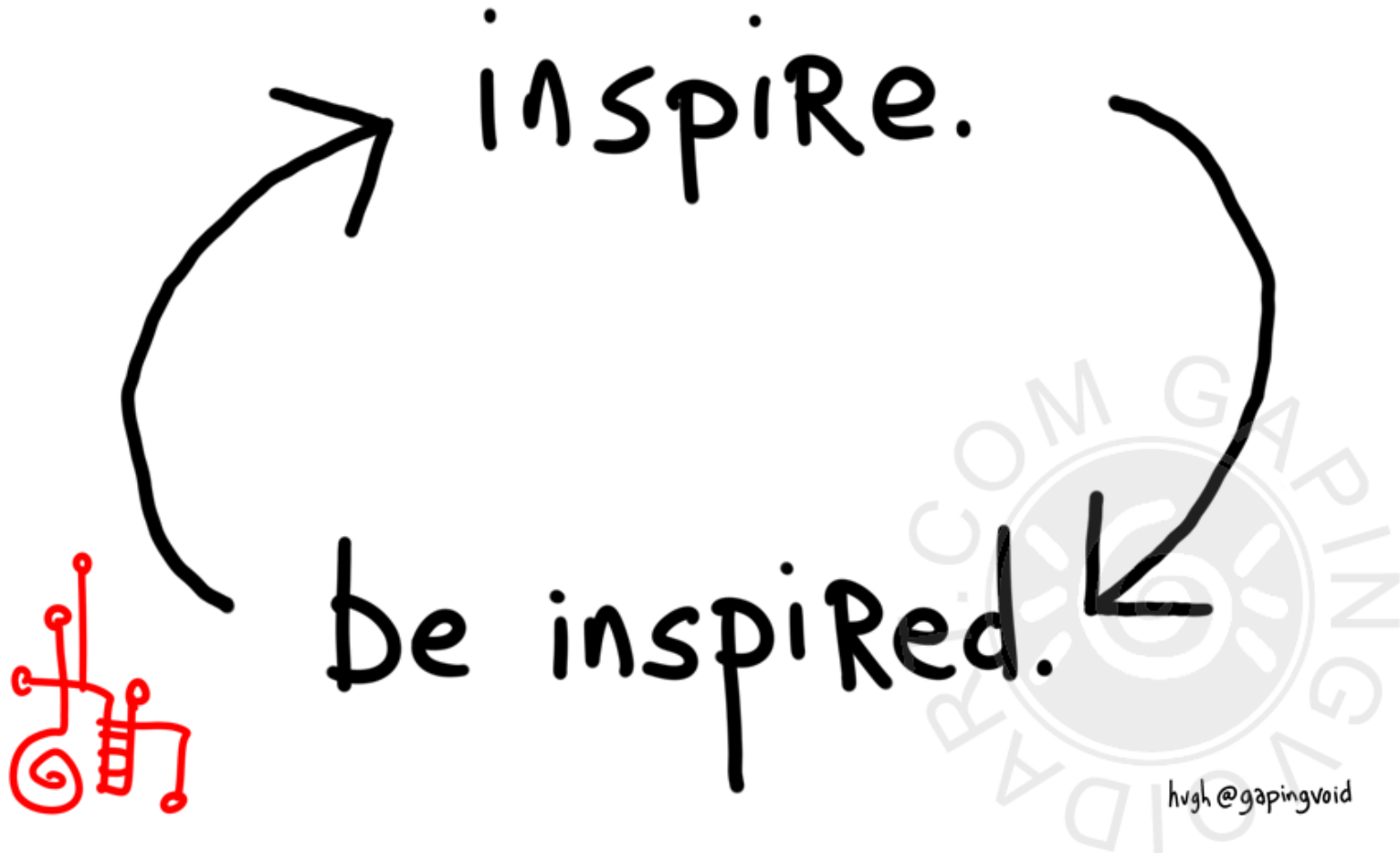
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What weeks 4 to 6 will look like

- As promised, this is the last formal lecture
sadface
- What you can look forward to:
 - Surprise guest lectures from entrepreneurs, designers, industry experts, etc.
 - Getting out of the classroom and into the real world (yay!)
 - Quality time with us! (in teams, as individuals, between teams)

What we expect from you

- Still commit 8:30am to 4:00pm to developing your business model and application
- Build a plan for how you will work as a team for the next 3 weeks (and share it with us!)
- Come ready for our meetings with progress updates and questions
- Seek us out if you need more help
- Help each other – share tools, networks, breakthroughs...
- Work and learn and work and learn...



Logistics

- Monday: hackathon (all day coding!)
- Tuesday: UI presentation in the morning, team meetings with us in the afternoon (sign up online)
 - What we want to see:
 - Business model and pitch deck so far
 - Division of responsibilities
 - Plan for technical and business development
 - Questions for us

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Key Takeaways

- Your financial projections show your estimates for your company's performance now and in the next 3 to 5 years.
 - Use the top-down approach for something fast, and the bottom-up approach for something reliable
 - Document ALL assumptions
- Entrepreneurship is about taking risks, failing, and learning. But you need to start, **now**.
- The fun has only begun. This is when the real work starts :)

“Twenty years from now you will be more disappointed by the things that you didn’t do than by the ones you did do.”

- Mark Twain

-
- Check your e-mail and Facebook for any additional announcements.
 - Questions?
 - See you Monday!

It's time to be awesome.

