Lessons Learned – Week 10

Hello everyone !

As usually, we started the class with our progressed work of the week. We presented our chain value, organizational chart and new business model.

Then, the teacher told us about the **cost structure** in a project. Indeed, for our project we need to come up with a financial plan, which is basically about being financially sustainable or not. To have this financial plan, we first need to figure out what our costs will be. In order to do that, we need to identify each item, and ask a request proposal; a lot of people can provide us the information.

To define the cost structure we need to ask the right questions: what is the model's cost structure? What are the resources with a greater impact on costs? What are the most expensive activities? We need to figure out how much we need and then how we are going to have it. There are 2 types of costs: they can either be **fixed** (all costs than you can predict to be similar at each period: facilities and infrastructure, industrial equipment, warehouse); or the costs can be **variable** (marketing, third party provided services, raw materials,…). It is usually better to have more variable costs than fixed costs.

After a small presentation with each team explaining what their cost should be composed of, we talked a bit more about the **Financial Plan** itself. We learned that there actually are many templates on the web to build one, but an Excel sheet would be enough.

As Bill Hewlett, Hewlett Packard said: *"You cannot manage what you cannot measure… and what gets measured gets done"*, which means that we must be able to explain and justify our financial datas to the founders. The Financial Plan presents, in an orderly and organized manner, the results generated in the financial decision making process. It is not only about looking at the profit made, but to pay attention to the cash flow. If the money coming in is not sufficient with the money coming out, the company will go bankrupt. It must not be too complicated; the Financial Plan is a tool that we must be able to explain.

The main components of the Financial Plan are:

•Income Statement

It provides information on the revenue we are going to generate but also about our cost structure. It displays the values of all income and expenses incurred.
Results = Income – Expenditures

•Balance Sheet

It is a picture of the company at a certain time, reflects the values of the assets, the liabilities and equity.
Equity = Assets – Liabilities

•CashFlow Statement

It shows the changes that occur in a given period of time in the cash accounts and their equivalents, structuring these variations by nature.
Variation CF = Operational CF + Investment CF + Financial CF

Then, we talked about the **capital needs**, which is basically the sources of financing we can have for our project

- The founders: represents the capital start from savings.

- Family and friends: they are the people that support you from the beginning you started to work on your project.

- Business Angels: they can invest on equity of your company.

- Venture capitalists: they can invest even further than the business angels.

- Acquisitions & Equity Market

- Bank

An effective technique for start-ups is the **"bootstrapping"**. It means starting a business without external help or capital and by being very cautious with the expenses. Some examples of bootstrapping can be for example Start selling as soon as possible having fewer products than necessary, start working at home to avoid facilities expenses, not receiving any wages at the beginning, etc. It is very important knowing that the majority of start-ups actually never get any financing. In that case bootstrapping is the only solution, and it is usually the most successful.