

## BUDGETTING

- Methodology
- Case

### Why bother

- Quantify scenaria *Get an overview of economics*
- Quantify perspectives *Get people involved*
- Determine cash requirements *Get your venture funded -*
- Cashflow management *- and managed*  
by budget supervision

## BUDGETTING PROCEDURE

*Precondition for budgetting:*

**Market analysis and business model finalized**

1. Market penetration scenario estimated -> **sample**
2. Estimate company operations as a function of sales
3. Establish budgets on transactions<sup>1</sup> in sales and company operations

**Budget on transactions in sales and company operations**

=>

**Your CASHFLOW BUDGET excl. investments**

1) Transaction = money being moved in or out of the company's bank account

## CASHFLOW BUDGET

### CFIMITYM

*Cash Flow Is More Important Than Your Mother (Ken Morse, MIT)*

- **Input:**  
ALL estimated in- and outgoing payments in a time domain
- **Output:**  
 The total amount of cash flowing in and out in the time domain => The net amount of cash flowing in/out  
 => Accumulated cash flow = **Cash in Hand** as a function of time

*Cash ind hand **NEVER** negative:  
 that defines your capital requirements!*

*Inject capital until this precondition is met at any given time*

## Cash Flow Budgetting -> Capital Requirements

### SALES and PRODUCTION

Outgoing payments to cover production and incoming payments from sales are derived from:

- Unit costs
- Market potentials
- Market penetration in the time domain

### MARKETING and OPERATIONS

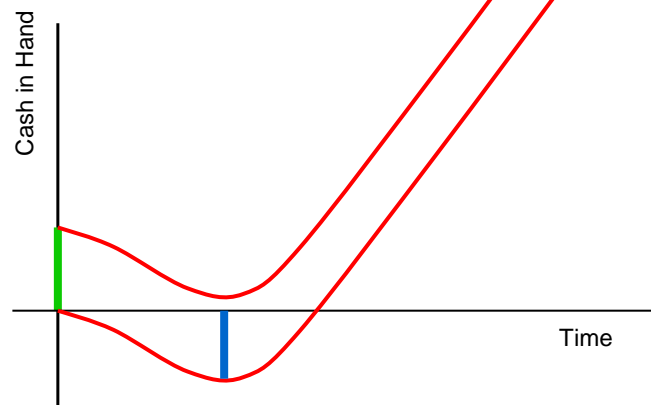
Outgoing payments to run the company are derived from

- Sales & Marketing expenditures
- Rent, running costs, salaries
- IPR , R&D expenditures
- Capital expenditures

Add all outgoing (+) and incoming (-) payments determine cashflow ( $Q$  [DKK/month]) and cash-in-hand ( $\sum Q$  [DKK]).

Adjust with appropriate cash injections (*loan, equity capital*) to create a positive cash-in-hand throughout the project

## Cash Flow Budgeting



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## Budget on Profit & Loss

Precondition: the cashflow budget

- **Covers an extended period eg.: 1 year = Annual results**
- **Objectives: analysis, perspectives, key figures, profitability**
- **Consequences:**
  - Trim your business
  - Benchmarking against your competitors' performance
  - Benchmarking against your own previous performance
  - Sanity check – with key-figures and common sense
  - Quantify returns on investments => VC case? Y/N.

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## Budget on Assets & Liabilities - 1

- **Assets = Values owned by the company**
- **Liabilities = How are said values financed**
- **Assets** = outstanding amounts owed to the company, cash, IPR, goodwill, buildings, cars, production facilities - - - depreciated to value as per to day.
- **Liabilities** = invested capital, accumulated profit/loss, outstanding amounts owed by the company
- **Invested equity capital + cumulated profit/loss = equity capital**

**Budget on Assets & Liabilities is the last to complete**

## Budget on Assets and Liabilities - 2

### Objectives:

- Determine value creation
- Present financing
- Keep track of development in debtors and creditors
- Check minimum legal equity

### Consequence:

- **Solvency = capacity to withstand losses is determined**
- **The development of values over time is quantified**
- **The proficiency in running a tight payment policy is demonstrated**
- In DK: legal minimum equity capital is checked