

BUDGETTING

- Methodology
- Case

Why bother

- Quantify scenarios *Get an overview of economics*
- Quantify perspectives *Get people involved*
- Determine cash requirements *Get your venture funded -*
- Cash flow management *- and managed.*
by budget supervision
- Tuning in the start-up strategy *- by balancing perspective against financing model*

BUDGETTING PROCEDURE

Precondition for budgetting:

Market analysis and business model finalized

1. Market penetration scenario established -> **sample**
2. Estimate company operations as a function of sales
3. Establish budgets on transactions¹ in sales and company operations

Budget on transactions in sales and company operations

=> Your CASH FLOW BUDGET excl. investments

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

CASHFLOW BUDGET

CIMITYM

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

- **Input:**

ALL estimated in- and outgoing payments (transactions) 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 net cash flow = **Cash in Hand** as a function of time*

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

Inject capital until this precondition is met at any given time

Cash Flow Budgeting -> Capital Requirements

SALES and PRODUCTION

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

- Unit costs
- Market penetration in the time domain (market entry scenario)

MARKETING and OPERATIONS

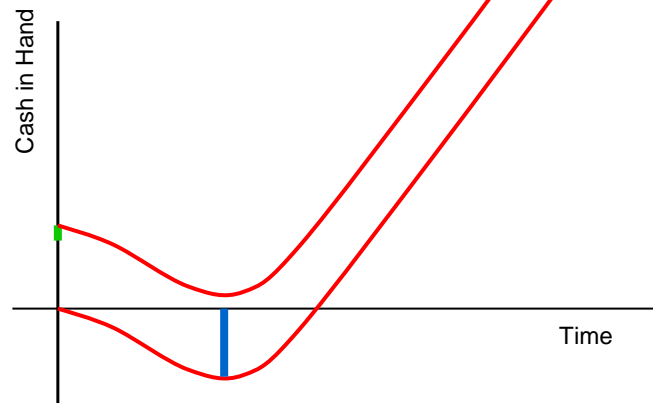
Outgoing payments to run the company are derived from

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

Add all outgoing (+) and incoming (-) payments to determine cash flow (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 of the company**

Budget on Assets & Liabilities is the last to complete

Budget on Assets and Liabilities - 2

Objectives:

- Determine development in company value over time
- 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

the waterbike

Incredible human-powered flight!!

Waterbike 1

Waterbike 2



Sample 1: case

Sample 2: generic model