P4E New Ventures 3
Kick-Off
September 1, 2016
Jon Fjeld, Howie Rhee
Center for Entrepreneurship and Innovation
Agenda

• Building an operating plan – overview
• Budget
• Revenue projections
• COGS
• Expenses
Some questions

• Given that we don’t know much, how much of this is worth doing?
  – Planning is good
  – But too much planning may be a distraction and not productive.
  – This is a pragmatic choice in every new venture
• What’s the best way to divide the work?
• How are we going to manage the interrelations?
• Is it important to keep track of assumptions (and to be clear about them)?
Two scenarios in front of investors

Scenario A

• Lead with the summary financials
• Add the qualifier that these projections are “conservative”
• Let all of the assumptions and background come out in Q&A

Scenario B

• Lead with careful overview of assumptions
• Deal with questions about the assumptions directly
• Present the numbers that those assumptions yield
• Let the methodology speak for itself
NV 3 deliverables

- Core competencies
- Elements of the operating plan:
  - Sales forecast
  - Gross margin
  - Sales and marketing plan
  - Research and development
  - Operations and manufacturing
  - General and administrative
- Budget: *pro forma* financial statements (income statements, cash flow statements and balance sheets) – three – seven years
- Financing plan
1. Target customers
2. Business model
3. Competitive position: sustainable competitive position
4. Objectives / milestones

- Does your strategy still stand?
- Do you have enough detail to move to a planning exercise?
Use a *pro forma* income statement as a template

\[
\begin{align*}
\text{Revenue} & - \text{Cost of goods sold} \\
\hline
\text{Gross margin} & \\
\end{align*}
\]

- Sales & marketing
- Research & development
- General & administrative

- Operating expense

Net profit

- Build a model that captures everything
- The plan must close
What is an operating plan?

**Budget**

- Revenue
  - Cost of goods sold

  ________________

  Gross margin

  Sales & marketing

  Research & development

  General & administrative

  ________________

  Operating expense

  ________________

  Net profit

**Plan**

- Sales forecast

- Elements of cost

- What activities create demand?
- What activities close deals?

- What is required to deliver value to customers?
  - Product / process / support ...
- What are the key streamlining / cost reduction projects?

- What infrastructure / systems are required?

- What does it take to run the business?

• Build a model that captures everything
• The plan must close
• Detailed plan
• Bottom up
  – Number of customers
  – Groupings / segments (e.g. quintiles or deciles)
  – Rate of use
  – Expected conversion rate
  – Good comparables?
  – Reconcile with projected sales activity
• Accounting issues - timing of revenue recognition, reserves
COGS

Variable:
- Material, including associated expenses
- Direct labor
  - Wages + training
- Shipping & other direct costs

Fixed:
- Overhead
  - Facilities, management
- Capital
  - Product manufacturing equipment & systems
People

• By month
• Personnel – timing and salary
  – Benefits (18% - 20%)
  – Training
  – Travel, etc.
  – Computer, office, etc.
Marketing Program Expenses

- Market research
- Creative
- Production
- Advertising
- Events / shows
- Speakers
- Consultants
- PR
Other

- Facilities
- Supplies
- Licenses
- Capital
  - Systems
  - Software
  - Furniture, etc.
- Regulatory?
Key principles

• The basis of the plan is what you have to accomplish.
• The elements of the plan should tie together and be in support of a strategy.
• The basis of the plan should be your best estimates and include issues of:
  – Time to hire
  – Learning curve, start up issues, etc.
• Forecasts should be based on best available evidence.
• You should continually monitor and make adjustments as necessary.

• Create a plan for the semester and have someone assigned to track your progress!!
Resources

Guidelines for the entrepreneur:
http://www.dukeeven.com/

Program for Entrepreneurs:
http://www.dukep4e.org

Class schedule:
http://www.dukep4e.org/fuqua-program-for-entrepreneurs/fall-2016-schedule