

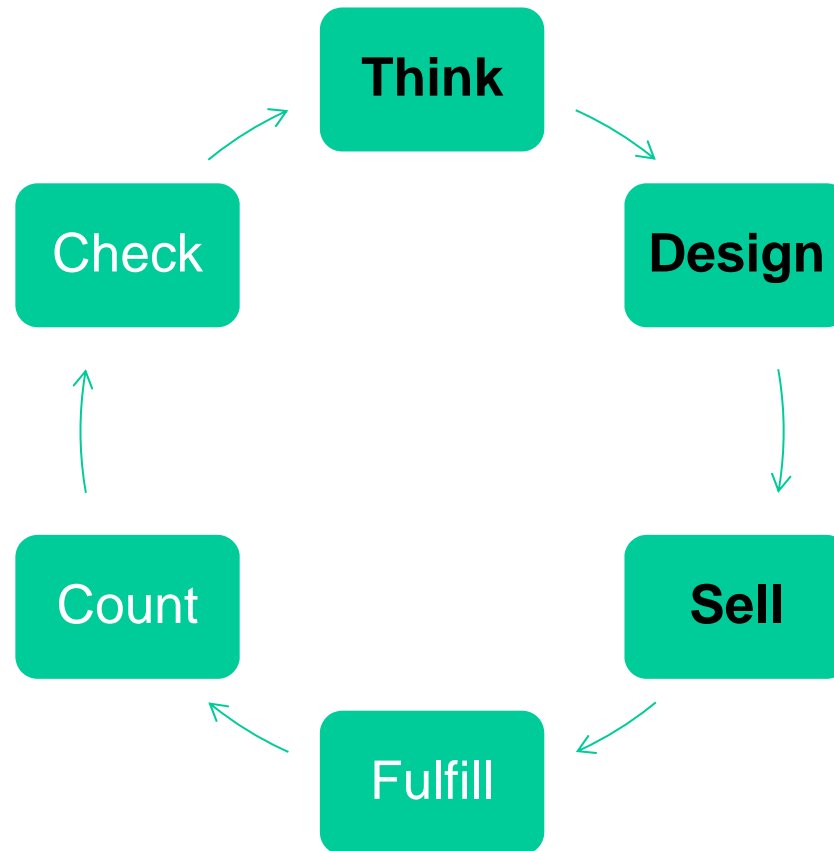


Essentials of Entrepreneurship

Finance



The Sequence





Money & Finance

- Two Sub Topics
 - Finance
 - How do you manage your business finances
 - Revenues, Gross Margin, Net Income
 - Cash Flow, Profitability
 - Financial Statements
 - Income Statement
 - Cash Flow Statement
 - Balance Sheet
 - Funding
 - Venture funding
 - How to seek money
 - Valuation



Introducing **Dilip Shah**



Finance

- Finance “Is life Support System” of any business
- Decisions are made around finance
- CFO of the corporation(s)
 - Always protect margin
 - Always control expenses
 - Always Stay Focus on Plan Revenue



Business Financials

	Gross	Net
Meaning:	The term gross refers to the total amount made as a result of some activity. It can refer to things such as total profit or total sales.	Net (or Nett) refers to the amount left over after all deductions are made. Once the net value is attained, nothing further is subtracted. The net value is not allowed to be made lower.
Employee Salary	Total salary paid to you	Net of taxes



Business Financials

- In [accounting](#), for a P&L (Profit and Loss) statement, Gross profit, or Gross income, or Gross operating profit is the difference between revenue and the cost of making a product or providing a service, before deducting overheads, payroll, [taxation](#), and interest payments. Net profit is equal to the gross profit minus overheads minus interest payable plus one off items for a given time period.
- Gross Profit = Total Revenue – Cost of good sold
- [Youtube link](#)



BHARAT PIZZA FACTORY

- Take an example cost of making one PIZZA
- (Make one Pizza) you need 1/2 pound flour, 1 Tomato Can, 1 Dollar ingredients, 8 Oz. Cheese.
- Break down: $0.50+0.20+0.30 = \$1.00$
- Let us say you sell the Pizza for \$2.00
- Profit is \$1.00 (Provided you had no other expenses)
-
- Gross margin is the ratio of gross profit to revenue.
- $1/2 = 50\%$ margin



PLAN FOR BHARAT PIZZA FACTORY

Company Goal

- BHARAT PIZZA FACTORY WANTS a Net income of 10%

Revenue Goal

- Company believes it can generate 1 million dollar in revenue

Gross Margin Goal

- Company believes it can generate 50% in Gross Margin

Expense Goal

- Company wants to protect its net margin 10%
- Maximum expense it can have (after COG) is \$400,000
- Company has to decide how to spend
- Fixed expense – Rent, Employees, Utility, Technology
- Variable Expenses – Indirect materials, Marketing,
- Capital Expenses (Interest only)



BHARAT PIZZA FACTORY

• Let us say we sold 1 million Pizza @ \$2 each. Here is a 'financial proforma'

• Revenue	\$2,000,000
• Cost of goods	\$1,000,000
• Franchise Fee (8% of revenue)	\$160,000
• Gross Profit	\$840,000
• Gross Margin %	$\$840,000/\$2,000,000 = 42\%$
• Operating Expenses	Year
• Salary – 10 employee on average \$40000/Year	\$400000
• Rent space - 2500/month	\$30000
• Cost of utility – 1000/month	\$12000
• Cost of running delivery service - \$1000 a month =	\$12000
• Interest on PIZZA OVEN AND FURNITURE	\$42,000
• Total	\$496,000
• Net Income (also called EBIT)	$\$840,000 - \$496,000 = \$344,000$
• EBIT %	$\$344,000/\$2,000,000 = 17.2\%$
• Taxes	\$144,000
• Net Income after taxes	$\$344,000 - \$144,000 = \$200,000$
• Net Income after taxes %	$\$200,000/\$2,000,000 = 10\%$

Consistency: You have some lead way to move expenses but it has to be consistent



Another Example

REVENUES

Revenue	\$9,772,509
---------	-------------

OPERATING EXPENSES

Onsite Salary/Benefits	1,064,886
------------------------	-----------

Repairs and Maintenance	596,785
-------------------------	---------

Advertising and Promotion	176,624
---------------------------	---------

General and Administrative	332,905
----------------------------	---------

Utilities	162,770
-----------	---------

Insurance	207,065
-----------	---------

Real Estate Taxes	1,083,394
-------------------	-----------

Management Fees	332,634
-----------------	---------

<i>Total Operating Expenses</i>	<i>3,957,063</i>
---------------------------------	------------------

NET OPERATING INCOME⁽²⁾	\$5,815,446
---	--------------------

Less: Debt Service	(2,852,439)
--------------------	-------------

PROPERTY INCOME AVAIL. FOR DISTRIBUTION⁽³⁾	\$2,963,007
--	--------------------



Pricing

TYE Global Curriculum: Finance 1 Pricing Strategy

Price is one of the four major elements of Marketing Mix. Pricing is an important strategic issue because it is related product positioning. Pricing affects other marketing mix elements such as product features, channel decisions and promotion.

General sequence of steps to develop pricing:

1. Develop Marketing strategy: Perform marketing analysis, segmentation, targeting, and positioning
2. Make marketing mix decisions: Define the product, distribution and promotional tactics
3. Estimate the demand curve: Understand how quantity demanded varies with price
4. Calculate cost: Include fixed and variable costs associated with the product
5. Understand environmental factors: Evaluate likely competitor actions, understand legal constraints, etc.
6. Set pricing objectives: For example, profit maximization, revenue maximization, or price stabilization (status quo)
7. Determine pricing: Using information collected in the above steps, select a pricing method, develop a pricing structure, and define discounts.

These steps are interrelated and not necessarily performed in the above order, but the above list serves to present a starting framework.



Pricing

- Based on this factors let us decide we charge \$10 / Pizza
- How many Pizza's we have to sell to get to 2 Million in revenue
- 200,000
-
- Questions to ask is \$10 right; can we sustain this price
 - Supply and Demand
 - Will their be buyers at this price?
 - How is the economy?
 - Who are my competitors?
 - Would Domino undercut my price and flood the market?
 - What would this do to demand of BHARTA PIZZA brand?
 - Should I reduce my price to participate in price war?
 - How would that affect my revenue?



Costs

- Will I have to control my expenses?
- Will I have to layoff people?
- Can I get my suppliers to reduce cost and still maintain quality?
- What decisions needs to be made to ensure business remains viable

- These are tough decisions one important element as it relates to FINANCE is protecting margin Net or Gross or Both is must to run a successful business.



Start Up Costs

TYE Global Curriculum: Finance 1 Start-up Costs

Every business is different and has its own specific cash needs at different stages of development; Some businesses can be started on a shoestring budget, while others may require considerable investment in inventory or equipment. It is vital to know whether you will have enough money to launch your business venture.

Costs for a startup business can be divided up into six major categories:

1. **Cost of sales:** Product inventory, raw materials, manufacturing equipment, shipping, packaging, shipping insurance, warehousing
2. **Personal fees:** setting up a legal structure for the business (e.g. LLC Corporation), trademark, copy rights, patents, attorney fees for ongoing consultation, drafting non-disclosure agreements etc.
3. **Technology costs:** Computer hardware, computer hardware, printers, cell phones, PDAs, website development and maintenance, high speed internet access, servers, security measures, IT consulting.
4. **Administrative costs:** Various types of business insurance, office supplies, licenses and permits, express shipping and postage, product packaging, parking, rent, utilities, phones, copier, fax machine, desks, chairs, filing cabinets – anything else you need to have on a daily basis to operate a business
5. **Sales and marketing costs:** Printing of stationery, marketing materials, advertising, public relations, event or trade show attendance or sponsorship, trade association or chamber of commerce membership fees, travel and entertainment for client meetings, mailing or lead lists
6. **Wages and benefits:** salaries, payroll taxes, benefits, workers compensation



In Summary

In today's business one has to be finance savvy to keep the engine running

CEO / COO / CFO - Three "C" keep the engine running

Best of LUCK



Introducing Dayakar Puskoor



<http://www.slideshare.net/mobile/dianeding2/dialing-for-dollars-12120672>

<http://www.slideshare.net/mobile/spitaru/pitching-investors-effectively-12943127>

<http://www.slideshare.net/mobile/webgoddesscathy/communication-tools-for-entrepreneurs-how-to-make-your-idea-credible-and-understandable>



Introducing **Roman Kitka**



Presentation

http://tye.nathanresearch.com/?attachment_id=429

Or

<http://tye.nathanresearch.com/wp-content/uploads/TIE-lecture-Sept.-23-2012-Roman-Kikta.pdf>



Examples/Exhibits



Sample Financial Model



Sid Upadhyay



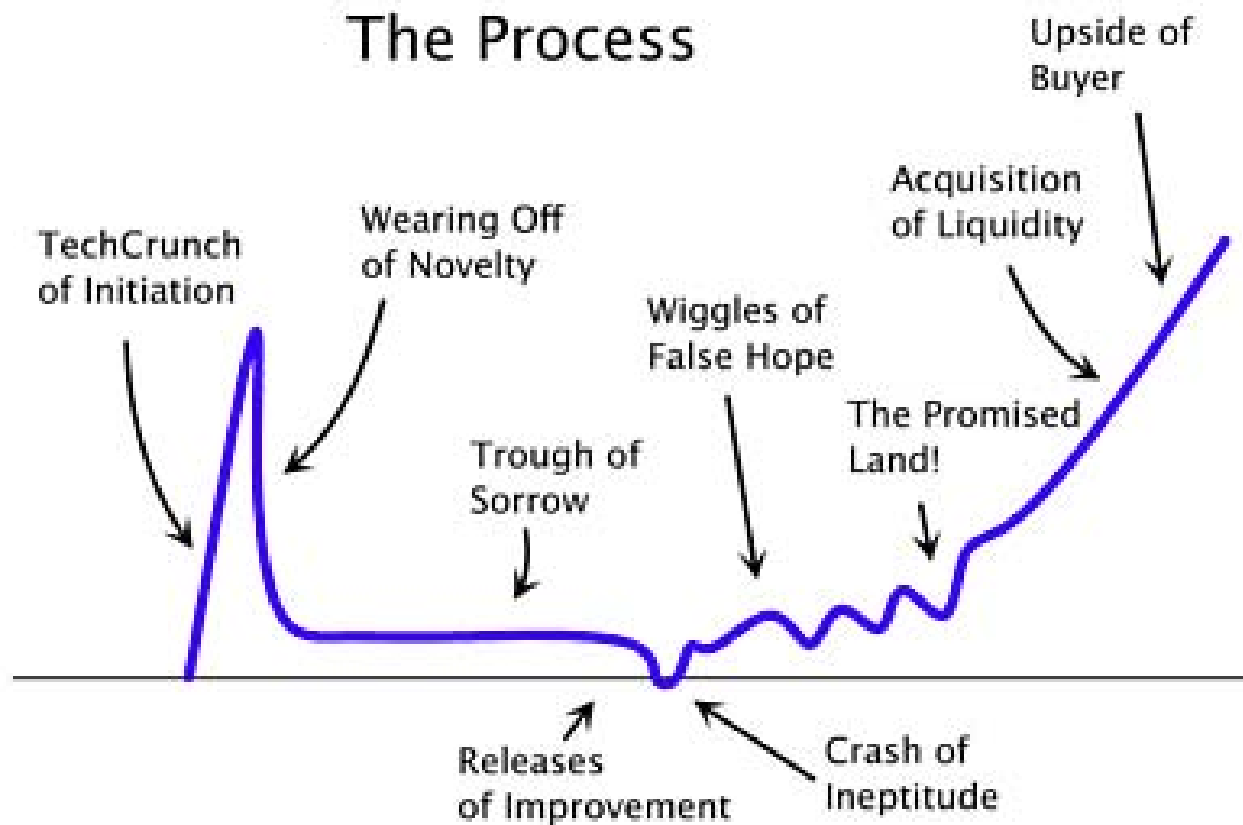
Switching Facebook into Study Mode

Sid Upadhyay, Cofounder & CEO

Sid@hoot.me

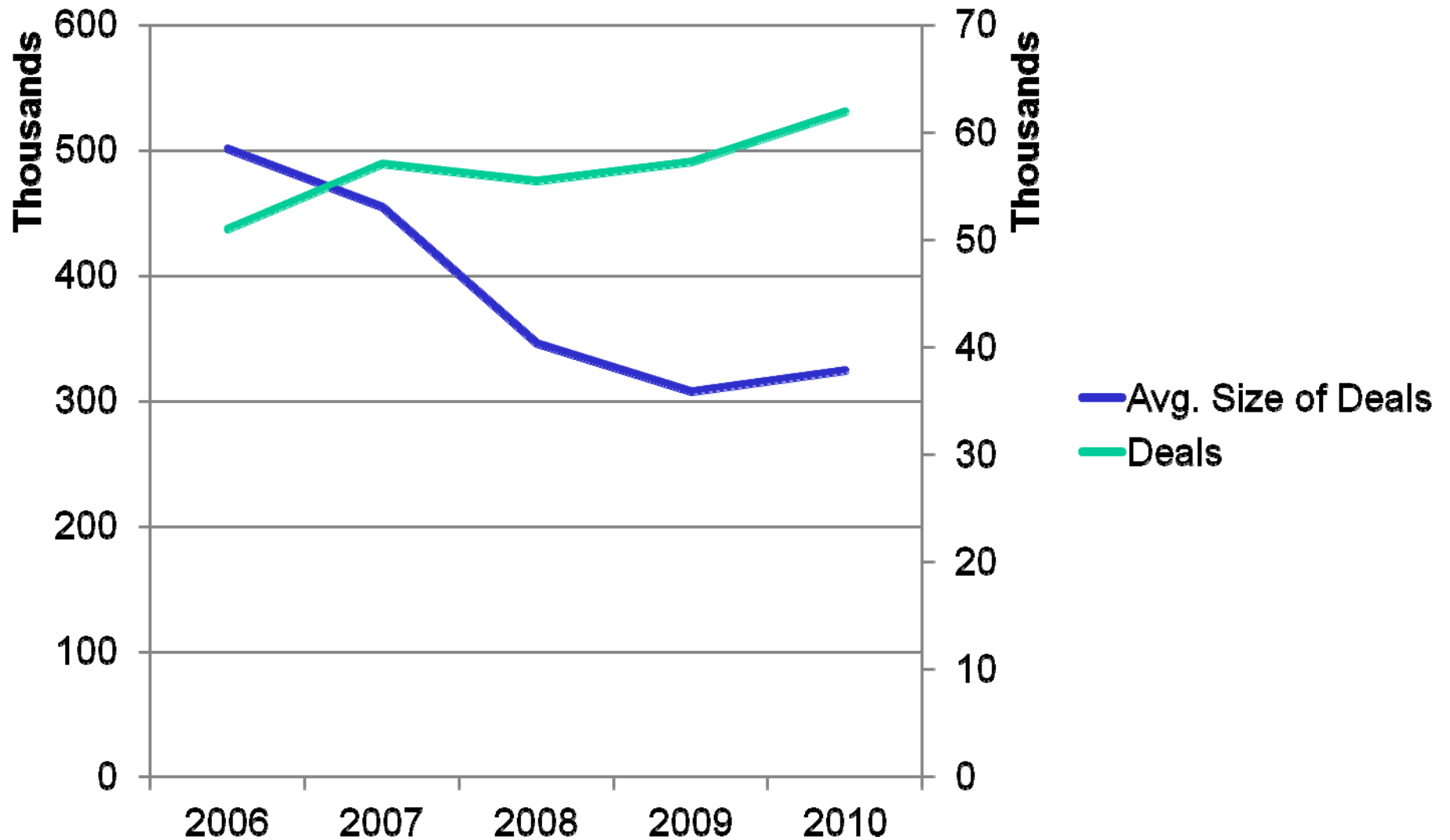
@sid

Startup Finance





Cost of Starting



THE TRANSPARENT TERM SHEET

Below is our economic calculator and [here is our plain English guide](#) to the term sheet.

YOUR PRE-INVESTMENT EQUITY

 %

EXISTING OPTION POOL SIZE

 %

DID YOU RAISE A SEED ROUND?

 YES NO

SERIES A

AMOUNT INVESTED

PREMONEY VALUATION

POSTMONEY VALUATION

LIQUIDATION PREFERENCE

 x PARTICIPATING PREFERRED?

POST-SERIES A OPTION POOL SIZE

 % PRE POST

EXIT VALUE: \$ 20,000,000

YOU

INVESTORS

\$17,391,304

\$2,608,696

- SHARES OWNED -

86.96%

- SHARES OWNED -

13.04%

<http://www.foundersfund.com/termsheet/>



Problem

It's late and you're stuck on calculus



Problem

It's late and you're stuck on calculus



The screenshot shows a Facebook interface with a FarmVille game window on the left and a quiz post in the center. The FarmVille window displays a card game with players like Justin Waldron, Tom Ellis, James Caetho, and Scott Rosseler. The quiz post is titled "Which Harry Potter character are you?" and features a picture of Severus Snape. The post text reads: "David Nielsen These kinds of lame quizzes allow access to your private information AND the private information of all your Facebook friends. Will be posting info on how to stop this here - <http://www.fightidentitytheft.com/blog>". Below the picture, it says "David took the Which Harry Potter character are you? quiz and the result is Severus Snape" and "You are most like Severus Snape. You pride yourself on being able to do things that others can't do and enjoy watching people struggle. You are a know-it-all." The post was made "15 seconds ago" and includes options for "Comment", "Like", and "Take this Quiz". The background of the Facebook page shows a FarmVille game with various farm animals and crops.



Michael Koetting

FAVORITES

News Feed

Messages 5

Events 3

PAGES AND ADS

Create an Ad

Hcot.Me

GROUPS

Hcot.Me Insiders

2012 Spring - 1 S... 1

DreamIt Alumni 5

Hcot -- Dreamit 2

BYX Alpha Chapter 5

Outbox 2

3 Day Startup 7

Add Group...

APPS

Hcot

hoot-staging

AP LifeLine

Washington Post Social ...

Apps and Games 1

FRIENDS

Close Friends 1

3 Day Startup, Inc. 15

MORE

Update Status Add Photo / Video Ask Question

What's on your mind?

SORT



Nabila Abdulhafiz via Carlos Cortés

Please watch this



Why Honor Students Across The Country Are Being Thrown In Jail

www.upworthy.com

Can you imagine going through something like this when you were in high school?

Like · Comment · Share · 37 minutes ago

3 people like this.

Write a comment...



Dave McClure via Emily Chiu

Gates Foundation Announces \$9 Million in Grants to Support Breakthrough Learning Models in Postsec

www.gatesfoundation.org

SEATTLE -- The Bill & Melinda Gates Foundation today announced a \$9 million package of grants that aim to significantly boost the

Like · Comment · Share · 13 minutes ago

2 people like this.



Emily Chiu Thanks Dave! Very excited to be able to finally announce it :)

10 minutes ago · Like

Write a comment...

Katie Kercher's birthday is today

Open Coffee For Entr... on June 21

1 MyCalendar - Birthdays request

People You May Know

See All



Alan Goldstein

49 mutual friends

Add Friend



Paul K. Davis

68 mutual friends

Add Friend



Bryce Holland

3 mutual friends

Add Friend



Nicholas Pachulski

80 mutual friends

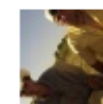
Add Friend



Stuart Salinas

90 mutual friends

Add Friend



Alexander Perotti

97 mutual friends

Add Friend

Facebook © 2012

English (US)

Privacy

Terms

Advertising

Help

More



SpaceX



Michael Koetting

FAVORITES

- News Feed
- Messages 5
- Events 3

PAGES AND ADS

- Create an Ad
- Hcot.Me

GROUPS

- Hcot Me Insiders
- 2012 Spring - 15...
- DreamIt Alumni 5
- Hcot -- DreamIt 2
- BYX Alpha Chapter 5
- Outbox 2
- 3 Day Startup 7
- Add Group...

APPS

- Hcot
- hoot-staging
- AP LifeLine
- Washington Post Social ...
- Apps and Games 1

FRIENDS

- Close Friends 1
- 3 Day Startup, Inc. 15

MORE

Update Status Add Photo / Video Ask Question

What's on your mind?

SORT



Nabila Abdulhafiz via Carlos Cortés

Please watch this



Why Honor Students Across The Country Are Being Thrown in Jail

www.upworthy.com

Can you imagine going through something like this when you were in high school?

Like Comment Share 37 minutes ago

3 people like this.

Write a comment...



Dave McClure via Emily Chiu

Gates Foundation Announces \$9 Million in Grants to Support Breakthrough Learning Models in Postsec

www.gatesfoundation.org

SEATTLE -- The Bill & Melinda Gates Foundation today announced a \$9 million package of grants that aim to significantly boost the

Like Comment Share 13 minutes ago

2 people like this.



Emily Chiu Thanks Dave! Very excited to be able to finally announce it :)

10 minutes ago · Like

Write a comment...

- Katie Kercher's birthday is today
- Open Coffee For Entr... on June 21
- 1 MyCalendar Birthdays request

People You May Know See All



Alan Goldstein

49 mutual friends

Add Friend



Paul K. Davis

68 mutual friends

Add Friend



Bryce Holland

3 mutual friends

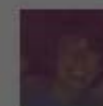
Add Friend



Nicholas Pachulski

80 mutual friends

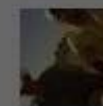
Add Friend



Stuart Salinas

90 mutual friends

Add Friend



Alexander Perotti

97 mutual friends

Add Friend

Facebook © 2012

English (US) Privacy Terms Advertising Help More



SpaceX



0 Notifications

+ Classes & Tutors

ACC 359
LendeckyFIN 357
DuvicMKT 337
DekinderMIS 325
MotePhy 302 Summer 2012
Professor Kopp

Hoot 101

Settings

Connect with your classmates and find tutors to get questions answered.

Calculus



University Of Texas

Ask your classes

M 408K - Radin

Add +

M 408M - Berg

Add +

M 408C - Frank Shirley

Add +

M 408 N - kalahurka

Add +

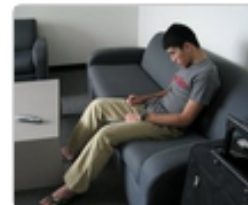
M408D - Allcock

Add +

Ask a tutor

**Austin Comer**
Calculus, Chemical Engineering, Differential Equations, Economics, Chemistry, Programming

Add +

**Paul Nguyen**
Calculus, M 408K, M 408L, M 408C, M 408N, M 408S, M 325K, CS 312, CS 314, CS 303E, CS 313E, CS 313K, Computer Science

Add +



0 Notifications

+ Classes & Tutors

ACC 359 Lendecky

FIN 357 Duvic

MKT 337 Dekinder

MIS 325 Mote

Phy 302 Summer 2012 Professor Kopp

Hoot 101

Settings



Phy 302 Summer 2012 - Professor Kopp

Video Chat ON

Link https://app.hoot.me/?

add equation record doodle upload images help (?)

Can you help me with 'integral 6x^2 dx' ?



You asked: Can you help me with $\int 6x^2 dx$?

Auto Detect Questions

Mark as question ON Post

Chat Questions



Nathan E answered: There is a prelab due. The due date was accidentally set to Friday instead of the normal lab time. @22

yesterday



Maddie C: Once we've done that, we perform the shift just like we would with any other graph. Since the -3 is in the exponent with the x, it means that we have a horizontal shift. And remember that if we're subtracting from the x, it means that we're shifting to the right. So our final graph would be



 add equation  record doodle  upload images help (?)

Can you help me with 'integral $6x^2 dx$ ' ?



You asked: Can you help me with $\int 6x^2 dx$?

Auto Detect Questions

Mark as question

Post

Chat **Questions**

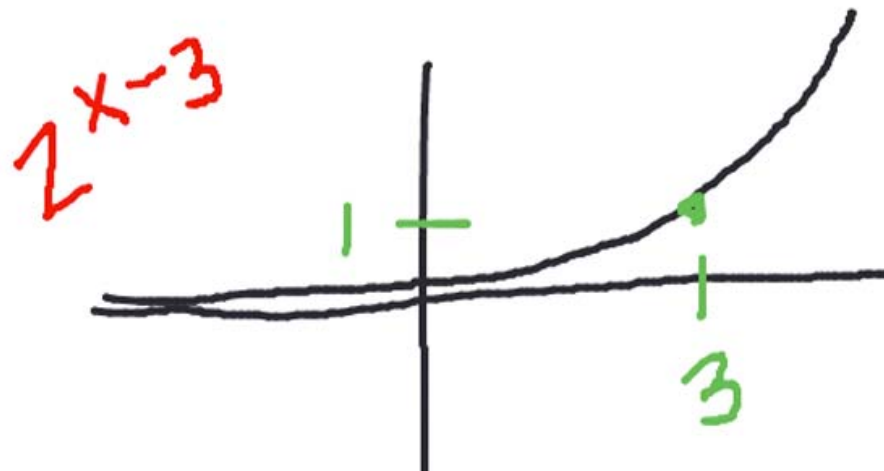


Nathan E answered: There is a prelab due. The due date was accidentally set to Friday instead of the normal lab time. @22

yesterday



Maddie C: Once we've done that, we perform the shift just like we would with any other graph. Since the -3 is in the exponent with the x, it means that we have a horizontal shift. And remember that if we're subtracting from the x, it means that we're shifting to the right. So our final graph would be





0 Notifications

+ Classes & Tutors

ACC 359
LendeckyFIN 357
DuvicMKT 337
DekinderMIS 325
MotePhy 302 Summer 2012
Professor Kopp

Hoot 101

Settings

Connect with your classmates and find tutors to get questions answered.

Calculus



University Of Texas

Ask your classes

M 408K - Radin

Add +

M 408M - Berg

Add +

M 408C - Frank Shirley

Add +

M 408 N - kalahurka

Add +

M408D - Allcock

Add +

Ask a tutor

**Austin Comer**
Calculus, Chemical Engineering, Differential Equations, Economics, Chemistry, Programming

Add +

**Paul Nguyen**
Calculus, M 408K, M 408L, M 408C, M 408N, M 408S, M 325K, CS 312, CS 314, CS 303E, CS 313E, CS 313K, Computer Science

Add +



0 Notifications

+ Classes & Tutors

ACC 359
LendeckyFIN 357
DuvicMKT 337
DekinderMIS 325
MotePhy 302 Summer 2012
Professor Kopp

Hoot 101

Settings

Connect with your classmates and find tutors to get questions answered.

How this works ✕

Subscribing will give you access to Austin Comer's session anytime for the next month. You can even ask questions when Austin Comer is offline. At the end of the month, you'll have the option to renew.

**Austin Comer**

Chemical Engineering, Differential Equations, Economics, Calculus, Chemistry, Programming

\$15.00 06/19/2012 - 07/19/2012Already a WePay user? [Sign In](#)

Credit Card Info

 / 

Billing Address

State 

WePay Secure Payments



Exercise

Pitch Fest