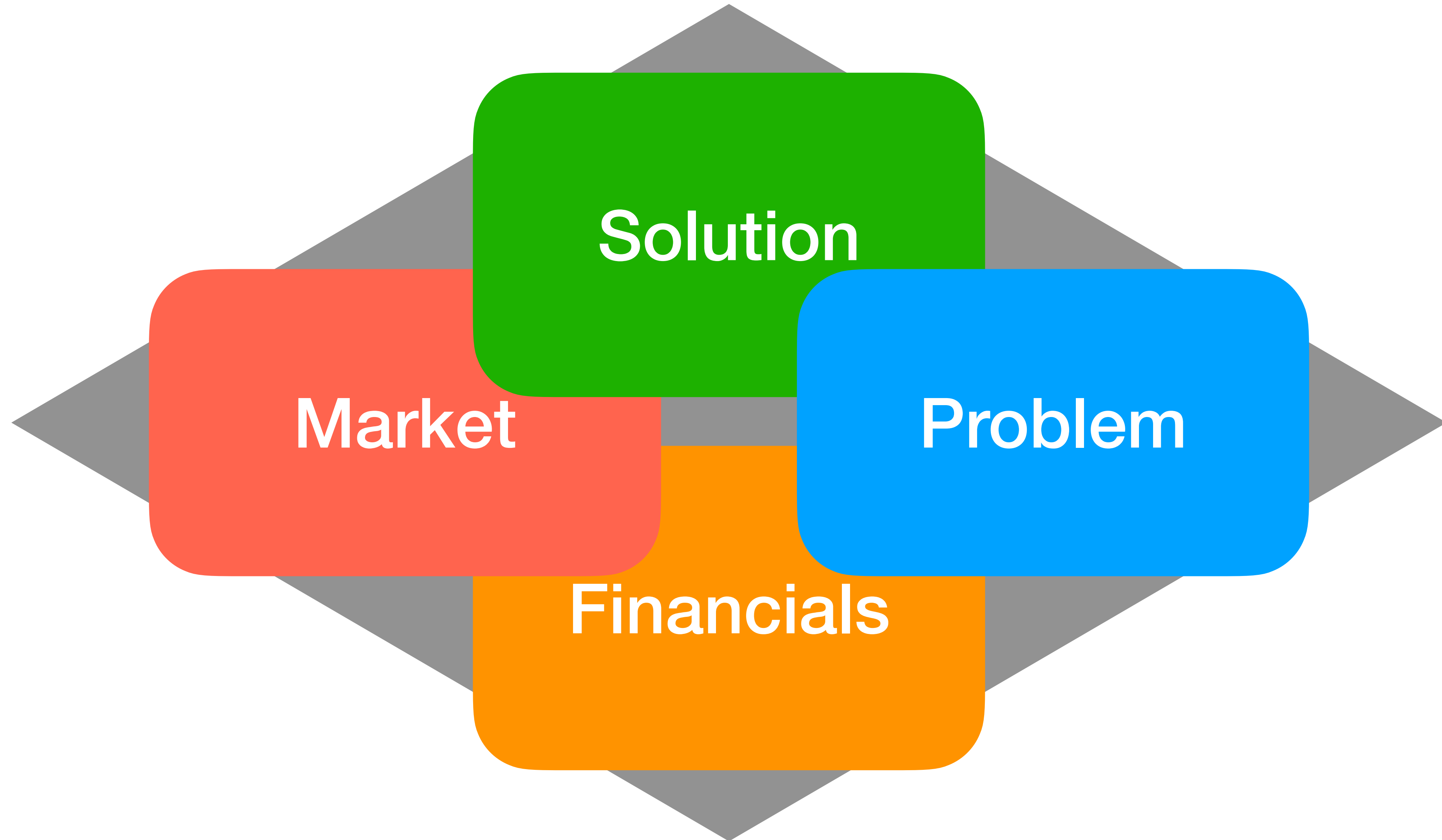


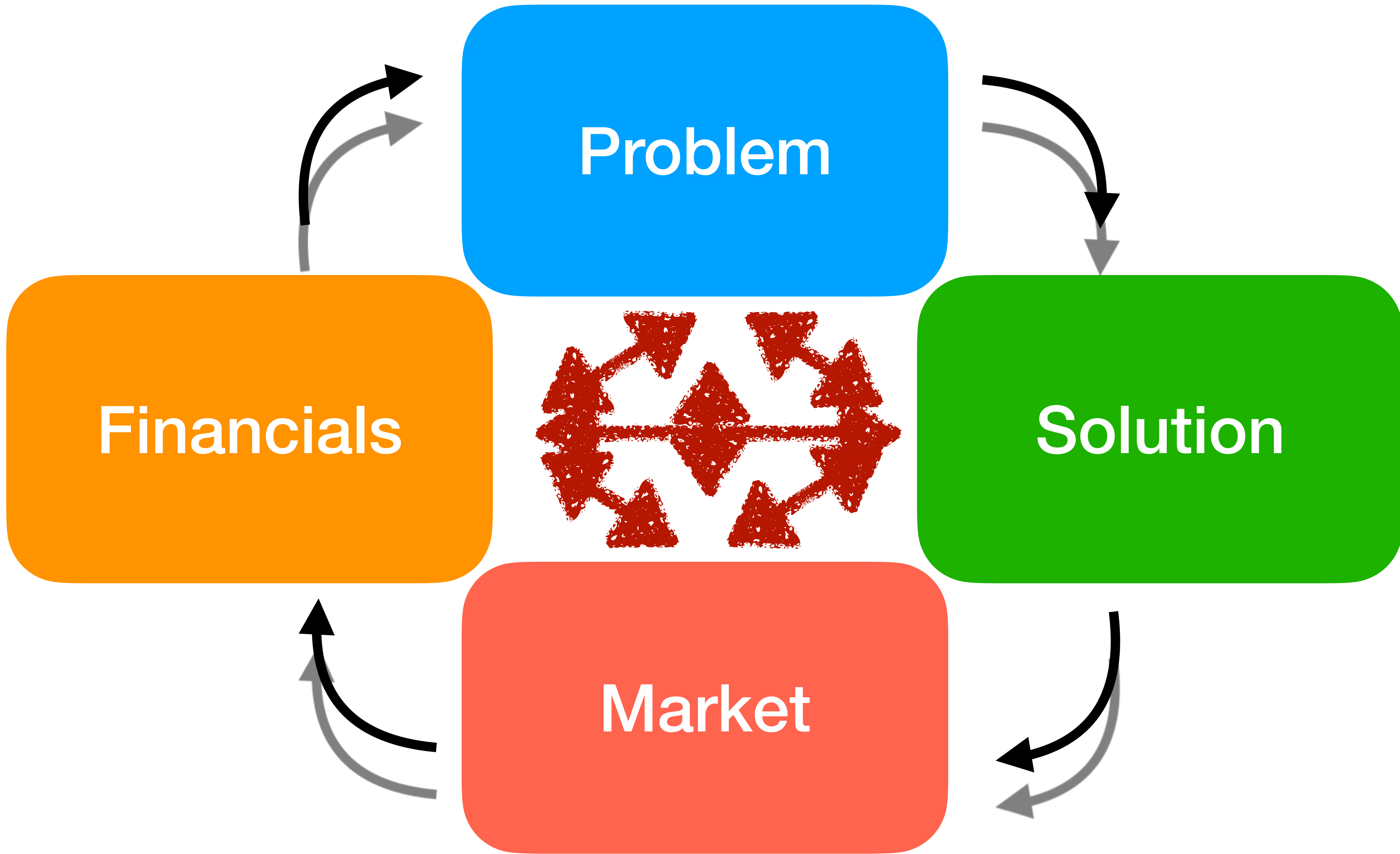
# Financial Planning

Putting in numbers all you said you would do!

As you remember well, these are the 4 pillars of your Startup Project



You also know that the 4 pillars of your start-up are inter-related, you just have the opportunity to present them one at a time in preparation for the final pitch



# The Financial Planning is now the centre of your presentation



“plans are nothing, but planning is everything”

*Dwight Eisenhower*

# Topics

- Planning is an Activity, not a Result
- Planning has an Internal by-product, the Plan
- Planning has an External by-product, the Plan
- Single Process
- Planning vs Control Documents
- The Acquisition Process
- Planning dimensions - Time and Activities

# Planning is an Activity, not a Result

- Planning IS an activity, it is not to come up with a result “The Plan”.
- The purpose of this activity is for all members of the team to rehearse a complex move over a coming period so that all partners will act in a concerted fashion so that a desired result (Market Share, new products, Profit, etc ...) will be achieved.
- What is important is not to have A polished Plan, but a well exercised series of reactions and cooperations that have been opposed, conflicted or paralleled with each other to test if they would advance harmoniously or in chaos.

# Planning is an Activity, not a Result

- Analogies abound...
- The so-called jazz improvisations that are heard for the thousandth time are the result of real improvisations that over time fused into a general music line together with a series of memorized variations/responses.
- Each musician has tried some variations on his instrument with the rest of the band to test that they would go down well with the rest of the players.
- Then, on any given concert, depending on the ambience, improvisations could be initiated by one musician and harmonious responses would come from the others.
- There is no Plan left on paper, no music partition, just a common understanding and ability to react in a pre-concerted fashion.



# Planning is an Activity, not a Result

- Same goes in American football with a series of planned moves that have been practiced together with responses to competitive moves.
- Same in soccer with some attacking practices or free “kicks” patterns.
- There is no paper, just a team that has, IN ADVANCE, thought through how it would react, as a team, to changing conditions.

# Planning is an Activity, not a Result

Same goes in business, the general line (The Plan) is unlikely to be achieved as written, but if the planning activity has been exercised well then the team members will allow their company to improvise a team variation, as response to the Market (the Ambience) that will deliver progress equivalent, not identical, as was initially planned.

# Planning has an **Internal** By-Product, THE PLAN

- Companies have a team usually larger than a band of a football team, geographically spread and playing personnel playing more different roles than in a band or a sport's team.
- The PLAN needs to be declined in a series of instructions specific to a particular function, operating unit or subsidiary so that everyone understands how his role will fit in the overall direction the company wants to follow.
- Reactivity imposes that those who generate these instructions on the basis of the company Plan explain that the objective is to understand **how** a particular unit will contribute to the overall ambition of the company, not to follow the instructions to the letter.
- As real business conditions unfold each unit will see its marching orders adapted as a result of quarterly forecast review and monthly adaptation.

# Planning has an **External** By-Product, THE PLAN

- The Plan is also the vehicle describing the Objectives and planned results of the company.
- It is the tool that is used with potential investors and some other key business partners to provide perspective on the company in the coming years to enable them to enter into a long-term business relation, be it sales, supplies or investment.

# Planning is a Single Process

- Reconciliation, reconciliation, reconciliation is not a process, it is a substitute to arrive finally at some final document from individual personal documents that may have some link with each other.
- At best it is an inefficient and nerve-wracking way to assemble numbers and supporting text (or the other way-around).
- At worst – most often – it is not only inefficient and lengthy, it is also prone to be filled with errors, and will never be reused for all participants will be left with unhappy memories of the process.
- The next exercise will see again this pattern starting from scratch.

# Planning is a Single Process

- Planning for the long, medium and short term should be understood as being a single common process and end product, in which each participant will contribute a share by taking care of a slice of this common endeavour so that the end product is complete without duplication, omissions and conflicts, and not a compilation/reconciliation of different pieces of music.

Is this the way it takes place in your company?

# Planning vs Control Documents

- A music composer (classical, not techno) writes a partition for an Allegro, then an Andante which is very precise, yet he does not write in precisely what the conductor shall do in a concert between the two movements.
- At the end of the Allegro the Conductor will pause for breath, let the audience sneeze and cough, and allow the late-comers to find their seat.
- Occasionally he will pause further if the winter has wreaked havoc with throats, doors are banging or someone has fallen through his chair and needs to find a solution. Then he will start the Andante.

# Planning vs Control Documents

- Similarly the CEO will decide **when** to start playing some of the music that has been written in the budget and specifically in this analogy, when he will release the Purchase Orders that everyone has been anxiously waiting for.
- Clearly the Budget, describes the planned expenses and expenditures if, say, Sales come on schedule. IF they don't, THEN the expenses should take place as budgeted either. There is a need therefore for a control process to make sure that expenses are in reasonable sync with the revenues. This is the Authorization process. It applies to any type of engagement whether it is for another trip to the Far-East, a new Tester, an additional engineer, or an extension/expansion of Office lease.



# Planning vs Control Documents

- For this to work in companies that get larger, some of that function can be discharged through distributed budgets of limited scope and size (“you can engage the company on these type of expenses only and up to so much per quarter”).
- Others, typically headcount, leases, major equipment remain centralized.

# Planning vs Control Documents

One word of realism:

- Companies plan their long term, budget their medium term and pilot their short term.
- If business weather appears to turn bad Management may well cut off authorizations that have been given but not yet spent so as to preserve cash outgoings.
- This is not “Tough luck”, it is only proper and should not be a cause to spend an authorization as fast as can.

# The Acquisition Process

Whatever the company purchases can fall into 4 categories that will be managed differently:

- Services (legal, HR, accounting, others directly related to sales)
- Major Investments (say, a Tester)
- Minor Investments (say, a new Desktop PC)
- Expenses

# The Acquisition Process

- Services directly related to sales are usually managed as a separate budget for which Authorization are obviously controlled on the basis of sales contracts, therefore delivery obligations, therefore production request and contracting therefore.
- Management of this budget is delegated to the person in charge of making such production happen. They are budgeted as a proportion to relevant sales.
- The control filter is “are the sales taking place?”

# The Acquisition Process

- Major investments need be defined in the Budget, or significant revisions of the Forecast, and will usually be authorized one by one by the General Manager. The control filter is “was this specifically budgeted for? {list}”
- Minor investments can be budgeted and executed in a decentralised manner by “budget owners”. Those will have full discretion to spend these funds on investments. Investment funds cannot be substituted for expenses and, usually, whatever has not been engaged in a quarter is not carried forward to the next (if not engaged within three months, was it such a priority?). The control filter is “Are there any funds left in the allocation to this Budget Owner?”

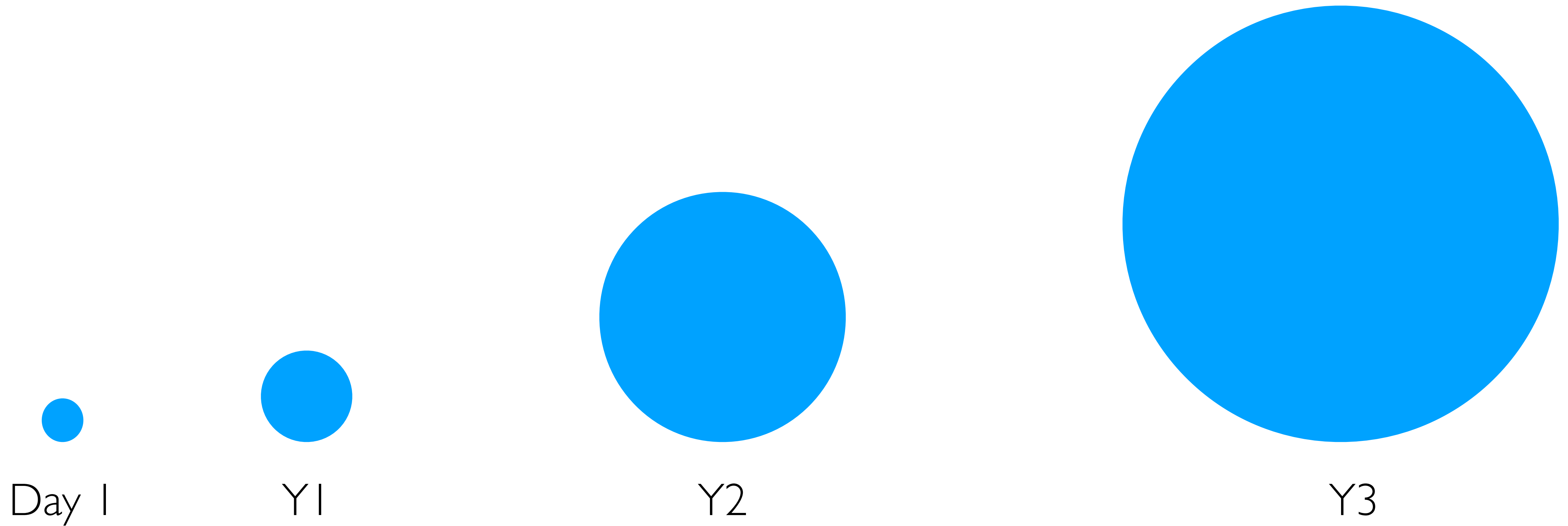
# The Acquisition Process

Expenses come under two kinds:

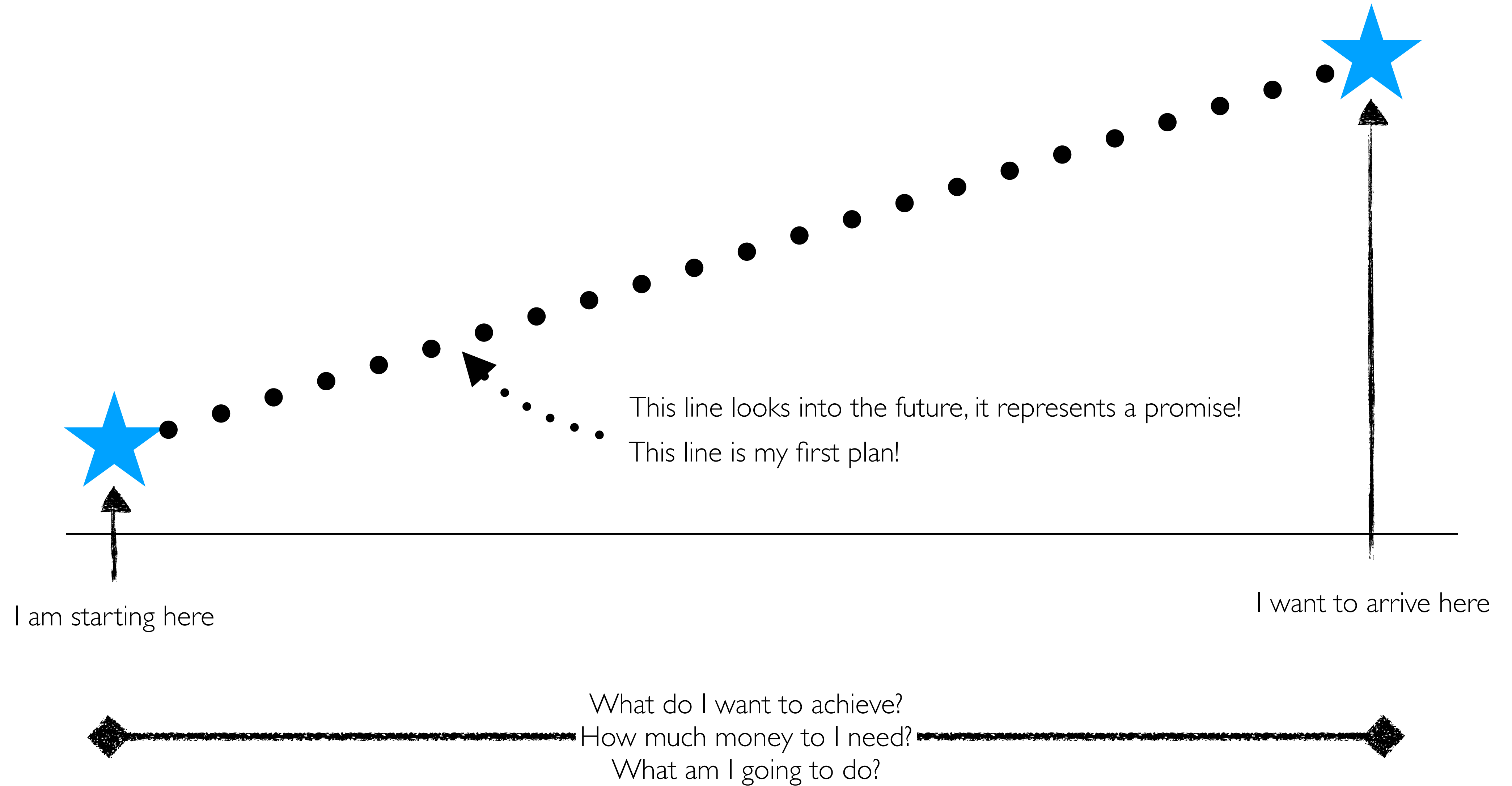
- contractual recurrent (CR), one-off. CR (rent, cleaning, telephone services, etc.) are amounts well known in advance, budgeted precisely for, obligated under a long term contract and therefore authorization/commitments are few and far between. They are usually managed by delegation to a Facilities Manager. The control filter is “was this specifically budgeted for? {list}”
- One-off (travel, conferences, printing data sheets) are budgeted in a mixed mode (“Itemized: This department needs 1 trip per quarter to the Far-East, 3 to Porto, etc. cost is xxx, plus statistically: some other expenses that historically have run at 20% of manpower cost.”). The itemized will be filtered against the budget list. The statistical are then a small portion of the total and the control gate is by Authorization level: the Budget Owner can engage up to 1,000 Euros, above it requires the approval of the General Manager. The latter feel for the level of such authorizations, plus the monthly report from the employee issuing Purchasing Orders (only one such person can do that) affords sufficient control on the spending level in this pocket of expenses.
- In order for these different controls to take place as outlined above some specific steps need to have been taken at the budgeting process and certain instruments (GM approved Budgeted List of Items, Purchasing Requisition, Approval procedure, Purchasing Order, Purchasing Report)

# Planning

A Start-up, a company, is a living entity... they all start small... and they grow... and grow...  
and they can die too... small or big, they die...

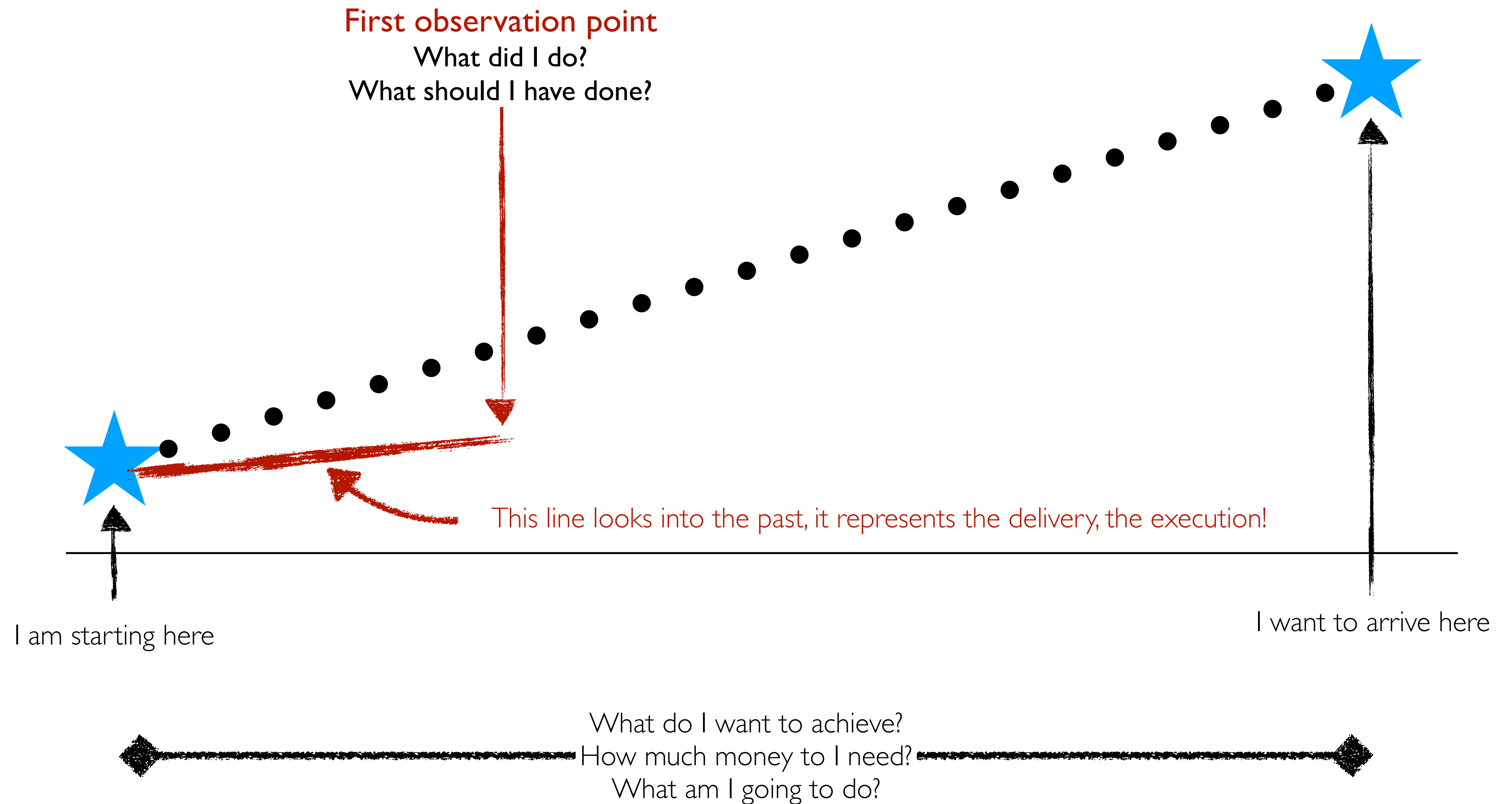


# The Planning Process - 1st Plan

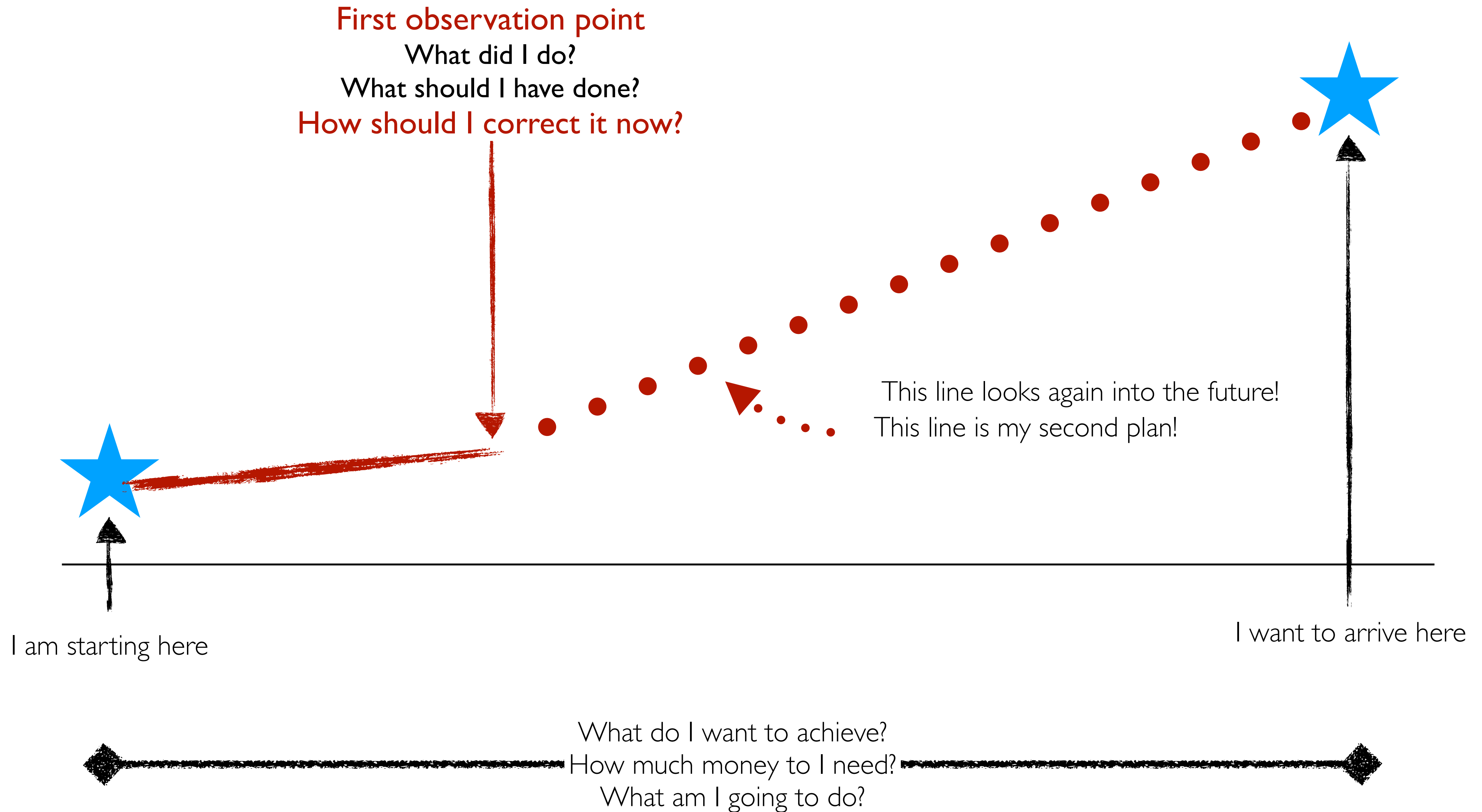




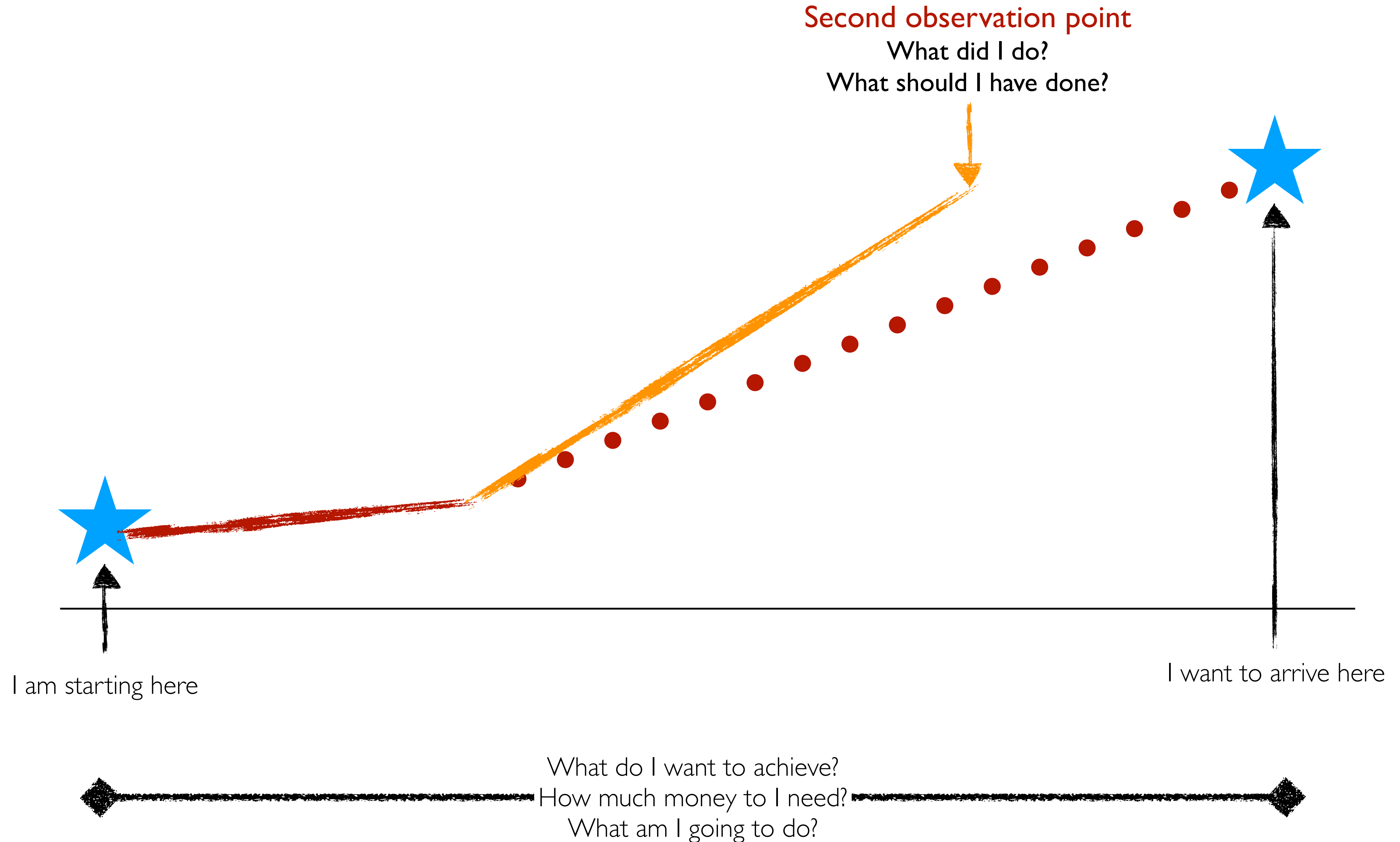
# The Planning Process - Execution of the 1st Plan



# The Planning Process - 2nd Plan



# The Planning Process - Execution of the 2nd Plan



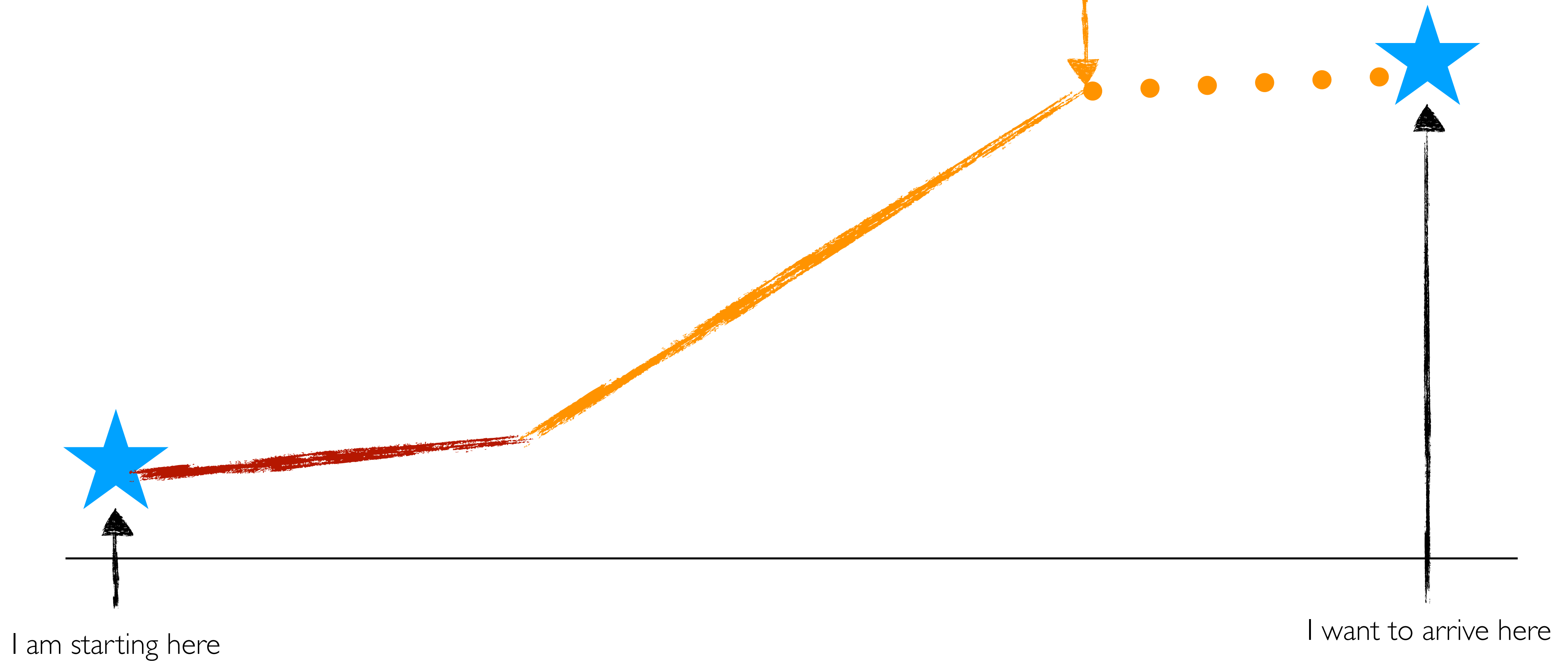
# The Planning Process - 3rd Plan

Second observation point

What did I do?

What should I have done?

How should I correct it now?



I am starting here

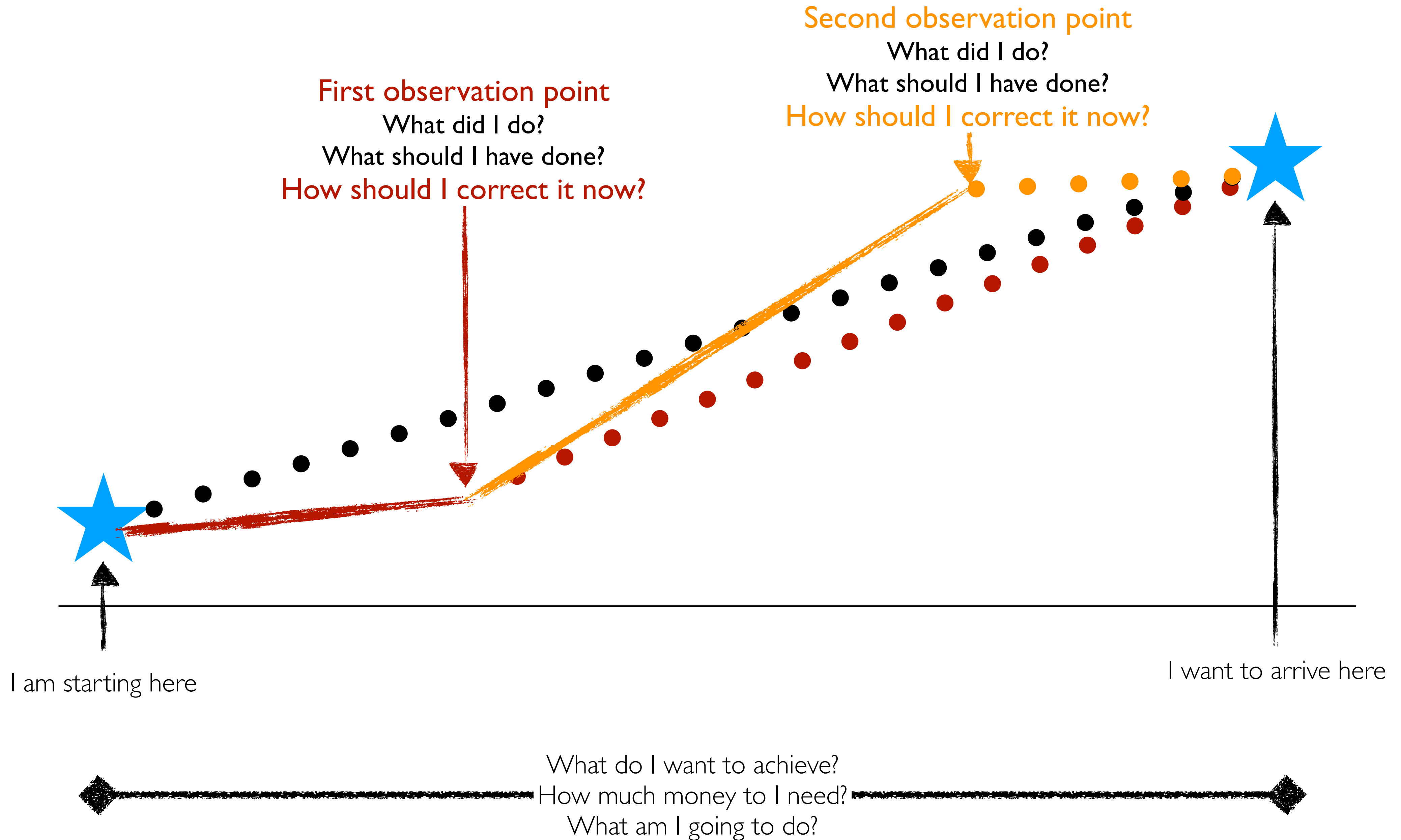
I want to arrive here

What do I want to achieve?

How much money to I need?

What am I going to do?

# Planning at Work



# Planning Dimensions

Planning is about:

- Project the evolution
- Monitor the execution
- Correct the trajectory

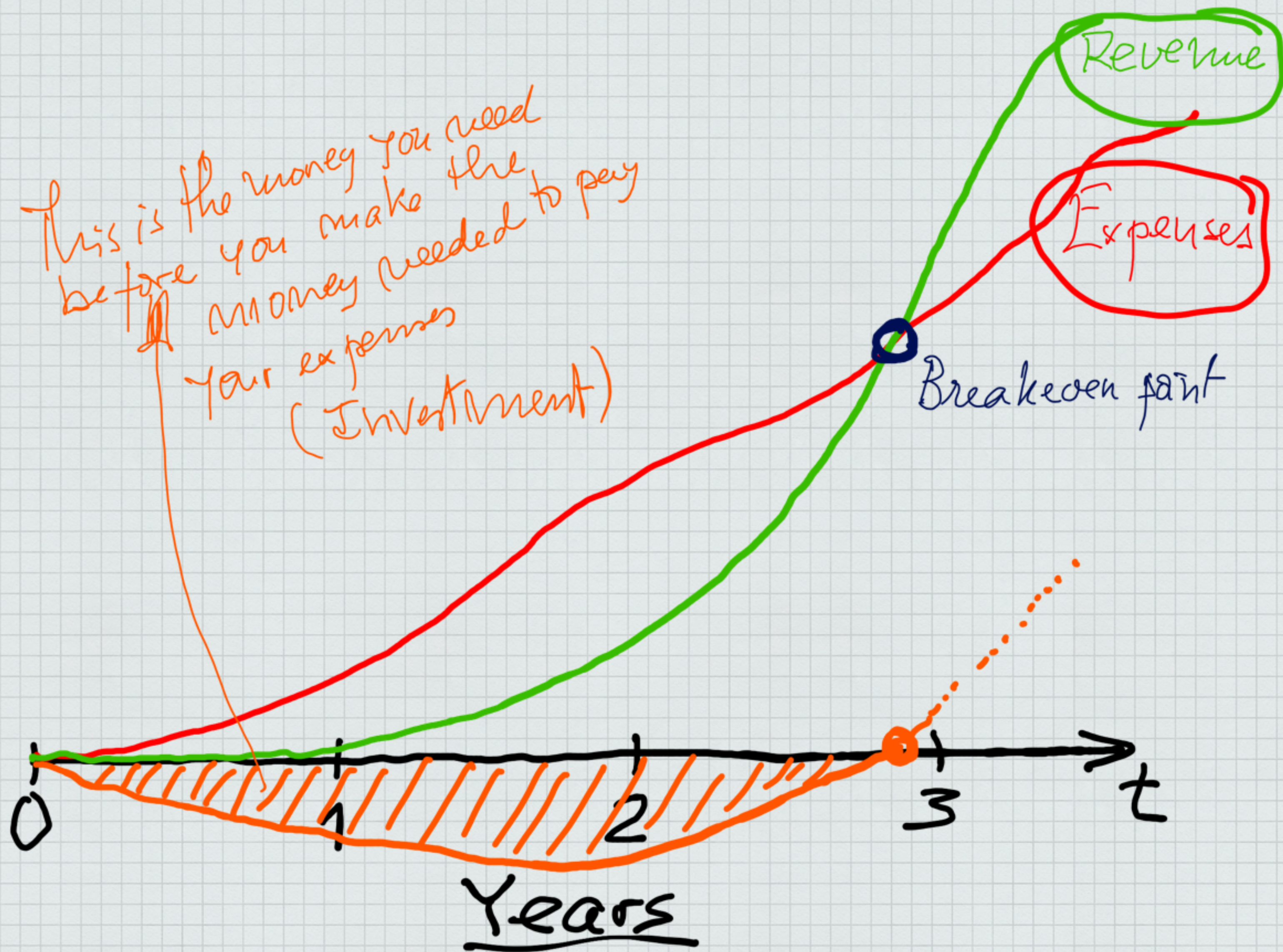
.....  
Here, at EITT, you just need to do the **easier thing**: project the evolution...

# Planning Dimensions

*Time*

*Activities*

# Planning Dimensions

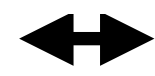




# Planning Dimensions - Time

Resolution is higher when planning is closer  
Resolution is lower when planning is further away

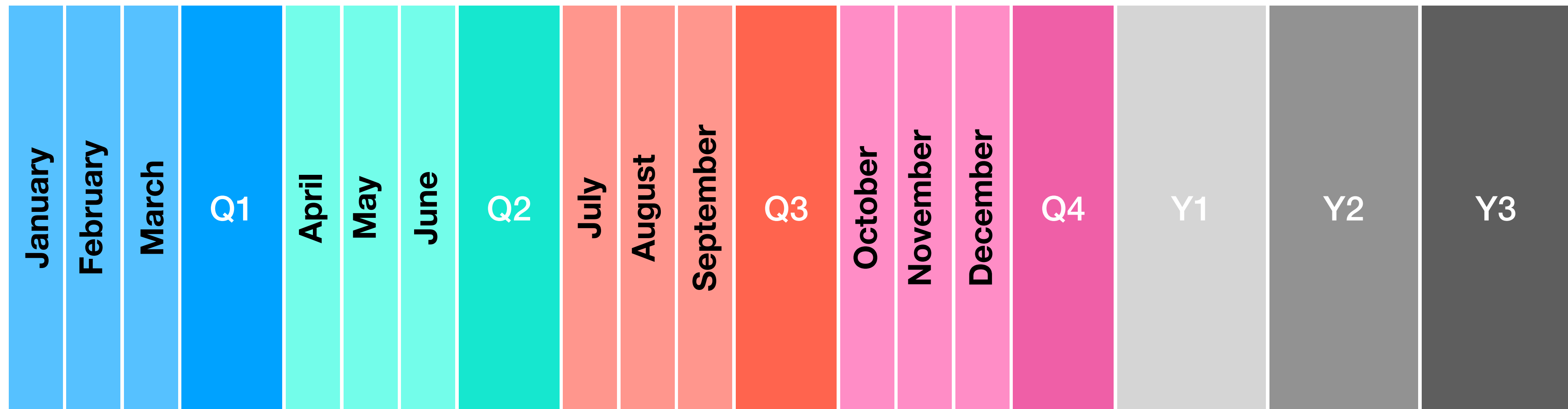
**Month Plan**



**Quarter Plan**



**Year Plan**



**3-Year Plan**

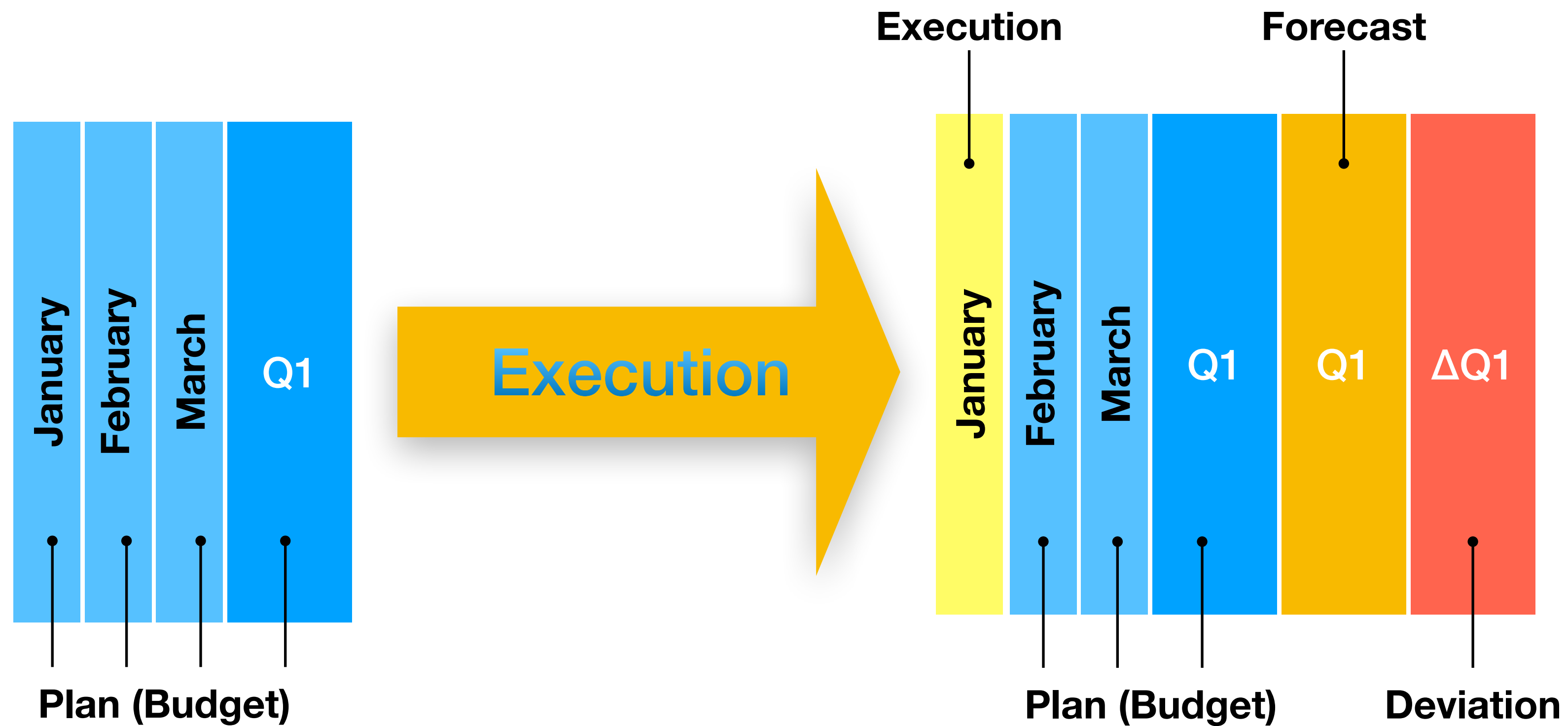


# Planning Dimensions - Time

The First Plan is written in granite!

Execution is fixed, when done!

Replanning keeps changing!



# Planning Dimensions - Activities

Before you do the financial planning, it is fundamental you clearly and fully describe all the activities your start-up will develop to come to life and grow!

- You have to think about the materials, components you may have to buy
- You have to think about the IT hosts you may have to have
- You have to think about the memory you may need
- You have to think about the people you may need, engineers, technicians, sales people, etc.
- You have to think about the equipment you may have to buy
- You have to think about the office space you may have to rent
- You have to think about the transport services you may have to outsource, pay for
- Etc. etc. etc.
- In a nutshell, you have to think about how do you bring to life your start-up and make it grow over time
- It is the full set of activities, people, equipment, services, etc. that define the existence of your start-up that will determine your financial plan!

# Planning Dimensions - Activities

What do I sell? Who are my customers? How much do I sell?  
What do I need to make what I sell? Who are my suppliers?  
Who are my partners?

How much money do I make from what I sell?

How much money do I need to make what I sell?

What are the Engineering (R&D) Costs?

What are the Sales Costs?

What are the General Costs?

What are the Administration Costs?

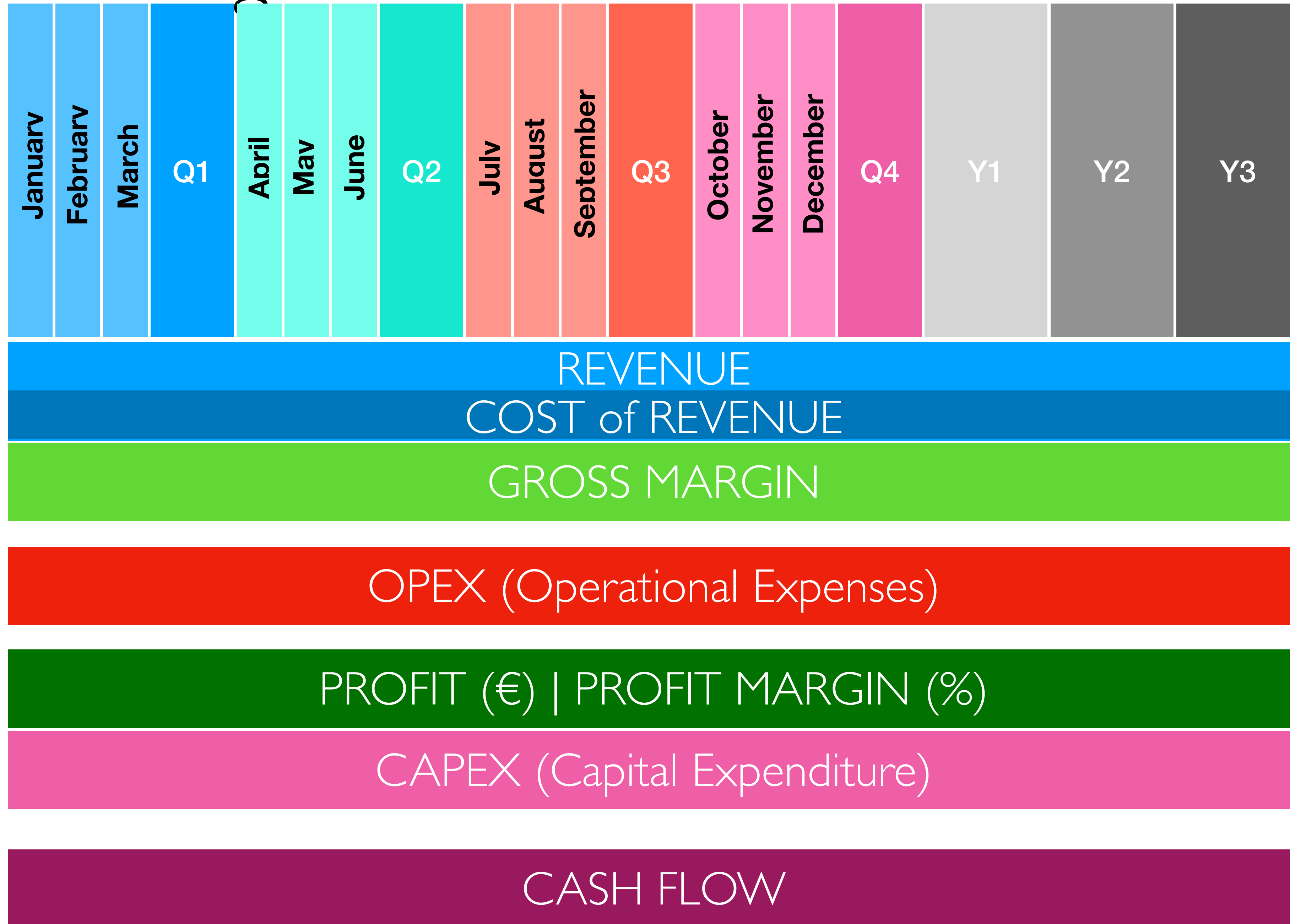
What is the equipment I need?

Do I buy? Do I rent?

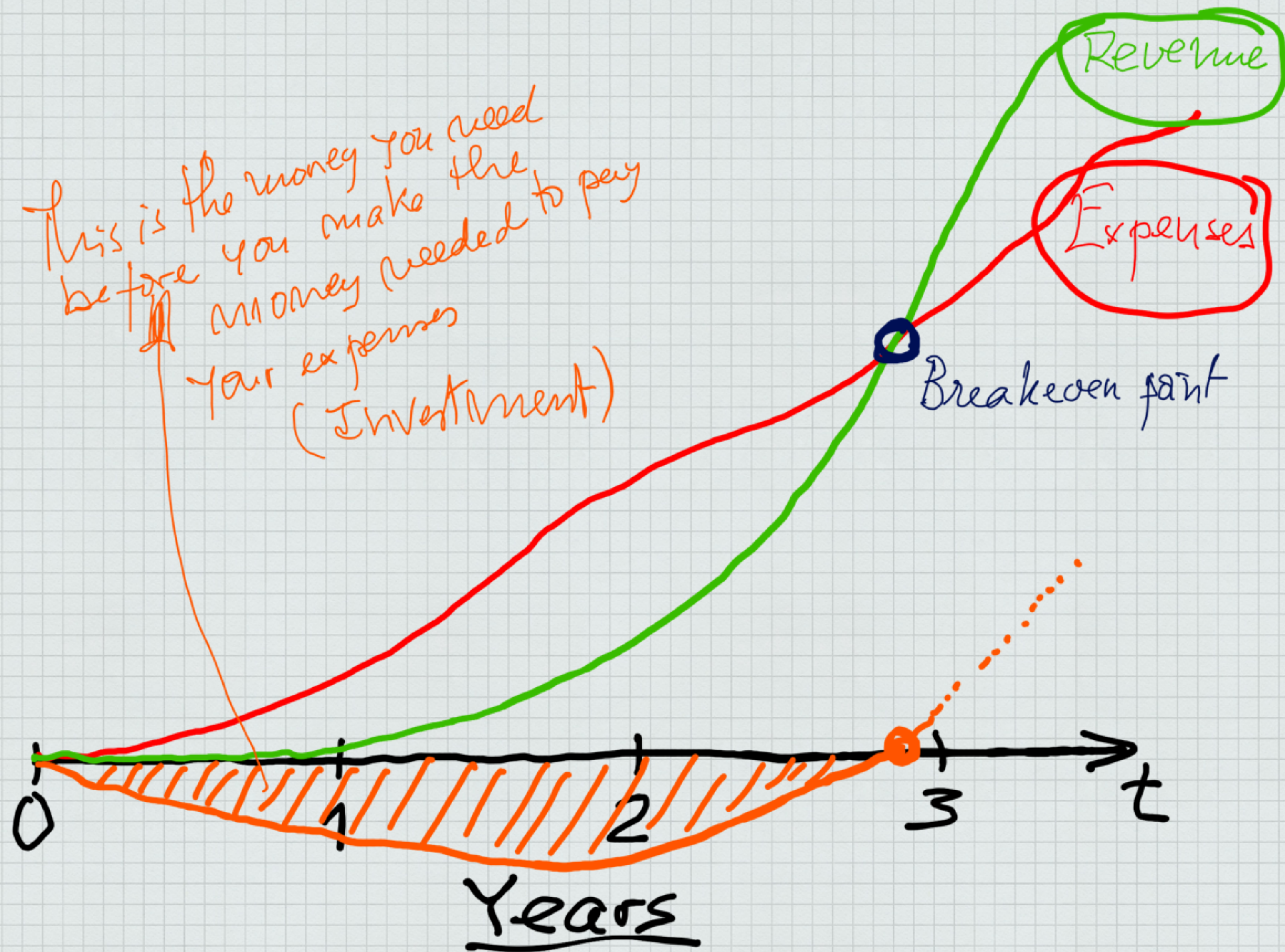
# Planning Dimensions - Activities



# Planning Dimensions - Time & Activities



# Planning Dimensions



# Useful Links

**11 Killer Free Tools to Launch and Build Your Startup**

<https://www.entrepreneur.com/article/247361>

**The 30 Best Startup Tools & Resources to Grow Your Business**

<https://www.cloudways.com/blog/best-startup-tools/>

**Top 10 Best Tools for Startups in 2020**

<https://gloify.com/blog/best-tools-for-startups/>

**4 Tools for Entrepreneurs to Simplify Financial Planning**

<https://www.startupgrind.com/blog/4-tools-for-entrepreneurs-to-simplify-financial-planning/>



# Useful Links

## **Free Startup Plan, Budget & Cost Templates**

<https://www.smartsheet.com/free-startup-templates>

## **Financial Model Template for startups**

<https://slidebean.com/financial-model-template-for-startups>

## **Financial Modeling for startups: the spreadsheet that made us profitable**

<https://slidebean.medium.com/financial-modeling-for-startups-the-spreadsheet-that-made-us-profitable-b0f1f1e3c1bb>