

Financial analysis of your start-up company

Seminar «The practice of entrepreneurship»
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Overview

- **Modelling your business using the “Business Model Canvas”**
 - Introduction: Why, how?
 - **Example**
 - **Recommendations**
 - **Your own project**
 - **Discussion**
- Financial analysis of the business Model
 - Introduction, How-to
 - Your own project
 - Discussion
- Financing your startup in switzerland
 - Lecture
 - Discussion

Modelling your business – why?

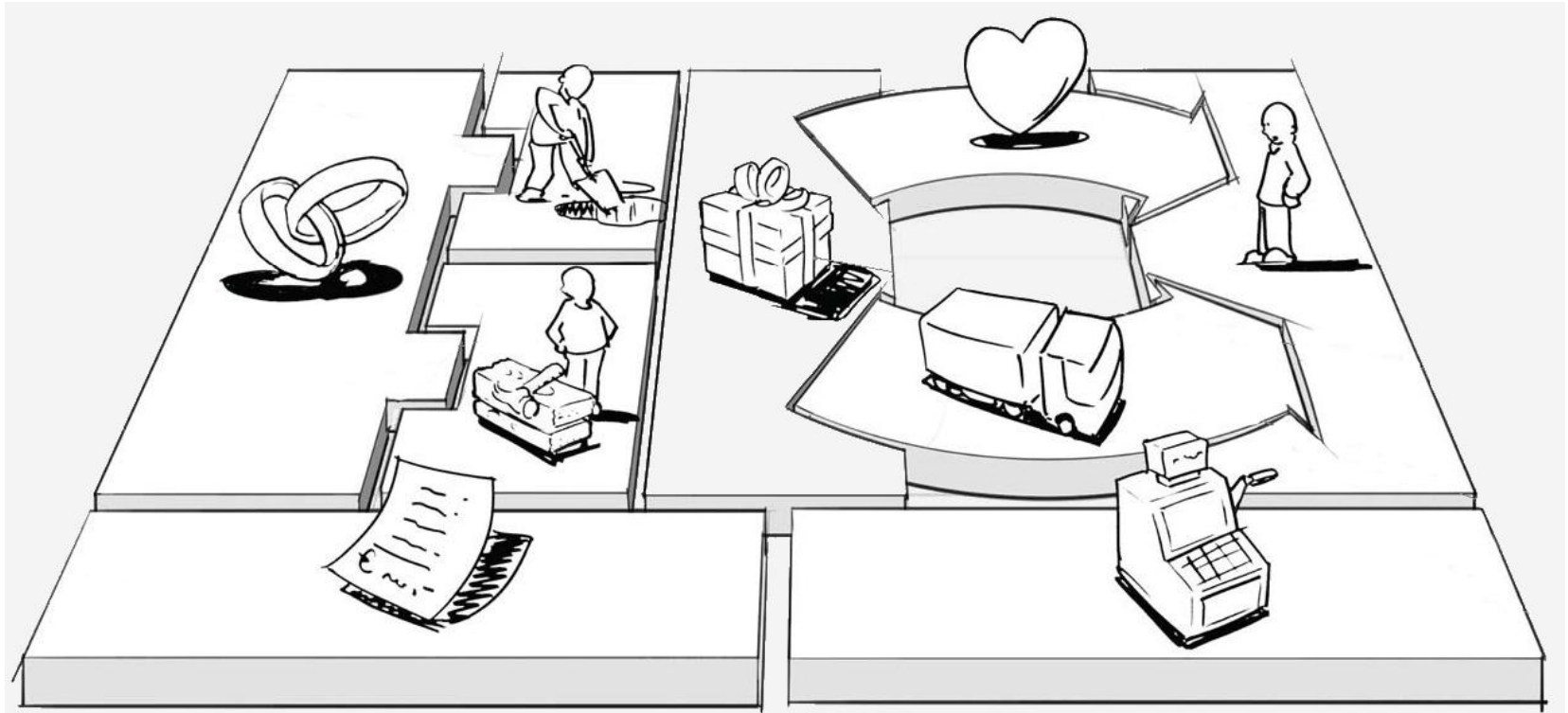
- Model => basis for:
 - understanding, designing, optimizing your business system
- Key factors:
 - Customer segmentation
 - Value for your customers
 - Customer relationships
 - Distribution channels
 - Operations
 - Revenues

Further reading

- Zott / Amit / Massa, The Business Model: Theoretical Roots, Recent Developments, and Future Research, IESE Business School, University of Navarra, June 2010,
<http://www.iese.edu/research/pdfs/DI-0862-E.pdf>
- Osterwalder, The Business Model Ontology - A Proposition in a Design Science Approach, Université de Lausanne, 2004,
http://www.hec.unil.ch/aosterwa/PhD/Osterwalder_PhD_BM_Ontology.pdf
- ...

The “Business Model Canvas”:

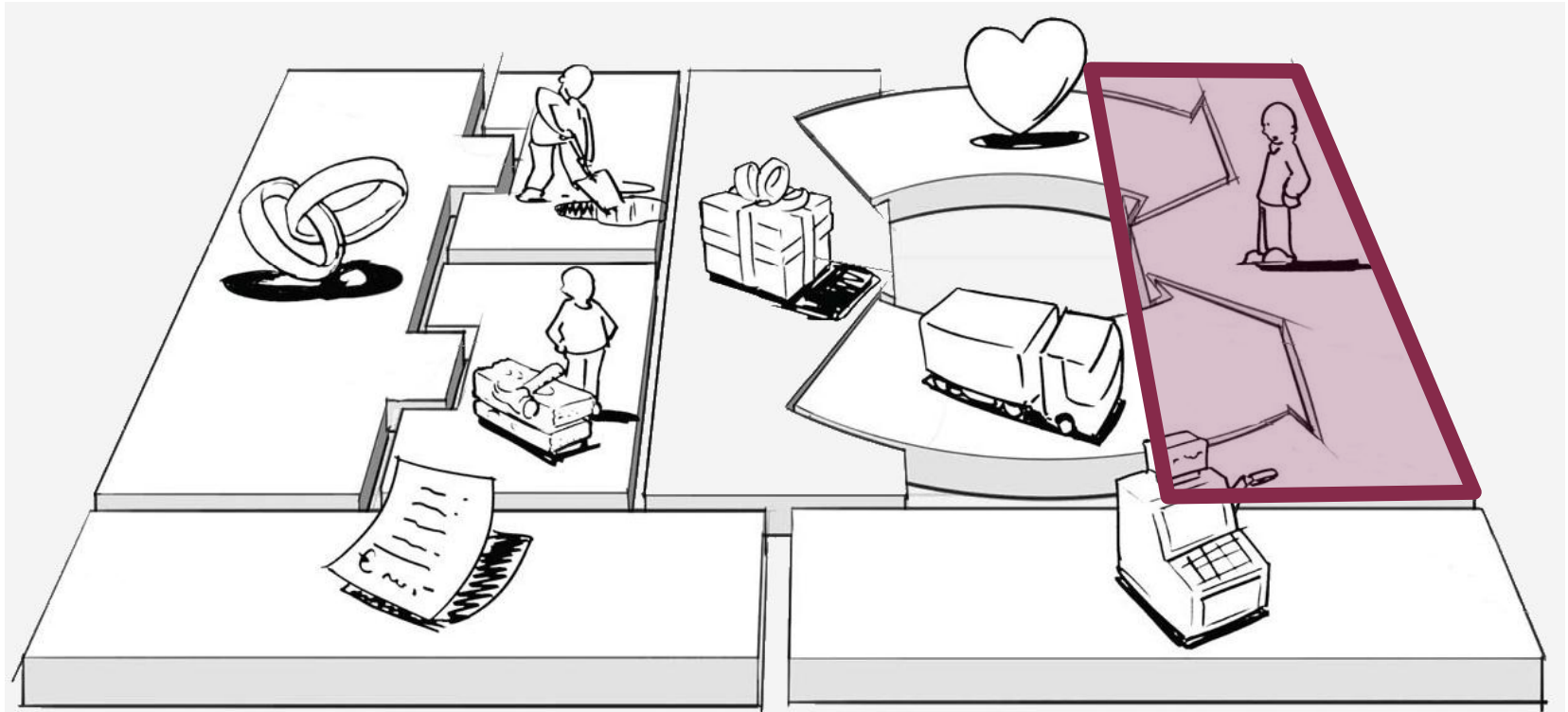
www.businessmodelgeneration.com



Material and graphics adapted from Osterwalder/Pigneur, **Business Model Generation**, 2010, www.businessmodelgeneration.com

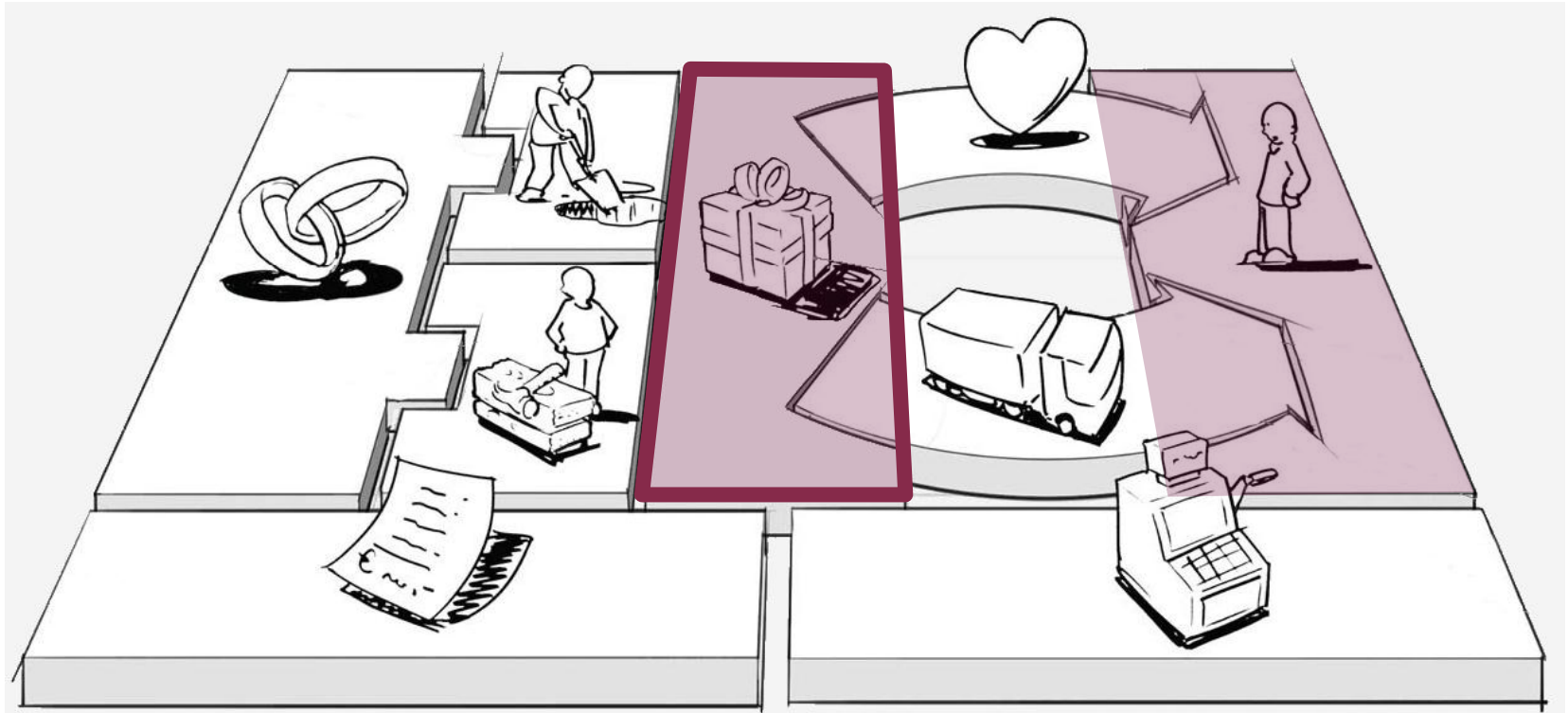
- Comprehensive approach to business system modelling
- Widely accepted and increasingly used in the start-up community

Customer segment



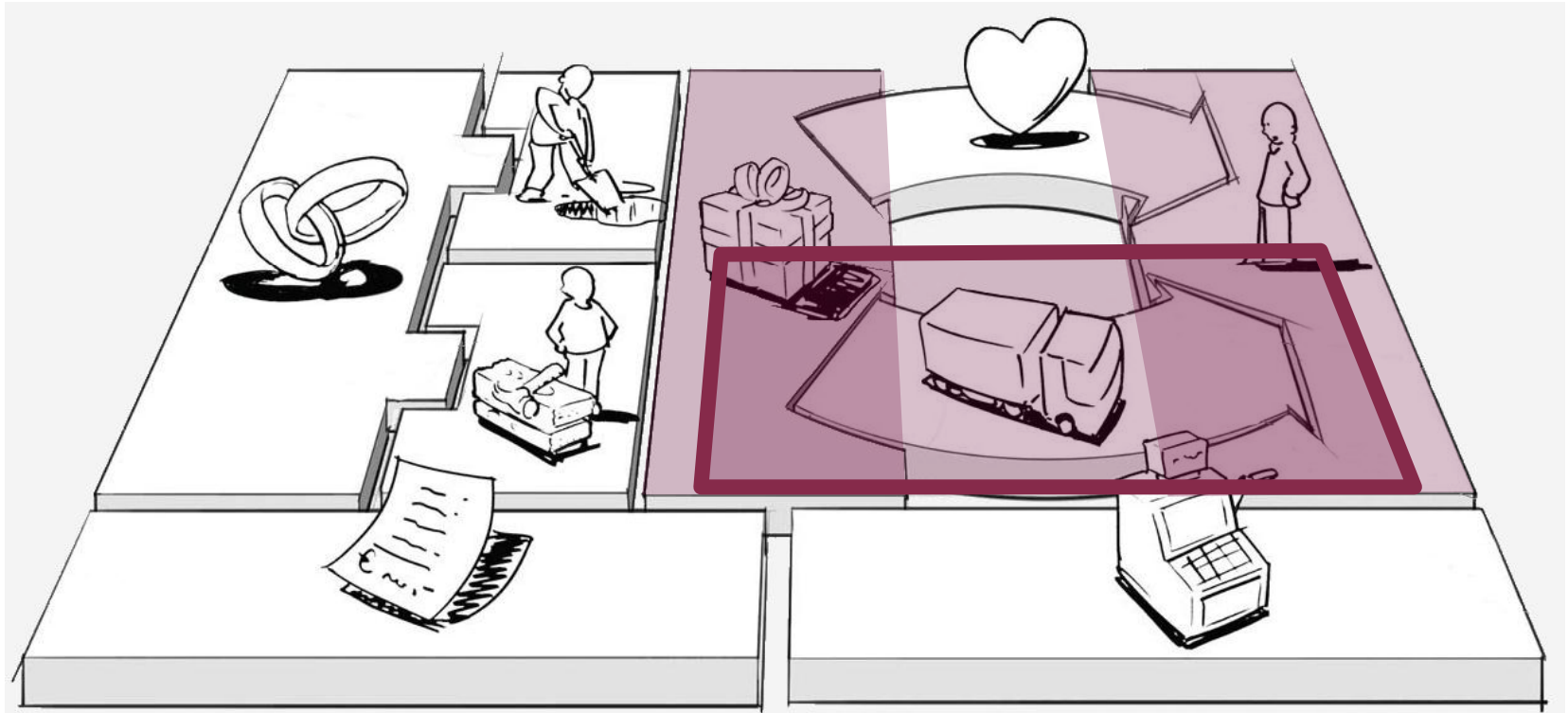
- **Who uses your products and services?**
- Mass market / niche market / segmented / diversified / multi-sided platforms
 - Generally best for start-ups: very clearly definable niche market => can be addressed with reasonable marketing cost
 - Many web platforms (portals) are multi-sided platforms. Can be difficult, since overall success need success on all segments. To describe, use one canvas per segment.

Value propositions



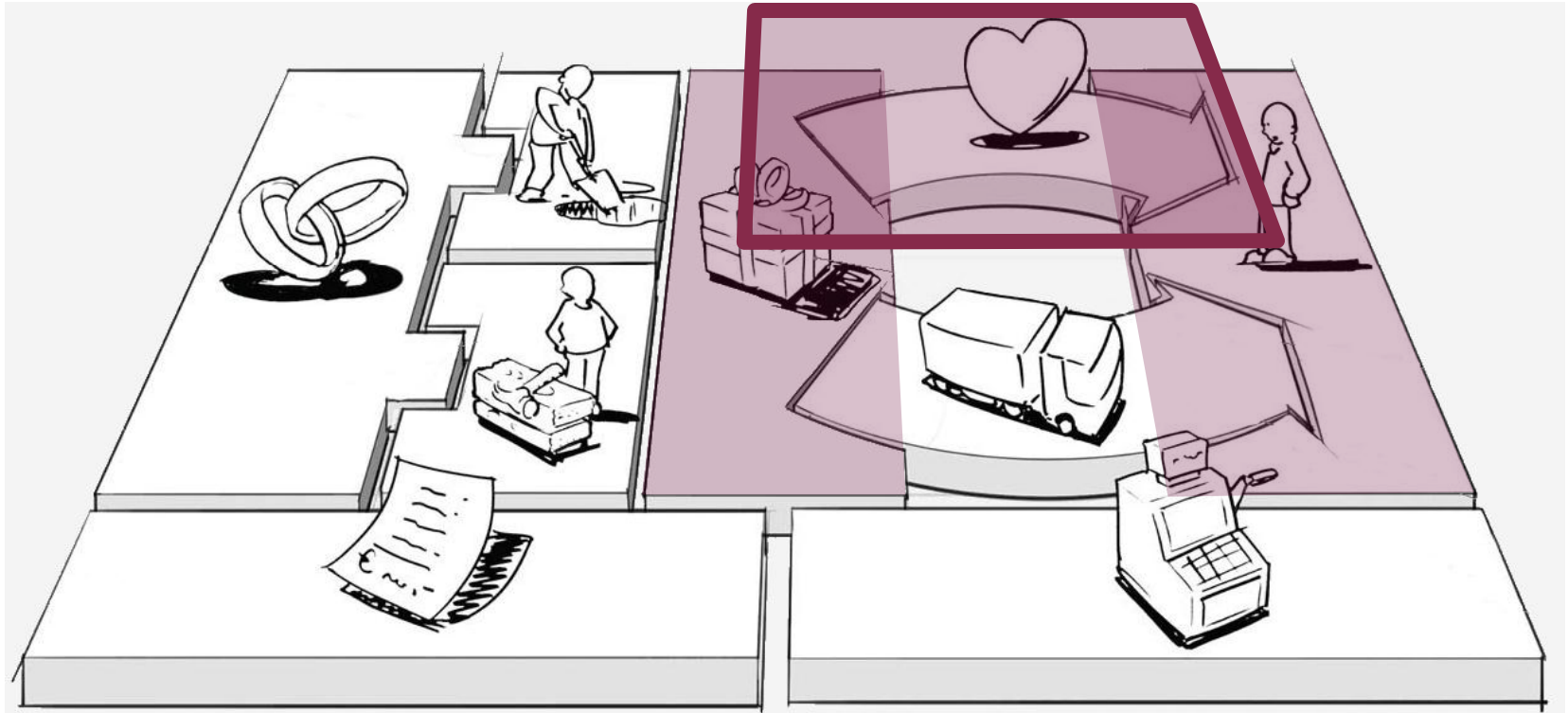
- **What value do we deliver to the customers?**
- E.g., **Newness** / **performance** / **customisation** / “getting the job done” (full service) / **design** / brand, status / price / **cost reduction** / **risk reduction** / **accessibility** / **convenience, usability**
- “you must be ten times better in what you do than your competitors” (Marc Andreessen)

Channels



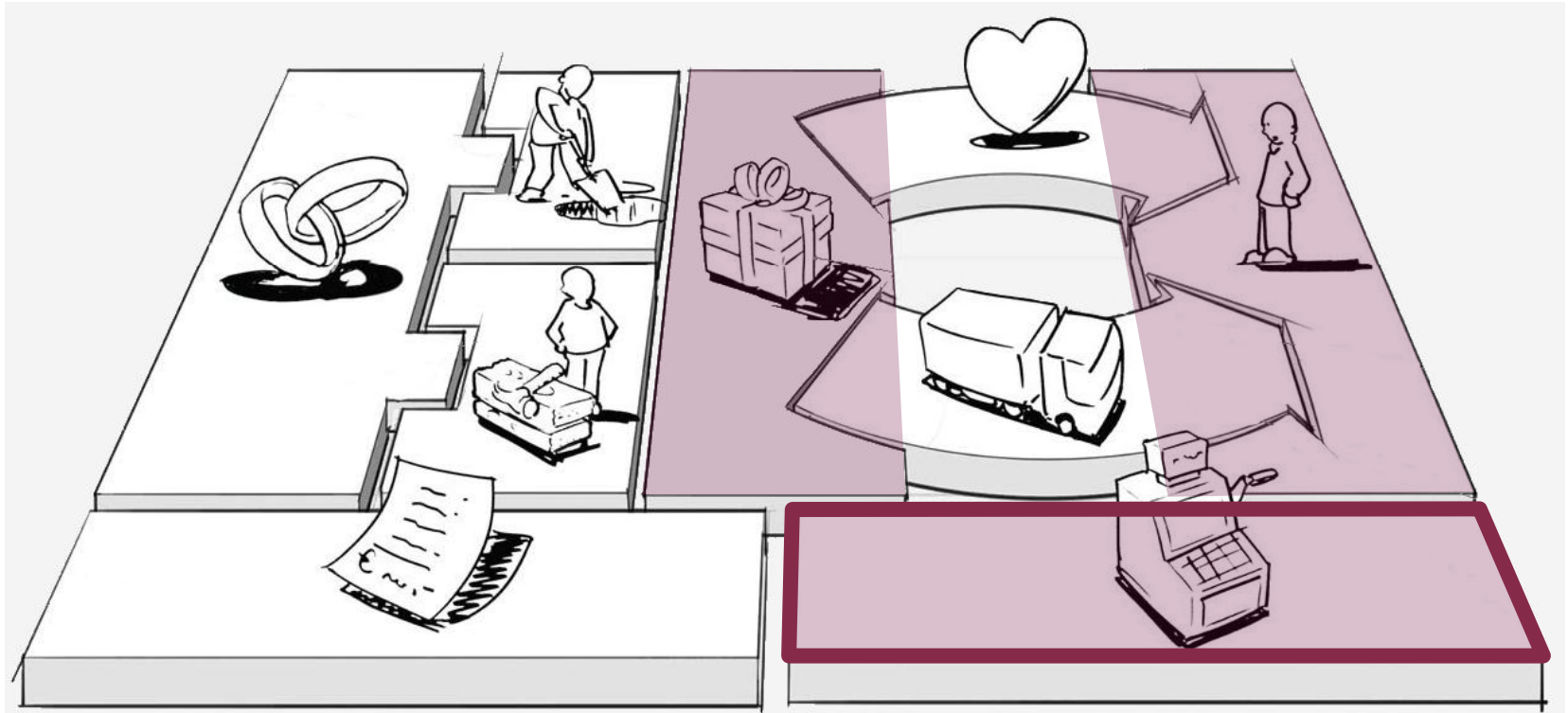
- **How do we transport the value proposition to the customers?**
- Types: direct (sales force, web sales) / indirect (own stores, partner stores, wholesaler)
- Phases: awareness, evaluation, purchase, delivery, after sales

Customer relationships



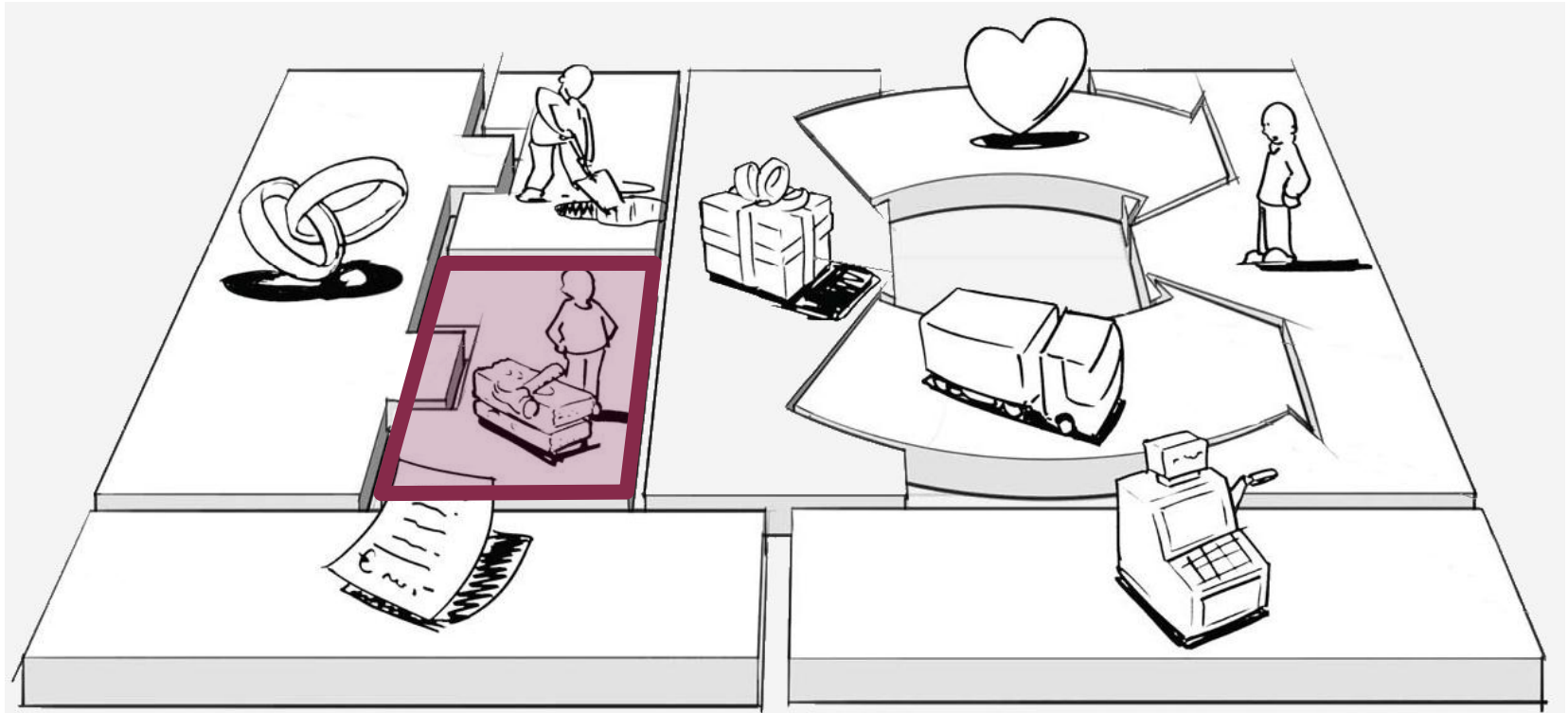
- **How do we come in and stay in touch with our customers?**
- E.g., personal assistance / dedicated personal assistance / self-service / automated services / communities / co-creation
- Several types can co-exist, tailored to segments / sub-segments

Revenue streams



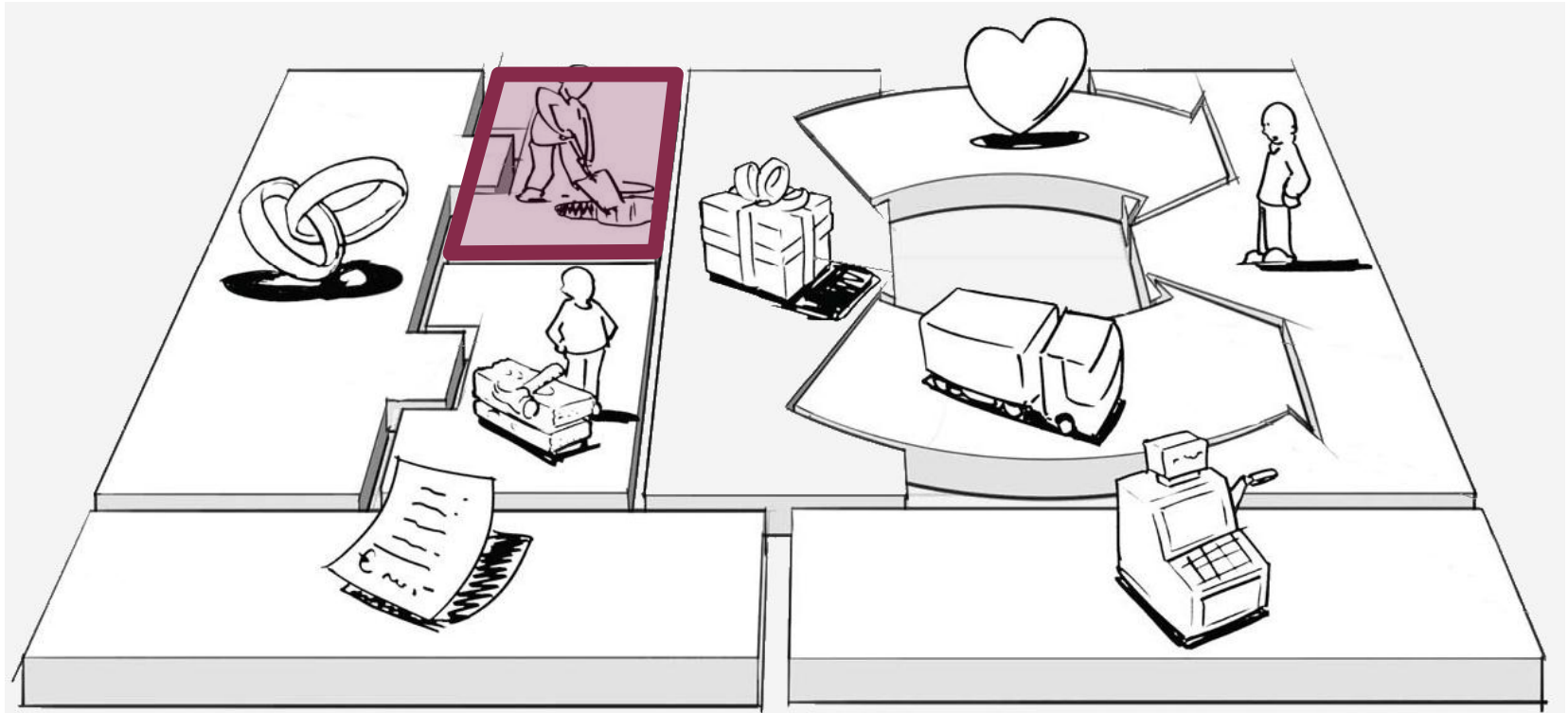
- **How much money do we get for our value proposition from our customers?**
- E.g., Asset sale (physical product), usage fee, subscription fee, lending / renting / leasing, licensing, brokerage fees, advertising
- Pricing mechanisms: **fixed pricing** (price depends on pre-determined variables, there is a price list) / **variable pricing** (price is determined at time of buying)

Key resources



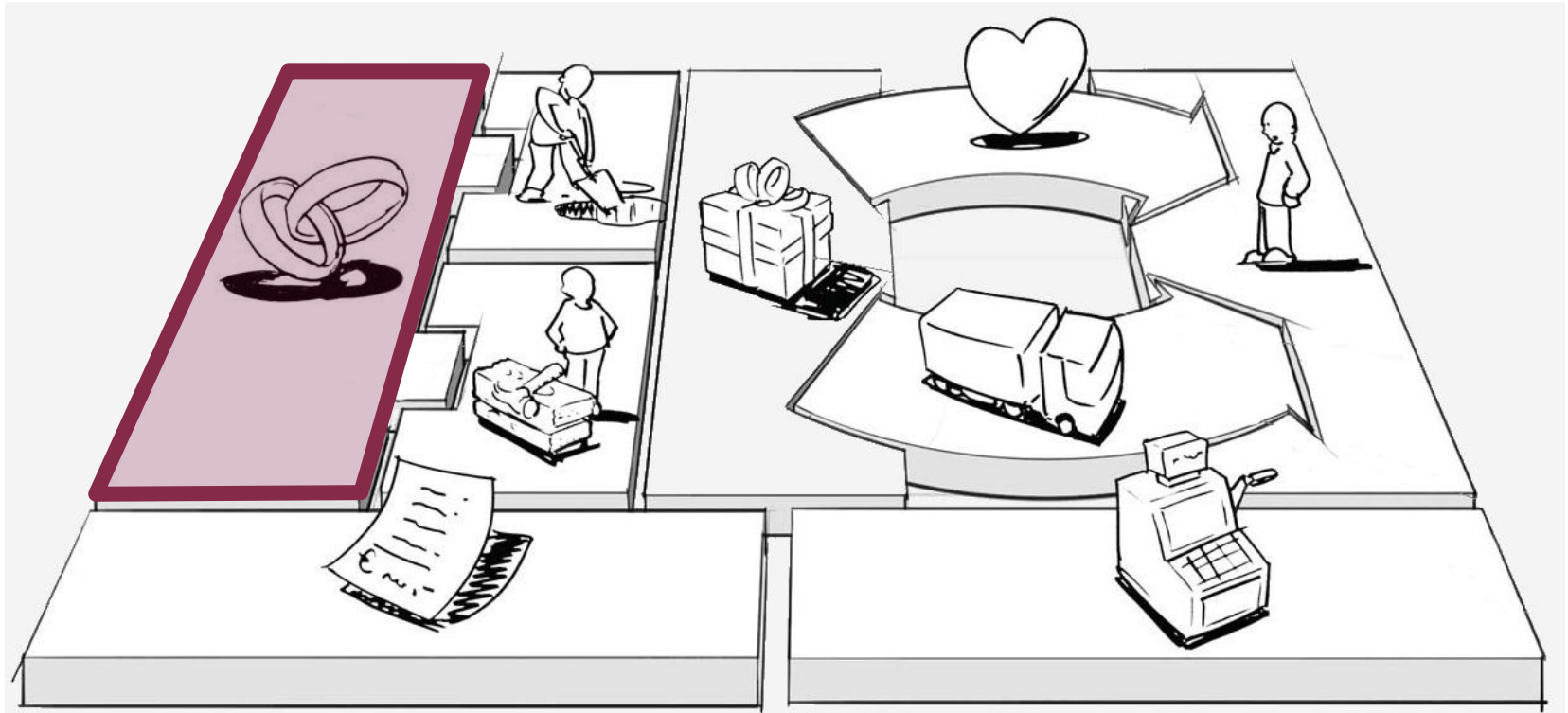
- **What are the most important assets to make the business model work?**
- Categories: physical / intellectual & rights / human / financial

Key activities



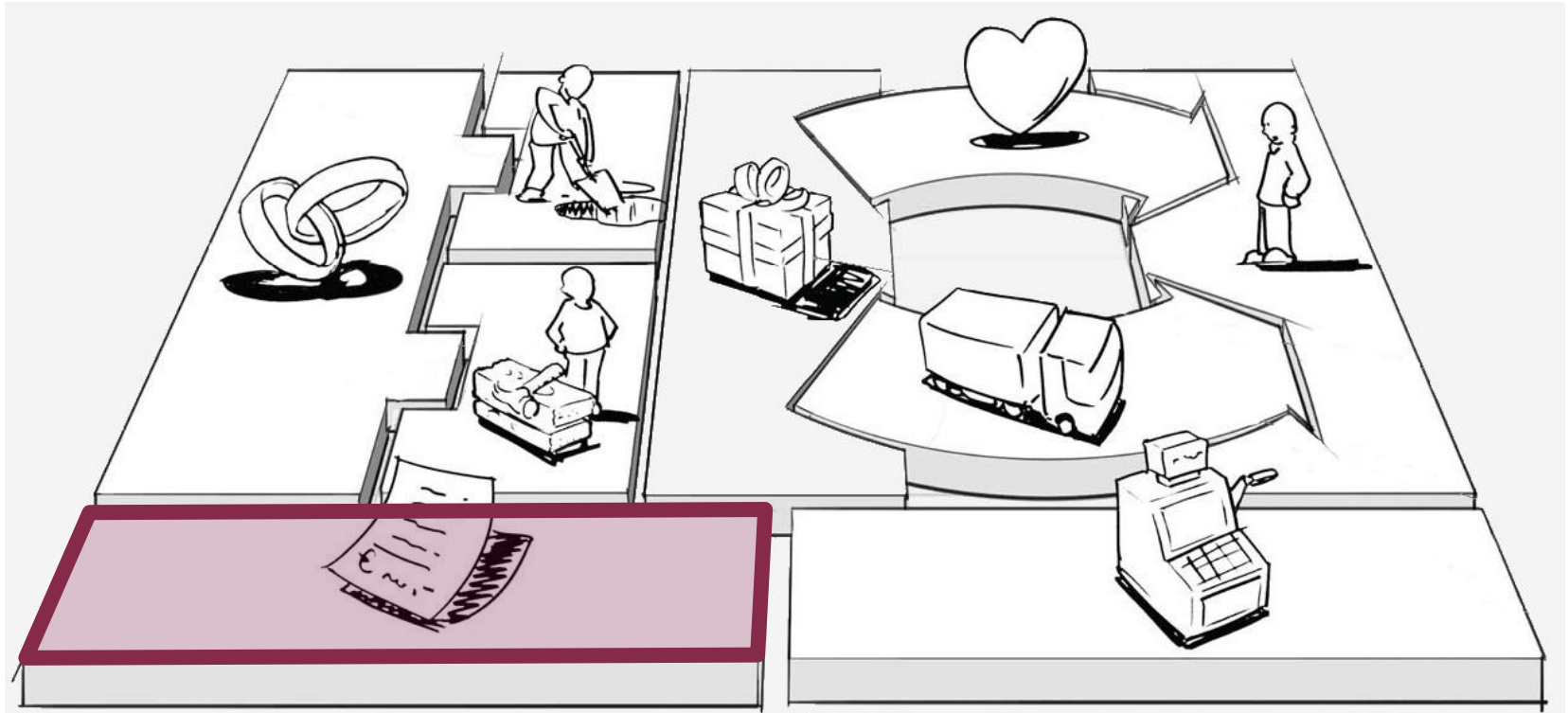
- **What do we need to do in order to make the business model work?**
- Production / problem solving / platform, network

Key partnerships



- **Whom do we co-operate with in order to make the business model work?**
- Motivations: optimization and economy of scale / reduction of risk and uncertainty / acquisition of particular resources and activities

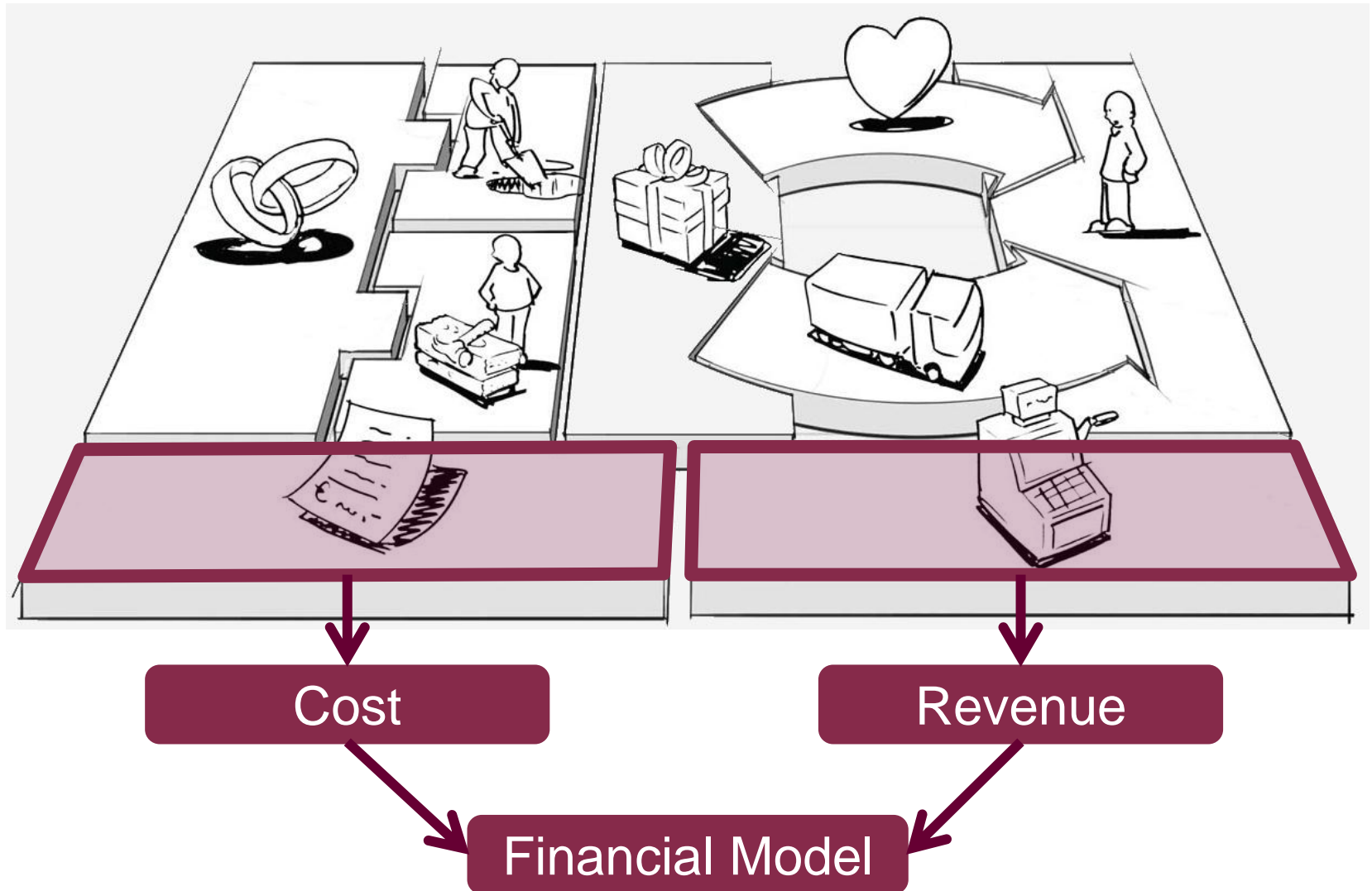
Cost structure



- **What are the cost drivers and the actual cost related to operate our business models?**
- Types of cost structures: Cost-driven (minimize cost for given value) / value-driven (maximize value for given cost)
- Types of costs: Fixed costs / variable costs / economies of scale (cost per unit fall with increasing production) / economies of scope (do more with the same)

Using the model

Business model and financial model



Recommendations (1)

Focus on your market!

- New player on the market => high cost of sales
 - Multiple contacts with customers needed, several channels
- Invest your marketing budget wisely:
 - Focus on a small niche of customers where you can generate first sales with ease
 - Expand from there
- Focus areas:
 - **Geography** => culture, language, buying habits, competition, ...
 - **Demography** => customer segments that you understand really well
 - **Channels** => those used by your customers
 - **Pricing** => Check the market

Recommendations (2)

Keep it Simple!

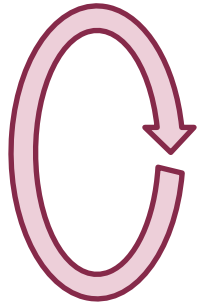
- Implementing several business models in parallel: difficult
- Links between business models can destroy the business
- E.g., Internet marketplace (MP)
 - Sellers => MP needs buyers to be attractive
 - Buyers => MP needs sellers to be attractive
- **Business model difficult to understand?**
 - => difficult to implement
 - => difficult to find investors, partners

Recommendations (3)

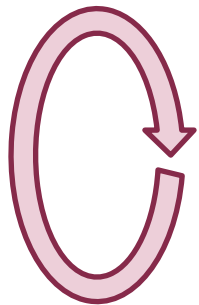
Don't forget your theory!

- Market:
 - **Industrial organization etc** (success = result of the strategic positioning of a firm in the relevant markets)
 - http://en.wikipedia.org/wiki/Industrial_organization
- Resources:
 - **Resource-based view** (success as a result of the combination of resources)
 - http://en.wikipedia.org/wiki/Resource-based_view

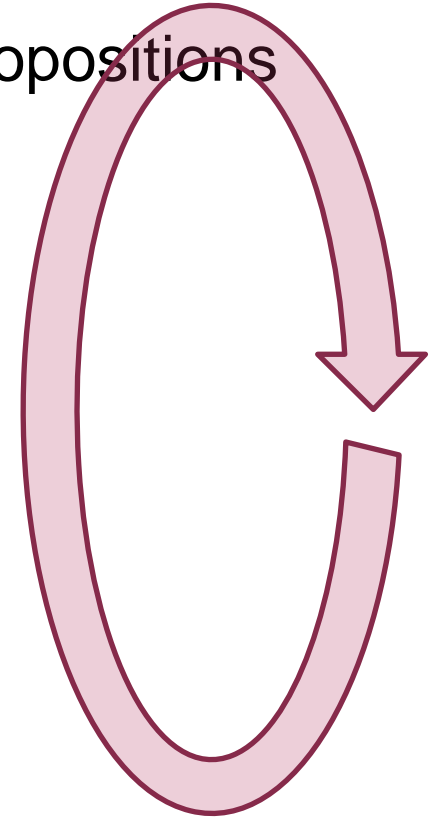
Working on your Business Model



1. Customer segments and value propositions
2. Channels and customer relations
3. Revenue streams



4. Key resources
5. Key activities
6. Key partnerships



Example: An (imaginary) restaurant

- **Goal: Maximize the revenue per m2**

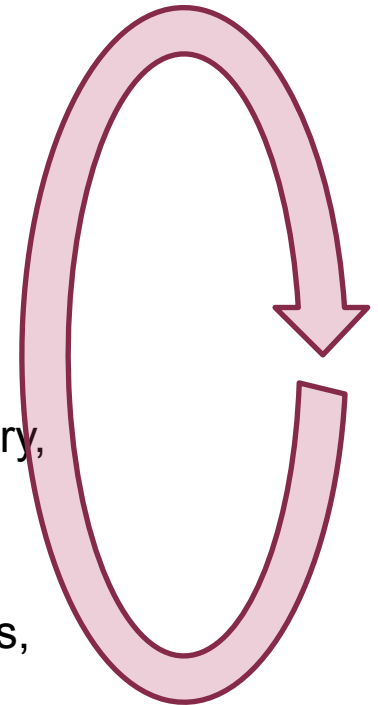
- Customer Segments:

- **Morning:** People on their way to work
- **Lunch:** Individuals who work near this place
- **Evening:** Individuals who live near this place and who consume high-priced drinks

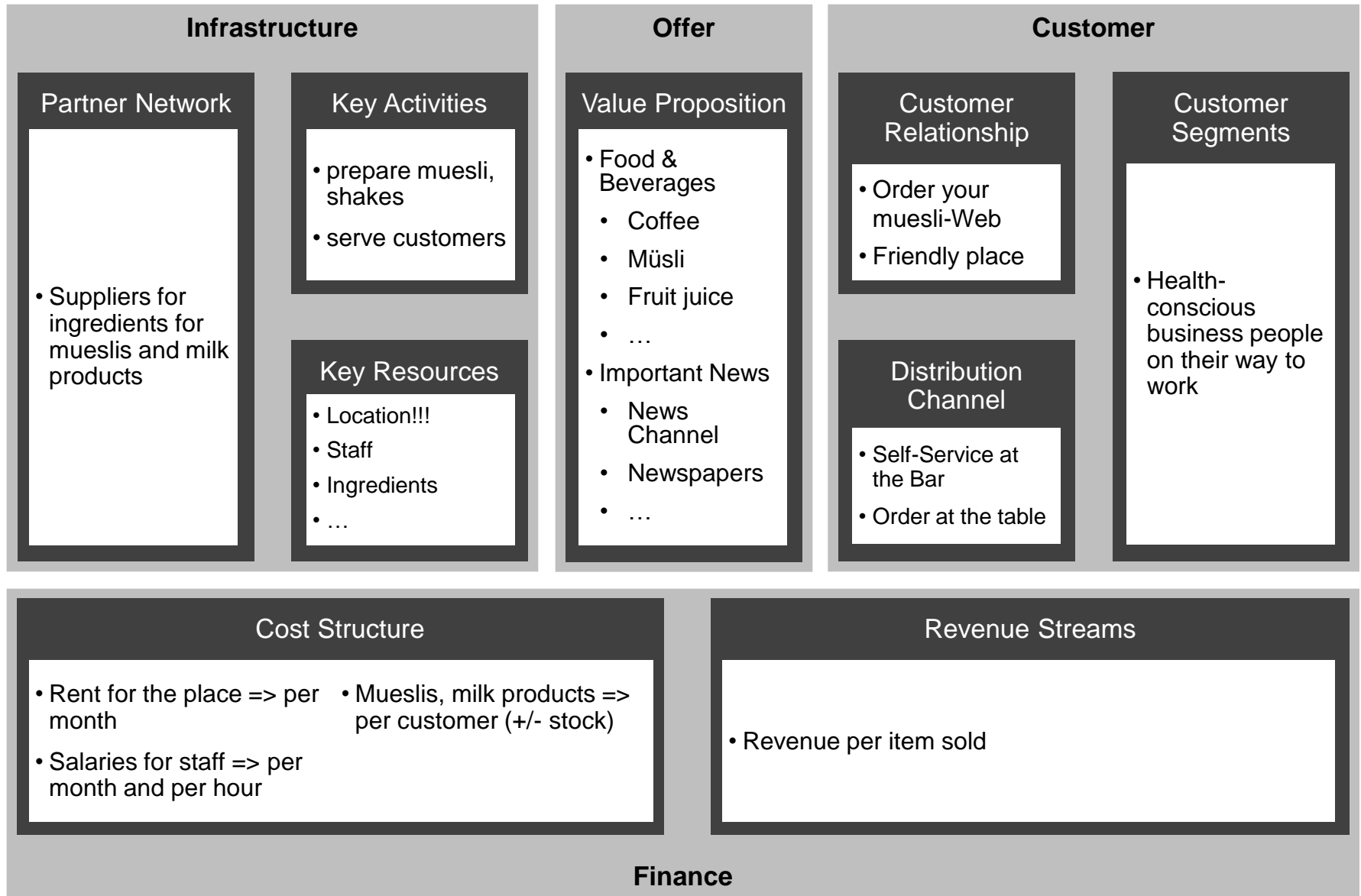
- Value Propositions:

- **Morning:** “Quick muesli”: Coffee, milkshakes, mueslis, pastry, quickly prepared, served and consumed
- **Lunch:** “Quick, good-tasting meals”: Easy-to-order meals, quickly served, medium to high on fat and carbons
- **Evening:** “The tapas place to meet”, cool (expensive) drinks, tapas, live piano music and singer

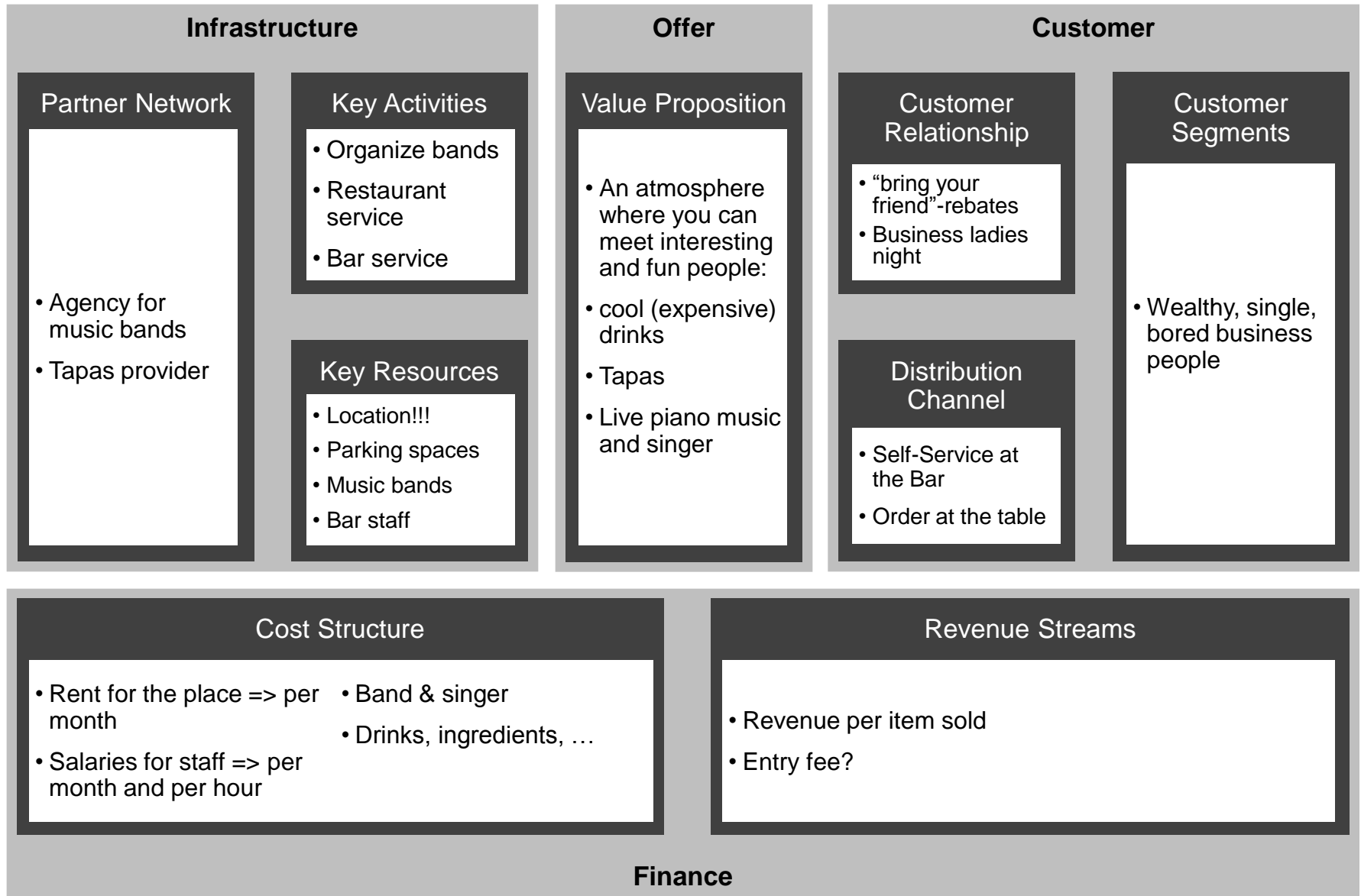
- **Needs three canvases** (one for each value proposition)



Example: (Imaginary) restaurant: morning

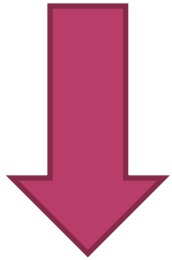


Example: (Imaginary) restaurant: evening



Next steps

- Draft the business model of your project



Now

- Q&A (today)



1 week; Q&A by e-mail to jan@fuelscher.ch

- Financial model of your project (next session)