

FINANCE FOR STARTUPS

AN INTRODUCTION

BY: JORIS KERSTEN, MSC BSC RAB
LOCATION: UNIVERSITY OF AMSTERDAM
DATE: APRIL 3RD 2017

SUBJECTS

1. Startups in The Netherlands;
2. Why is finance important for startups;
3. From business plan to pitch book;
4. Coming up with financial estimates;
5. Discussing an easy example;
6. Making a real case example.

LEARNING GOALS

1. Being able to translate (simple) business ideas into financial numbers in order to judge how much capital is needed for a specific startup;
2. Develop the right mind-set for attracting investors for your business model;
3. To get more confidence in finance for entrepreneurship.

PLANNING: APRIL 3RD 2017

UNIVERSITY OF AMSTERDAM

- 15:00-16:45: Theory in finance for startups
- 16:45-17:00: Coffee break
- 17:00-17:45: Participants work on real life case
- 17:45-18:00: Discussing the real life case

ABOUT

Joris Kersten, MSc BSc RAB

- Owner of Kersten Corporate Finance (consultancy & training in Finance and Mergers & Acquisitions);
- Founder of Financeyourstartup.com (consultancy & training in financing of startups);
- Guest Lecturer Corporate Finance at the Maastricht School of Management;
- Author at Noordhoff Publishers (writing book on financing of marketing- & business plans/ startups);
- Graduated in MSc Strategic Management and BSc Business Studies at Tilburg University and graduated Registered Advisor Business Acquisitions Tax and Legal (RAB).

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Financeyourstartup.com

Learn how to attract investors!

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Fusies & Overnames

ABOUT

Everyday I work with a lot of passion as an independent consultant & trainer in Corporate Finance (Mergers & Acquisitions).

Another big passion is scuba diving 😊. As a scuba diver (certified Divemaster) I have noticed that we should take better care of the environment and nature. Therefore my motto is: ***Life is about executing ideas that make the world nicer and better!***

I see this motto back in a lot of (young) startup entrepreneurs. That's why I like to bring my expertise in finance to startups with my initiative [Financeyourstartup.com](https://www.financeyourstartup.com).



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STARTUPS IN THE NETHERLANDS

What is a startup?

- A startup is a starting company with an innovative idea that produces a product or service that is scalable and repetitive (Definition: Rabobank);
- Sometimes these startups are “disruptive” (changing life of people and the current business environment drastically) but this is not necessary needed ...
- Although in general one could say: the more innovative, online and scalable a business is, the more the business can be called a “startup”.

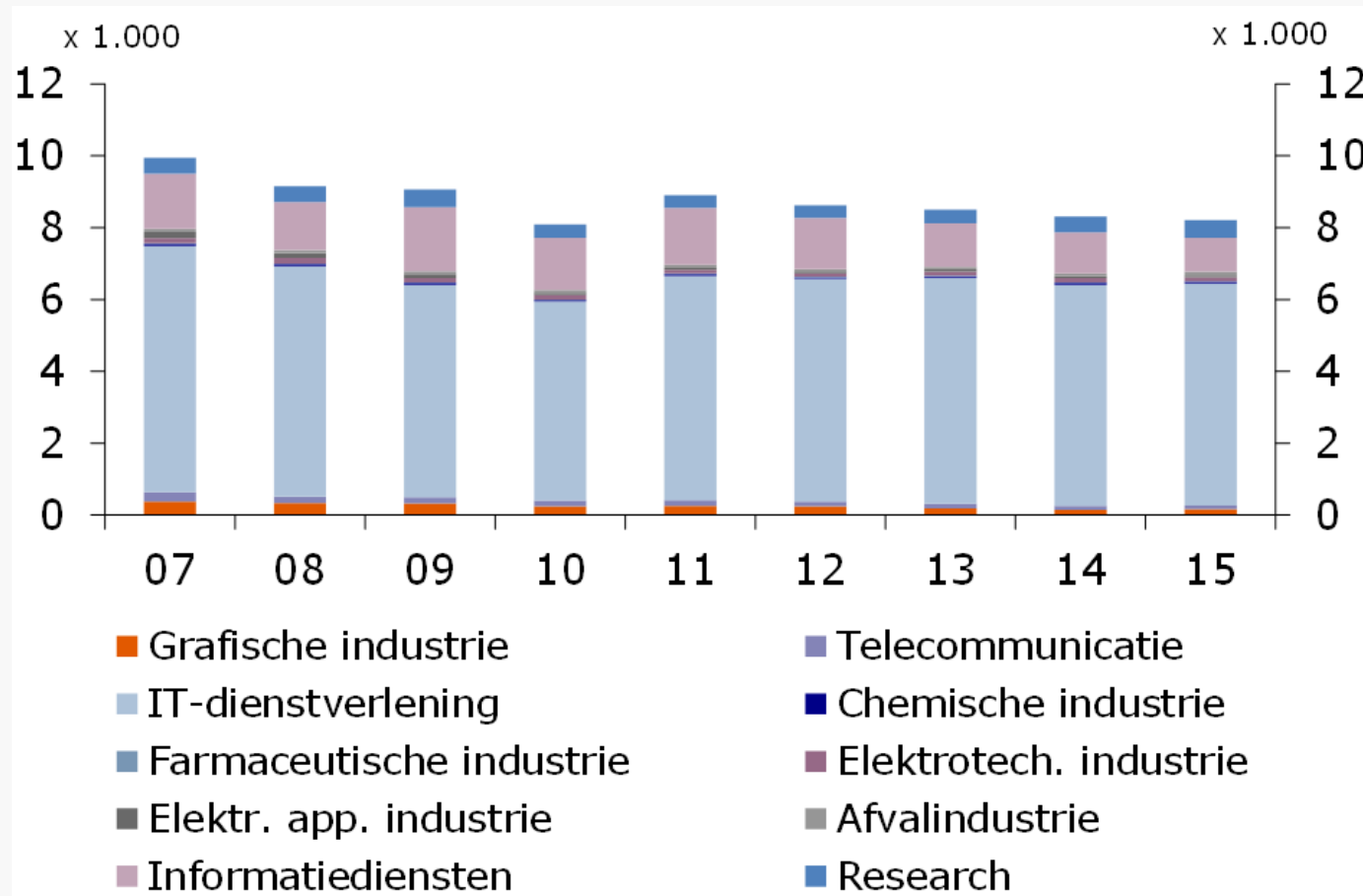
STARTUPS IN THE NETHERLANDS

How many startups are here in the Netherlands?

- During 2007-2015 yearly (on average) about 162.000 businesses have started in The Netherlands (CBS);
- But these companies can not all be called startups;
- Let's take a look at the branches in which (most) startups are active.

STARTUPS IN THE NETHERLANDS

There are certain sectors in which the most startups are active:



5% of the yearly starting companies are active in these “startup” sectors.

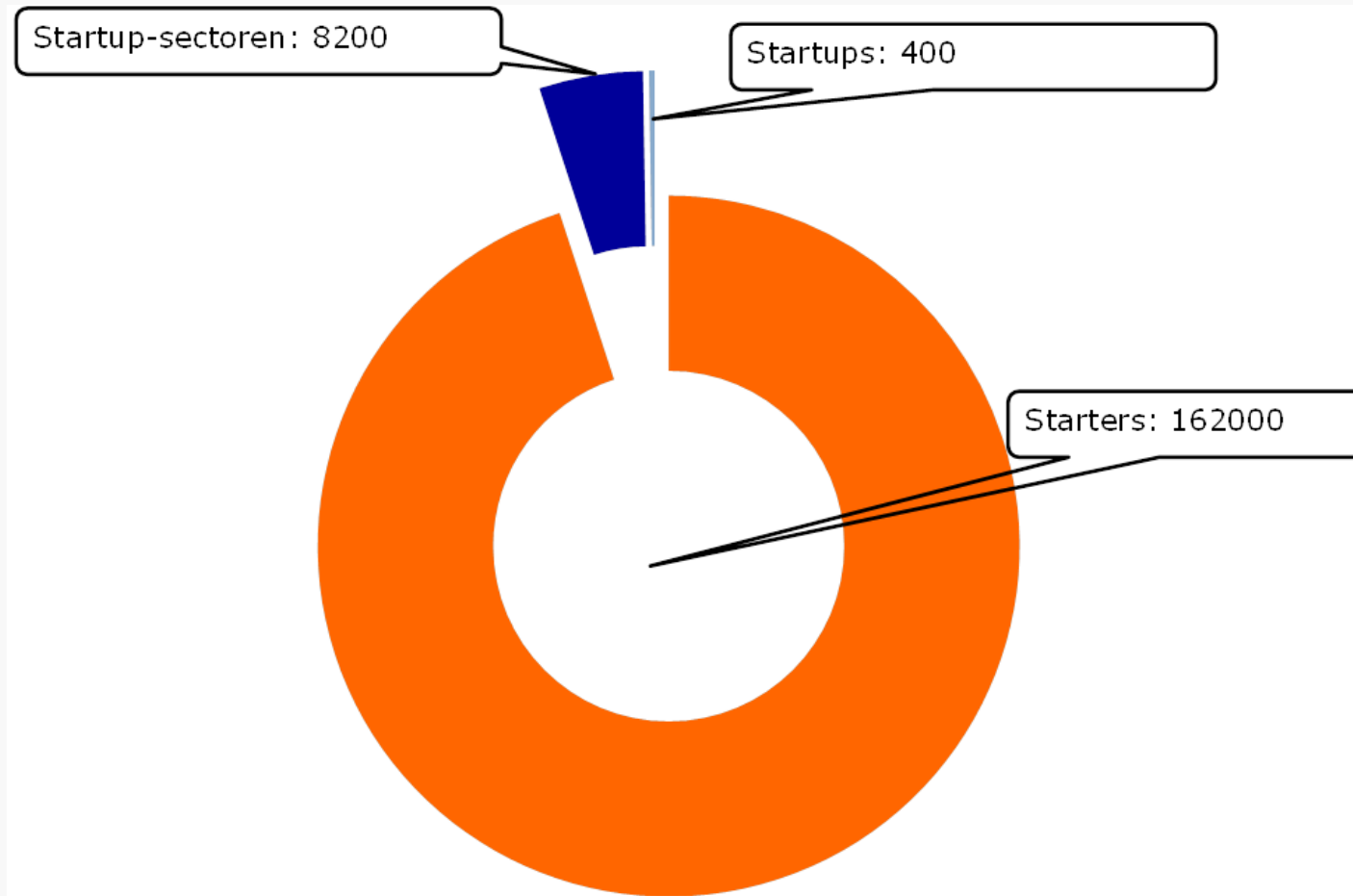
Source: CBS/ rabobank

(do not forget that about 90% of starting companies are small businesses with only 1 person working).

STARTUPS IN THE NETHERLANDS

- During 2007-2015 yearly (on average) about 8.200 businesses (about 5%) where started in the top sectors for startups;
- Also yearly about 5% of the businesses in these sectors are expected to be “real” startups (Rabobank RaboResearch, may 2016);
- This implies 400 “real” startups started in 2015 (rough estimate).

STARTUPS IN THE NETHERLANDS



- 2007-2015: yearly (on average) about 162.000 starting companies;
- Yearly 8.200 starting companies in “startup sectors” (5 %);
- Yearly 400 “real” startups (5% on 5%).

Source: Rabobank.

Source: *Meer startende sterren: het toenemende belang van startups in Nederland*. Rabobank, mei 2016.

STARTUPS IN THE NETHERLANDS

- 400 “real” startups started in 2015 (rough estimate);
- 90% “fail” (some just stay smaller);
- 360 startups stay small and about 50% quits within a few years
- 10% success, which implies success for about 40 startups a year (rough estimate on current numbers).

Source: Meer startende sterren: het toenemende belang van startups in Nederland. Rabobank, mei 2016.

STARTUPS IN THE NETHERLANDS

- So the yearly startups business is small with a low number of successful companies, which implies a relatively small turnover and number of employees;
- But the importance of startups is getting bigger and bigger. Corporates work together with small companies (startups) more and more in order to realise innovation;
- The Dutch government encourages the startup-ecosystem highly by facilitating all kinds of initiatives like the “Startup Delta”. This is a platform that facilitates the startup-ecosystem led by prince Constantijn of The Netherlands and in the past by European commissioner Mrs. Neelie Kroes.



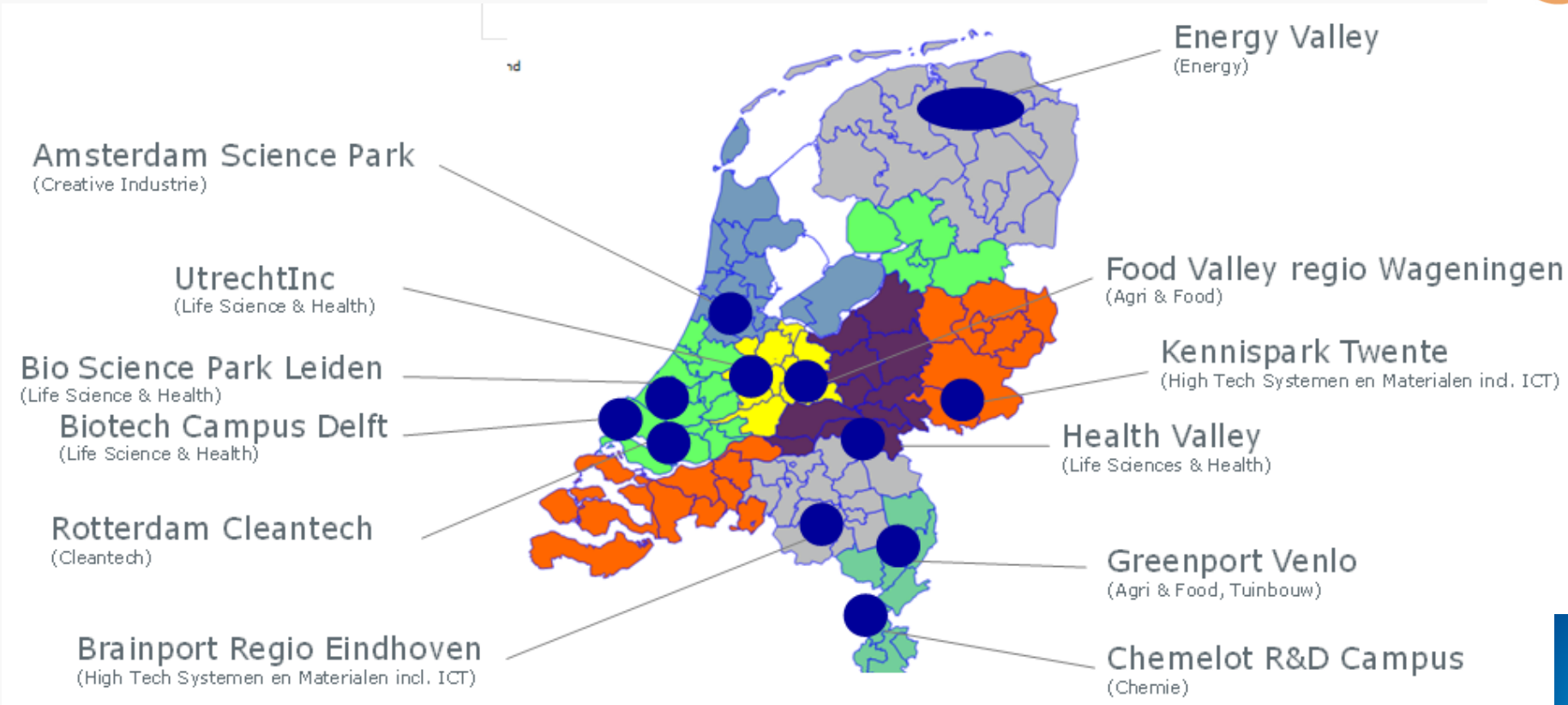
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STARTUPS IN THE NETHERLANDS

Different cities focus on different “clusters”.

➤ Marktplaats



Source image: *Meer startende sterren: het toenemende belang van startups in Nederland. Rabobank, mei 2016.*

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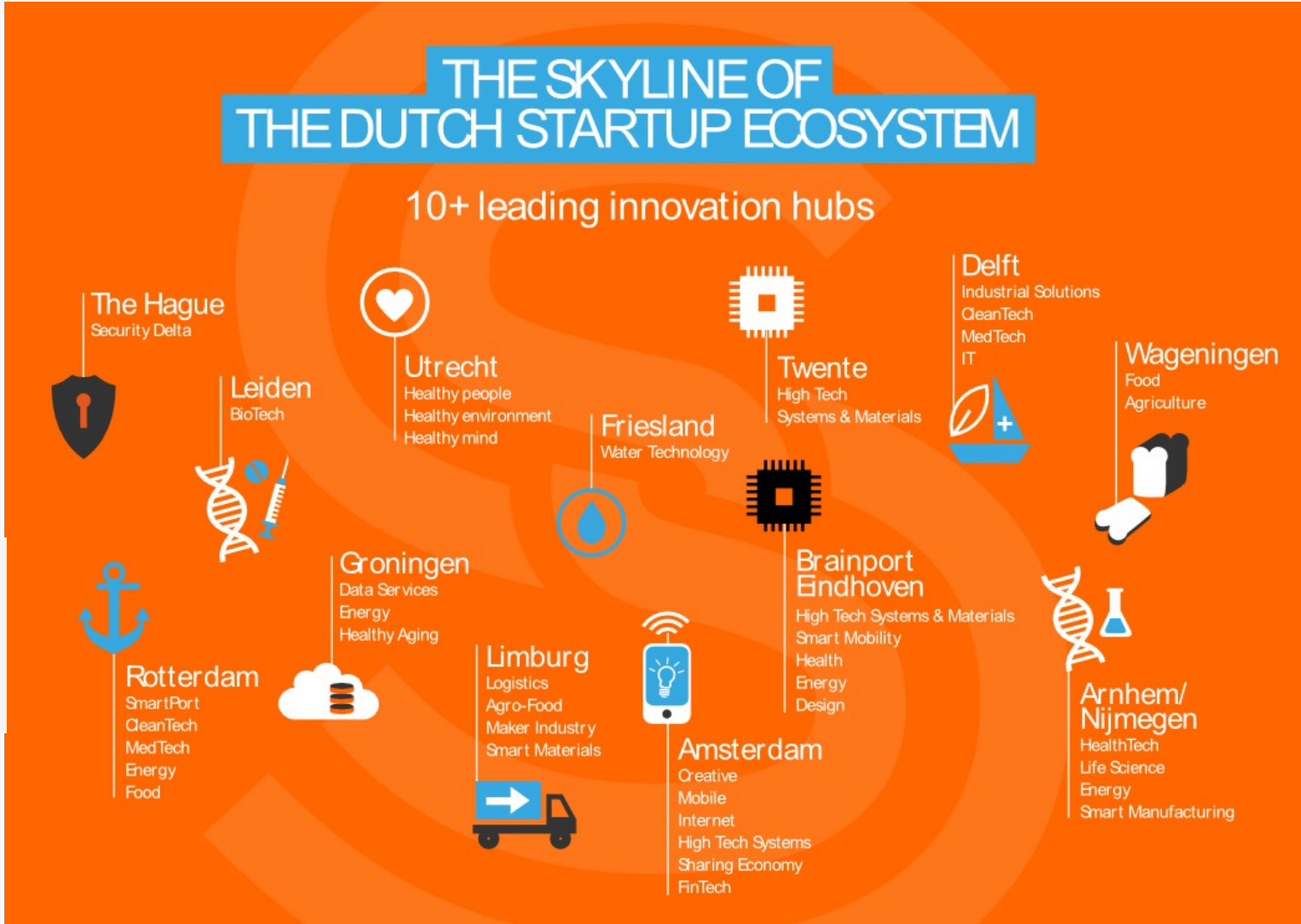
STARTUPS IN THE NETHERLANDS

THE OCEAN
CLEANUP

bol.com

catawiki
Let's build the best collector's catalog together

blendle



In the hubs at different cities in The Netherlands there is collaboration between:

- Government;
- Universities;
- Research;
- Corporate business;
- Startups;
- Finance/ banks;
- Consultants (finance, legal, tax).

Source image:
Startupdelta.org.

 **Takeaway.com**

TravelBird

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FINANCE FOR STARTUPS

- Many startups need financing for their business plans or business ideas.
- The market for investments in startups lies at about 100 million euro's per quarter.

Total investments in Dutch tech startups/scaleups



Source: StartupJuncture, press clippings

Source graph:

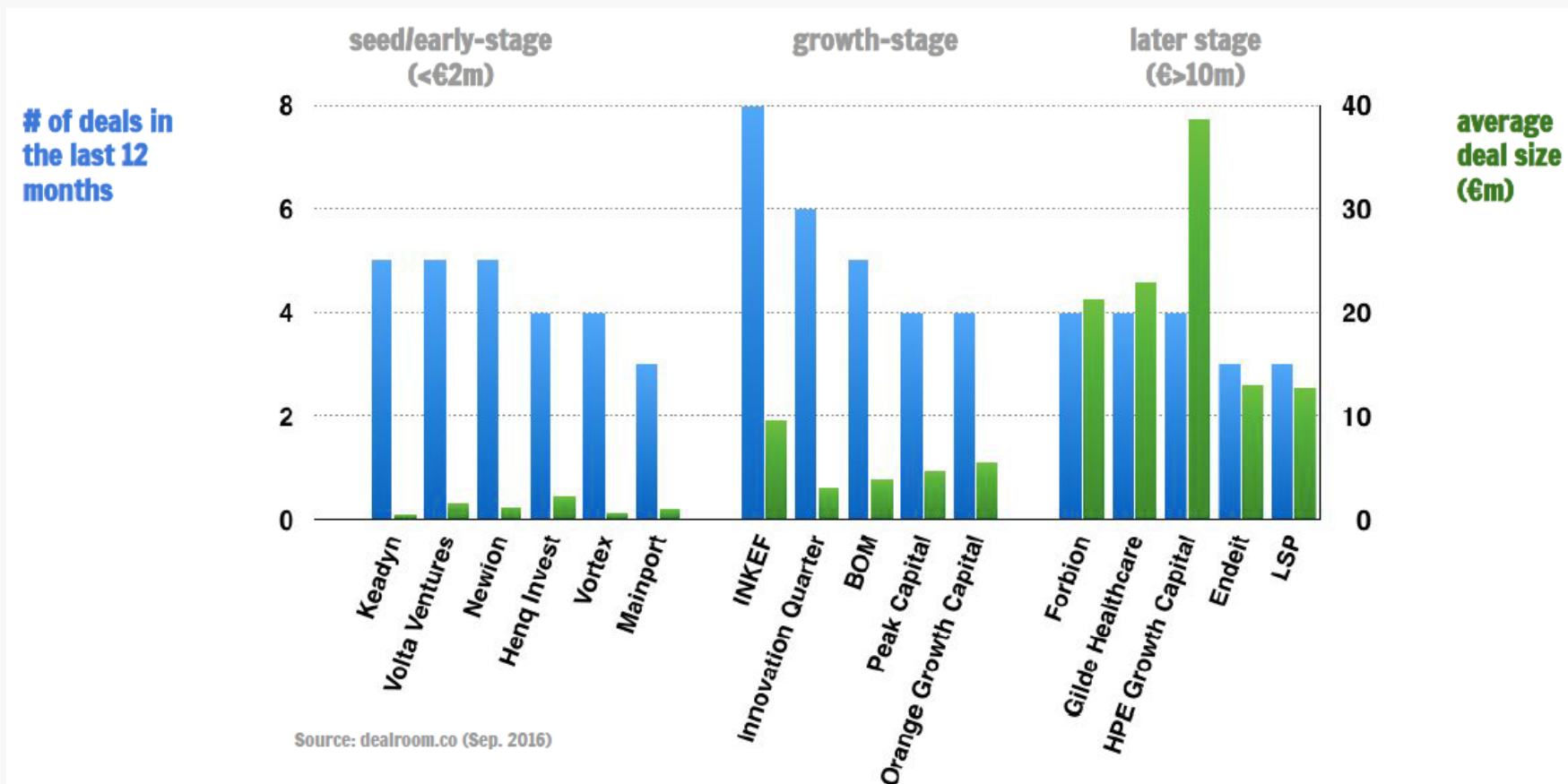
River Venture Partners: “State of the Dutch Tech Startup & VC Landscape”, September 2016.

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FINANCE FOR STARTUPS

Who are the active investors in The Netherlands ??



This presentations focusses on startup financing < 2 million euro's.

The 6 main players financed about 26 startups in the last 12 months (date: September 2016).

Seed/ early stage = about 50.000 EUR – 250.000 EUR financing.

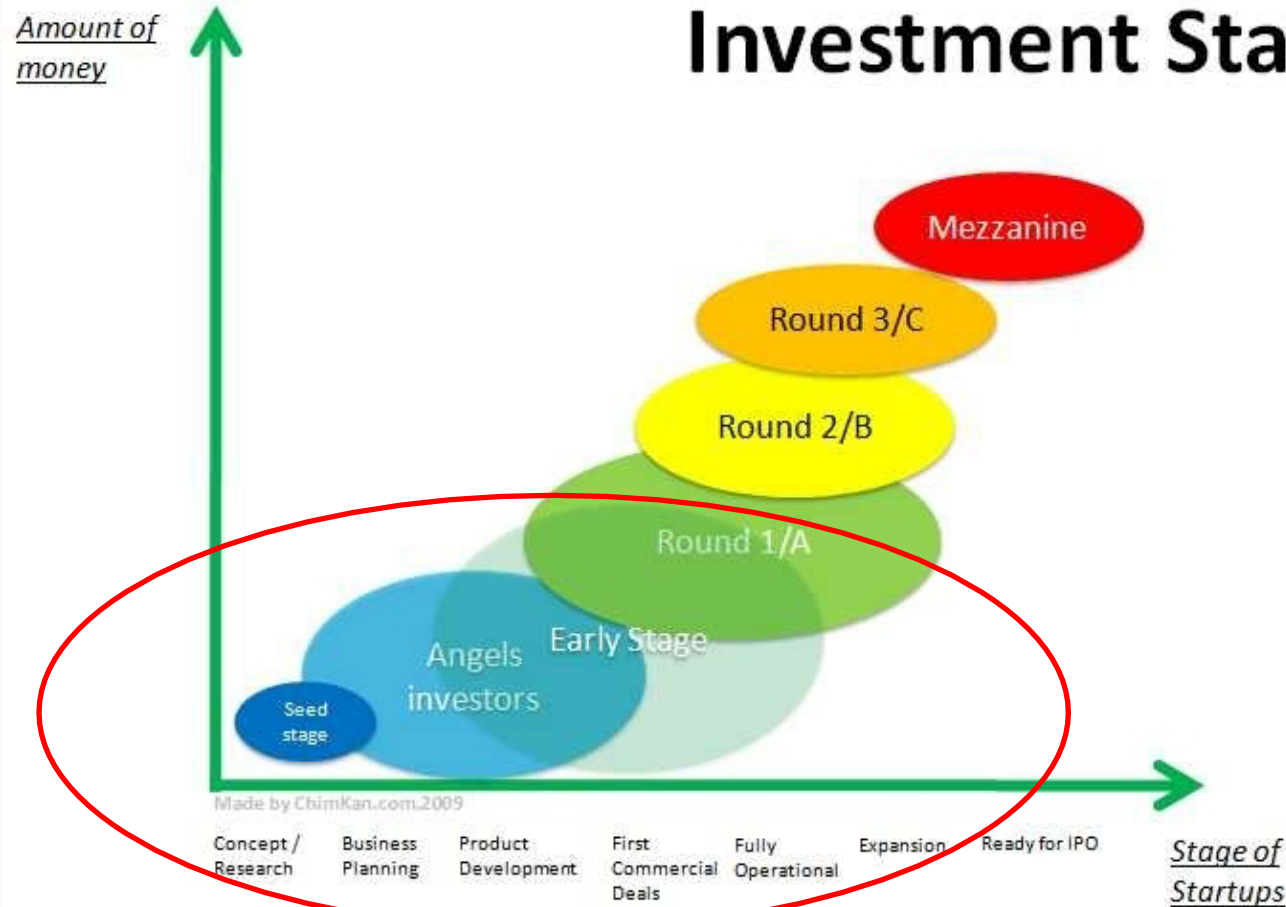
Source graph: River Venture Partners: “State of the Dutch Tech Startup & VC Landscape”, September 2016.

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Venture Capital Investment Stages



As said, I focus on the first stage of startup financing from seed capital to round A (red line).

Within this stage financing goes from about 50.000 EUR until 2.000.000 EUR.

Source graph: What does series-A, series-B, series-C mean in startups. Alisha, Startupfreak.com. July 2013.

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FINANCE FOR STARTUPS

1. Most startups use technology to sell a product or service. To build this technology this costs money! First you can start financing your company yourself, this is called “bootstrapping”;
2. After the phase of making ideas and getting your concept clear it is time to test, experiment and build your “minimum viable product” (MVP). In this pre-seed phase most of the time friends, family and angel investors are targeted for financing. The typical amount financed here is about 50.000 EUR to 250.000 EUR.
3. When you then are doing well, your first (paying) customers are coming (“traction”), you need money for marketing, sales and scaling up your team. Moreover, in many cases there is money needed to further develop your platform. The typical amount financed here is 250.000 EUR – 1.000.000 EUR.

Bootstrapping

Starting a business from scratch and building it up with minimum outside investment.



(minimum viable product)



(product)

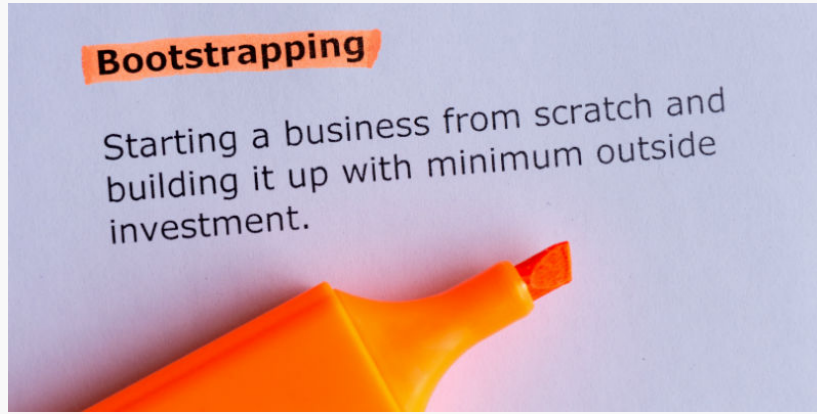
GROWTH
& TRACTION

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FINANCE FOR STARTUPS

(1) Bootstrapping: finance yourself



(2) Build MVP: Finance by family, friends, angel investors.
50.000 EUR – 250.000 EUR.



(3) Traction? Finance with venture capital:
250.000 EUR – 1.000.000 EUR.



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FROM BUSINESSPLAN TO PITCH BOOK

From the beginning of your startup it is important to get your financial numbers right!

Finance is the language of business!!

A business plan including a strong financial paragraph is called a “pitch book”. This pitch book is needed to convince investors to participate. Investors can be: angel investors or venture capitalists. But also for example: The Crowd (crowdfunding).



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FROM BUSINESSPLAN TO PITCH BOOK

Pitch book =

- Business plan (max 10 A4/ PP slides)
- Plus financial paragraph (excell sheet, including explanation)

Components of the financial paragraph:

- Estimated profit & loss statement;
- Estimated cash flow statement;
- Estimated balance sheet.



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ESTIMATED PROFIT & LOSS STATEMENT

- For your startup the most important thing concerning financing is to make an estimate of sales!!!
- Moreover, you need to estimate the costs that come along.

Therefore we need to come up with:

1. Estimations for sales of your product or service;
2. Estimations for the production costs or buy in costs for your product or service;
3. Estimations for the marketing costs;
4. Estimations for the overhead costs.



ESTIMATED PROFIT & LOSS STATEMENT

Making estimates is very difficult since we cannot predict the future! And unfortunately in business we do not have a crystal ball to predict the future ☹️.



That is why with making estimates of the profit & loss statement one speaks of an “educated guess” 😊.

Educated Guess

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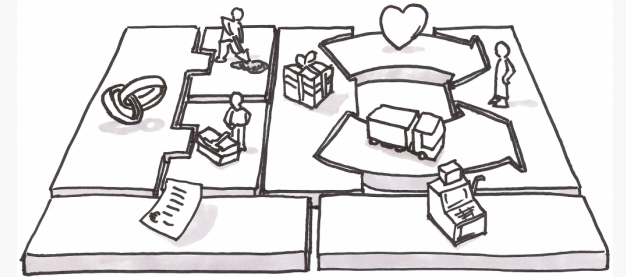
Fusies & Overnames

ESTIMATED PROFIT & LOSS STATEMENT

So how do you make an educated guess for the P&L ??

Start with the 4 P's of marketing. It's an old marketing tool BUT effective !!

**The business model canvas is even more effective, use this when you have a little more time 😊.*



1. Product: What product or service do you sell?
2. Price: Which sales price do you use?
3. Place: By which channels do you sell your product or service?
4. How do you promote/ market your product or service in each channel?

ESTIMATED PROFIT & LOSS STATEMENT

I. Product

Which product or service do you sell ??



Think about:

- What problem do you solve for the consumer? And why do you do that?
- Who are the competitors?
- How big is your potential market?
- What are the biggest risks? Are there product liability risks?
- Do you have the intellectual property of the product?

ESTIMATED PROFIT & LOSS STATEMENT

2. Price

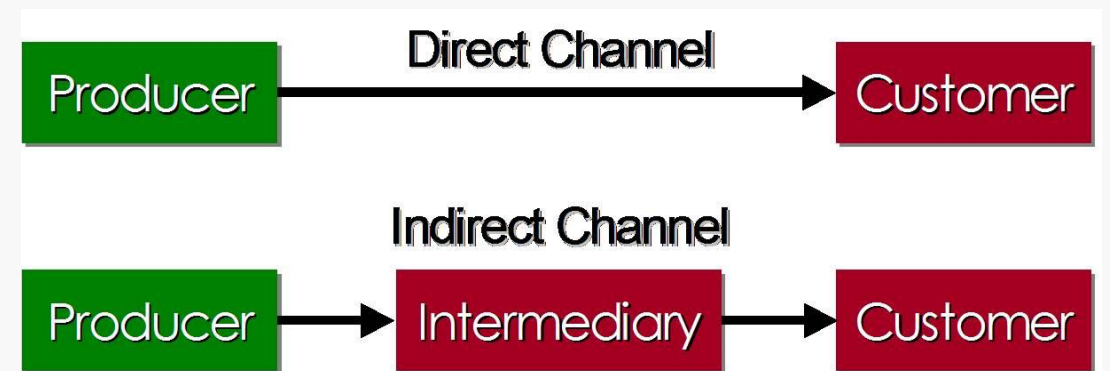
- Which sales prices do you use (per channel) ?? And why ??
- Use average sales prices for your calculations.
- Moreover, what are the cost prices for your products or services ?
- Also use *average* cost prices for your calculations.
- At last, notice your average margins per product or service.



ESTIMATED PROFIT & LOSS STATEMENT

3. Place

- Through which channels are you going to sell your product or service ?
- How many products or service do you expect to sell through each channel ?



ESTIMATED PROFIT & LOSS STATEMENT

4. Promotion

- Which marketing efforts do you use in each sales channel in order to get sales for your product or service?
- What are the costs for these marketing tools?
- What are the “conversion rates” for these marketing tools?
- Do the same for your sales effort !
- What are the costs for the sales efforts?
- What are the “conversion rates” for the sales efforts?

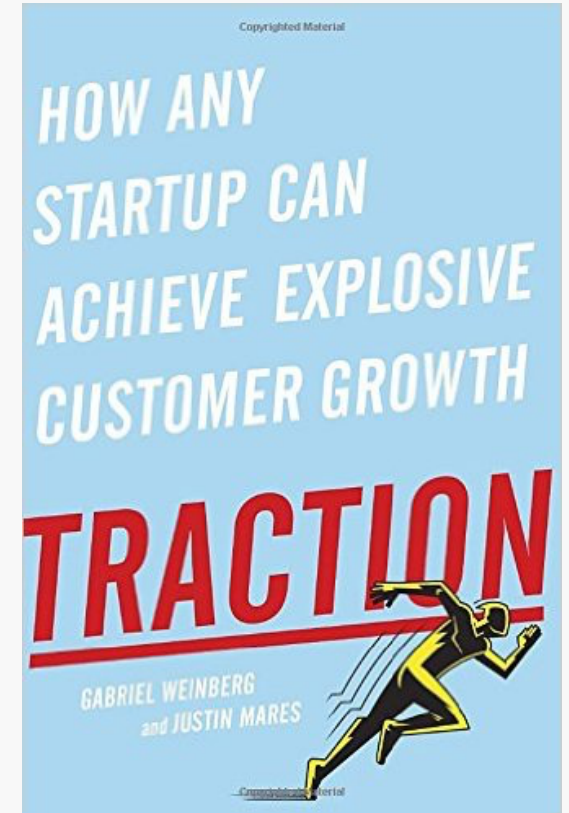


ESTIMATED PROFIT & LOSS STATEMENT

This is a brilliant book to read in order to market/ promote the product or service of your startup.

Every startup entrepreneurs want "traction" which means that your product is "picked up" by potential customers. This in the form of for example website visits, app downloads and preferably hard sales (real sales numbers).

- *"traction and product development are of equal importance and should each get about half of your attention. This is what we call the 50% rule: Spend 50% of your time on product and 50% on "traction" (Weinberg & Mares, 2015)*
- *Most businesses actually get zero distribution channels to work. Poor distribution, NOT PRODUCT, is the number one cause of failure (Weinberg & Mares, 2015).*



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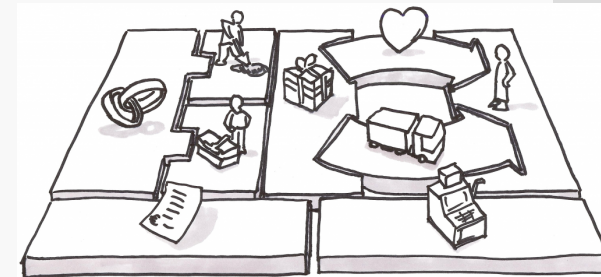
ESTIMATED PROFIT & LOSS STATEMENT

Now that you know your marketing basis:

Make estimation for sales in all your sales channels.

Use conversion rates for ALL your marketing and sales tools, like:

- Sales through website;
- Sales through direct selling;
- Sales through shop;
- Sales through use of influencers;
- Sales through expose on business fare;
- Etc. etc. etc.

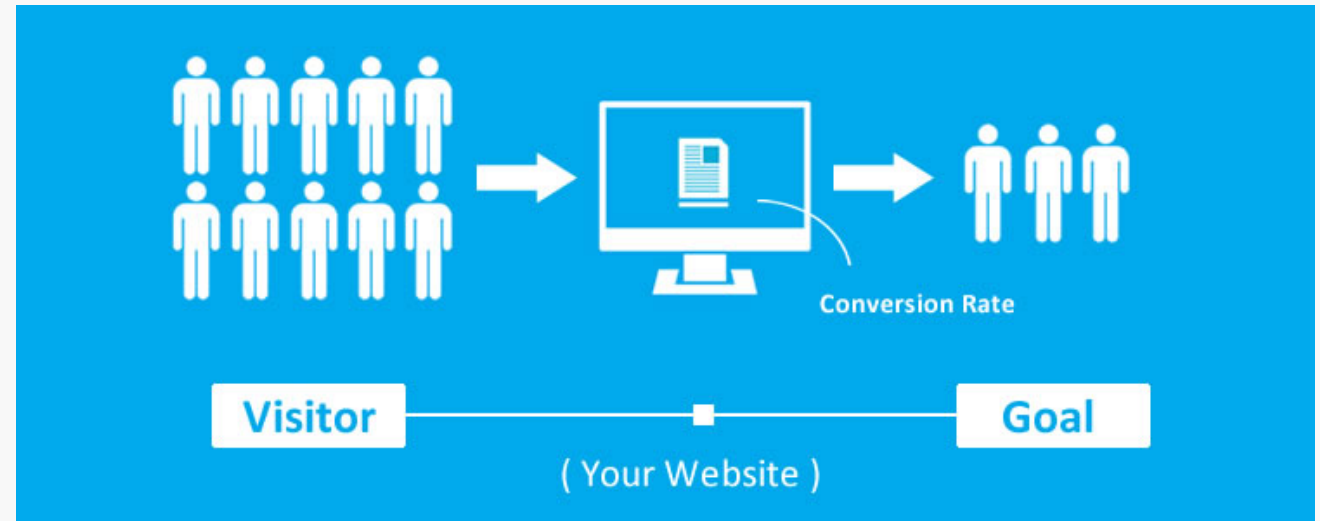


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ESTIMATED PROFIT & LOSS STATEMENT

So when estimating SALES ALWAYS REFER TO “CONVERSION RATES” !!!!



DO THIS FOR ALL YOUR SALES AND MARKETING TOOLS IN ORDER TO MAKE AN:

**Educated
Guess**

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ESTIMATED PROFIT & LOSS STATEMENT

Now, how do you come up with the right conversion rates ?

-You will get the right conversion rates by doing research yourself. This can be field research or desk research (e.g. read papers in your branch).
-But also do not forget to speak with other "experts" like:

- Other entrepreneurs;
- Your accountant;
- Your lawyer;
- Your finance consultant;
- Your coach;
- Your banker;
- Your branch specialist;
- Etc. etc.

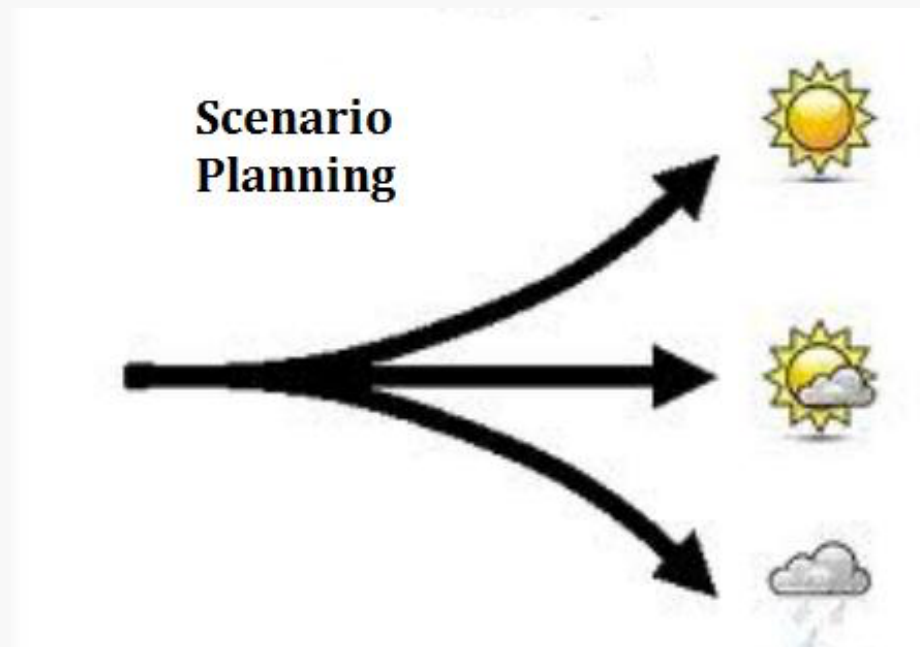


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ESTIMATED PROFIT & LOSS STATEMENT

- And then when you know your stuff, make estimations for the estimated sales.
- Even with carefully looking at “conversion rates” one can not be 100% sure, that is why we usually make 3 possible scenario's:



ESTIMATED PROFIT & LOSS STATEMENT

Now we are almost ready to construct our estimated profit & loss statement.

But we need to look at a few extra costs/ investments:

- Do we need a building? And if yes what is the rent?
- Do we need a team? What do the salaries cost?
- What does research & development cost?
- What are the transport costs?



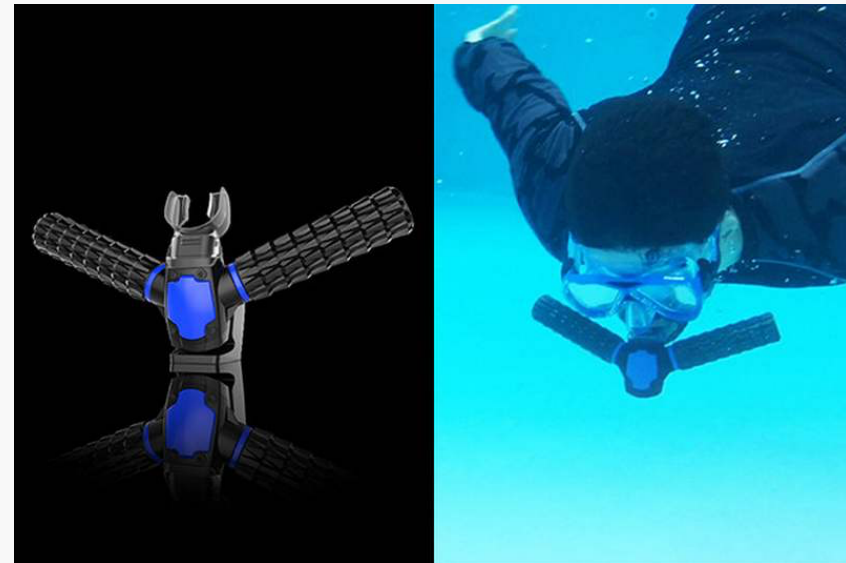
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EXAMPLE

Now let's apply all we have learned in an easy example:

As I told you my big passion is scuba diving 😊. Let's assume that your startup will distribute the "Triton Oxygen Respirator" (diving without an air tank) in The Netherlands!



**the product really exists, but is still under development. All the assumptions made in this example are fictive.*

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EXAMPLE

Now let's look at the business:

I. Product

The product is quiet clear.



We are going to sell the “Triton Oxygen Respirator” (diving without an air tank) in The Netherlands. The product is bought in from the Korean producer.

**the product really exists, but is still under development. All the assumptions made in this example are fictive.*

EXAMPLE

2. Price

- Let's assume that you can buy in the product for 750 EUR excl vat;
- The product will be sold to (dive-)shops for 1.000 EUR excl vat (indirect channel);
- The consumer pays 1.250 EUR for the product excl vat;
- When the product is directly sold to the consumer you will receive 1.250 excl vat (direct channel).



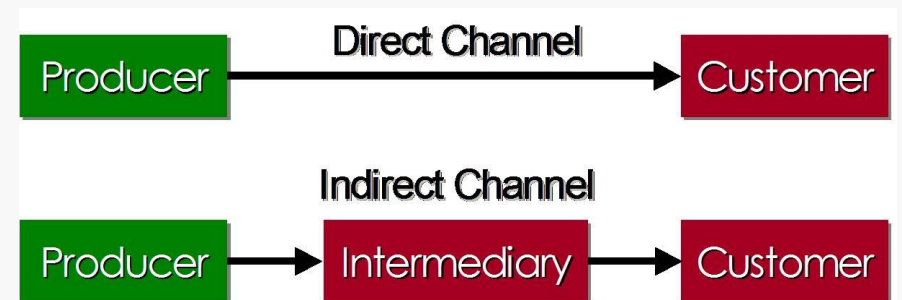
**the product really exists, but is still under development. All the assumptions made in this example are fictive.*

EXAMPLE

3. Place

Let's assume that you are going to sell the product through 2 channels:

1. Online: Direct sales to the consumer;
2. Through selected shops: Indirect to the consumer.



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EXAMPLE

4. Promotion



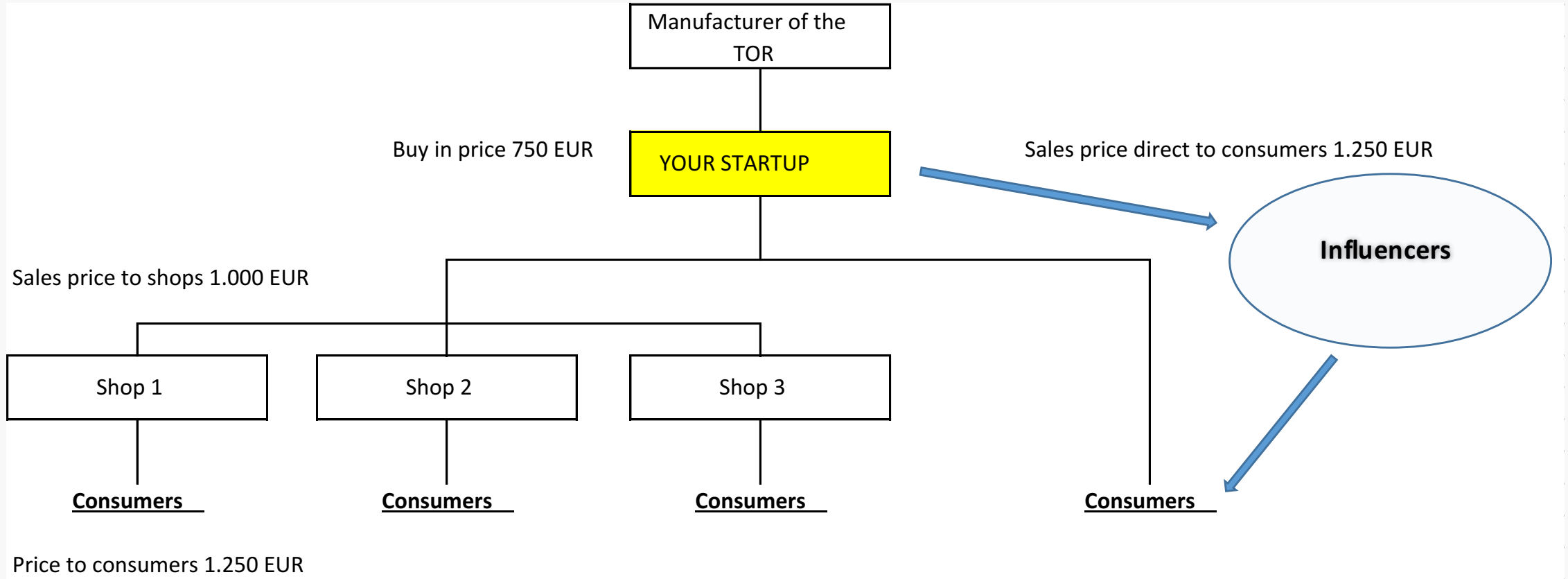
Let's assume that you are going to use the following promotion “tools”:

1. A sales manager to sell to the selected shops;
2. Use of “influencers” to sell online.

**the product really exists, but is still under development. All the assumptions made in this example are fictive.*

EXAMPLE

The business



**the product really exists, but is still under development. All the assumptions made in this example are fictive.*

EXAMPLE

Now make assumptions:

1. How many shops will you get as a customer?
2. How many products will you sell in each shop that is a customer?
3. How many influencers will you use?
4. How many sales will come forth out of the influencers?

Therefore, you have to make calculations !!

**the product really exists, but is still under development. All the assumptions made in this example are fictive.*



EXAMPLE

Example 1: Hiring a sales manager/ account manager



1. A sales manager/ account manager will cost you about 90.000 EUR a year (including car, petrol, laptop etc.);
2. He or she will work 1600 hours a year (40 weeks of 40 hours);
3. 75% of his or her time, he or she is visiting customer. A customer visit will take 4 hours including travel time;
4. After 3 customer visits you will have a new customer. The success rate is 10%.

To come with the above “conversion rates” use common sense AND input of experts (entrepreneurs, consultants, senior managers etc. etc.)

**the product really exists, but is still under development. All the assumptions made in this example are fictive.*

EXAMPLE

Example 1: Hiring a sales manager/ account manager



5. $75\% * 1600 \text{ hours} = 1200 \text{ hours visiting customers};$
6. $1200 / 4 \text{ hours} = 300 \text{ customer visits every year};$
7. $300 \text{ visits} / 3 \text{ visits needed} = 100 \text{ full sales cycles every year};$
8. $100 \text{ full sales cycles} * 10\% \text{ success rate} = \text{about } 10 \text{ new customers per account manager}.$

To come up with the above “conversion rates” use common sense AND input of experts (entrepreneurs, consultants, senior managers etc. etc.)

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EXAMPLE

Example 2: Make us of an influencer

1. An influencer will cost you 25.000 EUR per year;
2. A specific influencer will reach 100.000 people;
3. 0,5 % will be persuaded every year,
4. $100.000 * 0,5 \% = 500$ sales every year (non repetitive for this kind of product)

To come up with the above “conversion rates” use common sense AND input of experts (entrepreneurs, consultants, senior managers etc. etc.)

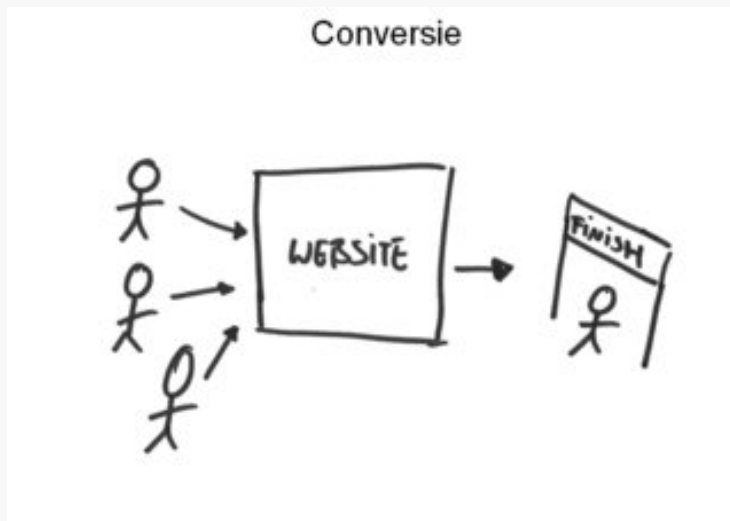
**the product really exists, but is still under development. All the assumptions made in this example are fictive.*



EXAMPLE

So, for every sales tool or marketing tool that you use make an estimate for sales !!
Hereby, you need to show your calculations.

Always link marketing efforts to sales numbers !!



**the product really exists, but is still under development. All the assumptions made in this example are fictive.*



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EXAMPLE

Estimates for the shop sales

	2018	2019	2020	2021	2022
Accountmanager 1: New shops "won"	10	10	10	10	10
Accountmanager 2: New shops "won"	0	0	10	10	10
Total shops "won"	10	10	20	20	20
Number of shops that sell the "Triton Oxygen Respirator"	10	20	40	60	80

Products sold per month (on average)*	2	2,5	3	3,5	4
Products sold per year per shop	24	30	36	42	48
Total sales for the shops per year	240	600	1.440	2.520	3.840

Sales price to shops	€ 1.000	€ 1.000	€ 1.000	€ 1.000	€ 1.000
Buy in price	€ 750	€ 750	€ 750	€ 750	€ 750

	2018	2019	2020	2021	2022
Turnover shops	€ 240.000	€ 600.000	€ 1.440.000	€ 2.520.000	€ 3.840.000
Buy in price	€ 180.000	€ 450.000	€ 1.080.000	€ 1.890.000	€ 2.880.000
Margin (25%)	€ 60.000	€ 150.000	€ 360.000	€ 630.000	€ 960.000

**speak to entrepreneurs, experts (bankers, consultants etc), shopkeepers etc etc to make the assumption*

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EXAMPLE

Estimates for the direct sales

	2018	2019	2020	2021	2022
Sales influencer 1*	500	500	500	500	500
Sales influencer 2*			500	500	500
Total sales	500	500	1.000	1.000	1.000
Sales price direct to customer	€ 1.250	€ 1.250	€ 1.250	€ 1.250	€ 1.250
Buy in price	€ 750	€ 750	€ 750	€ 750	€ 750
Turnover direct sales	€ 625.000	€ 625.000	€ 1.250.000	€ 1.250.000	€ 1.250.000
Buy in price	€ 375.000	€ 375.000	€ 750.000	€ 750.000	€ 750.000
Margin (40%)	€ 250.000	€ 250.000	€ 500.000	€ 500.000	€ 500.000

**The yearly sales in non repetitive for this kind of product. The customers only needs 1 product.*

**the product really exists, but is still under development. All the assumptions made in this example are fictive.*

EXAMPLE

Note year 2017: costs go before earnings !!

	2017	2018	2019	2020	2021	2022
Turnover shops	€ 240.000	€ 600.000	€ 1.440.000	€ 2.520.000	€ 3.840.000	
Turnover direct sales	€ 625.000	€ 625.000	€ 1.250.000	€ 1.250.000	€ 1.250.000	
Total turnover	0 € 865.000	€ 1.225.000	€ 2.690.000	€ 3.770.000	€ 5.090.000	
Costs of good sold (COGS)	€ 555.000	€ 825.000	€ 1.830.000	€ 2.640.000	€ 3.630.000	
Margin	0 € 310.000	€ 400.000	€ 860.000	€ 1.130.000	€ 1.460.000	
		36%	33%	32%	30%	29%
Accountmanager 1	€ 90.000	€ 90.000	€ 90.000	€ 90.000	€ 90.000	€ 90.000
Accountmanager 2		€ 90.000	€ 90.000	€ 90.000	€ 90.000	€ 90.000
Influencer 1	€ 25.000	€ 25.000	€ 25.000	€ 25.000	€ 25.000	€ 25.000
Influencer 2		€ 25.000	€ 25.000	€ 25.000	€ 25.000	€ 25.000
Warehouse employee 1	€ 30.000	€ 30.000	€ 30.000	€ 30.000	€ 30.000	€ 30.000
Warehouse employee 2			€ 30.000	€ 30.000	€ 30.000	€ 30.000
General costs	€ 10.000	€ 10.000	€ 10.000	€ 10.000	€ 10.000	€ 10.000
Rent for warehouse	€ 25.000	€ 25.000	€ 50.000	€ 50.000	€ 50.000	€ 50.000
Transport costs	€ 10.000	€ 10.000	€ 20.000	€ 20.000	€ 20.000	€ 20.000
Total costs	€ 115.000	€ 190.000	€ 305.000	€ 370.000	€ 370.000	€ 370.000
EBITDA	€ (115.000)	€ 120.000	€ 95.000	€ 490.000	€ 760.000	€ 1.090.000
Depreciation		0	0	0	0	0
EBIT	€ (115.000)	€ 120.000	€ 95.000	€ 490.000	€ 760.000	€ 1.090.000
Corporate taks		€ 30.000	€ 23.750	€ 122.500	€ 190.000	€ 272.500
Net profit	€ (115.000)	€ 90.000	€ 71.250	€ 367.500	€ 570.000	€ 817.500

Estimated P&L

Fixed costs:

-Almost all costs are fixed !!

-Fixed costs need to be paid out of your margin !!!

*de not forget that costs of accountmanager and influencers are taken already one year before the actual sales !!

**Losses can be used in later years to lower corporate taks. In this case this is NOT taken into account, but is still a benefit for the startup entrepreneur.

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EXAMPLE

	2018	2019	2020	2021	2022
Stock (10% of yearly COGS)	55.500	82.500	183.000	264.000	363.000
Yearly increase in stock (cash out)	55.500	27.000	156.000	108.000	255.000
Accounts receivable (1 month for shop sales*)	20.000	50.000	120.000	210.000	320.000
Yearly increase in accounts receivable (cash out)	20.000	30.000	90.000	120.000	200.000

**Assumption: the shops pay the bill one month later. De direct sales consumers pay direct.*

***Assumption: when buying in the product one needs to pay direct.*

Working capital (money that will be “put” in accounts receivable and stock) needs to be assessed.



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EXAMPLE

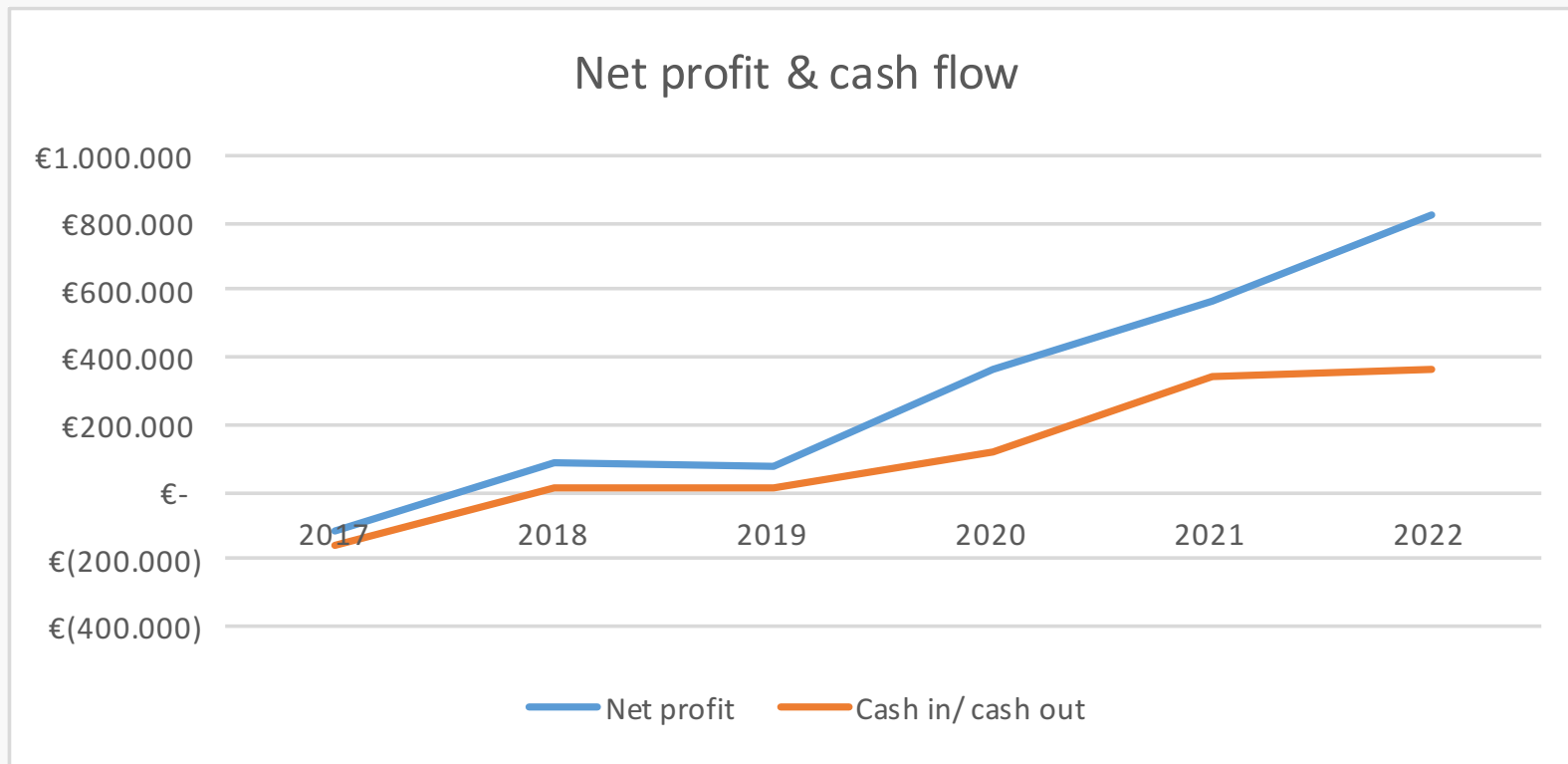
The cash flow statement

	2017	2018	2019	2020	2021	2022
EBIT	€ (115.000)	€ 120.000	€ 95.000	€ 490.000	€ 760.000	€ 1.090.000
Depreciation	€ -	€ -	€ -	€ -	€ -	€ -
Corporate taks	€ -	€ 30.000	€ 23.750	€ 122.500	€ 190.000	€ 272.500
Cash flow out of operational activities	€ (115.000)	€ 90.000	€ 71.250	€ 367.500	€ 570.000	€ 817.500
<i>Investments</i>						
Investments in development of the platform	€ 50.000					
Increasing sales receivables		€ 20.000	€ 30.000	€ 90.000	€ 120.000	€ 200.000
Increasing stock of products		€ 55.500	€ 27.000	€ 156.000	€ 108.000	€ 255.000
Total investments	€ 50.000	€ 75.500	€ 57.000	€ 246.000	€ 228.000	€ 455.000
Cash in/ cash out	€ (165.000)	€ 14.500	€ 14.250	€ 121.500	€ 342.000	€ 362.500
Starting position cash	€ (165.000)	€ (165.000)	€ (150.500)	€ (136.250)	€ (14.750)	€ 327.250
Ending position cash	€ (165.000)	€ (150.500)	€ (136.250)	€ (14.750)	€ 327.250	€ 689.750

- 50.000 investments are for product testing, checking liability risks, building sales platform etc.
- In year 2021 the company is cash positive.

EXAMPLE

The cash flow statement

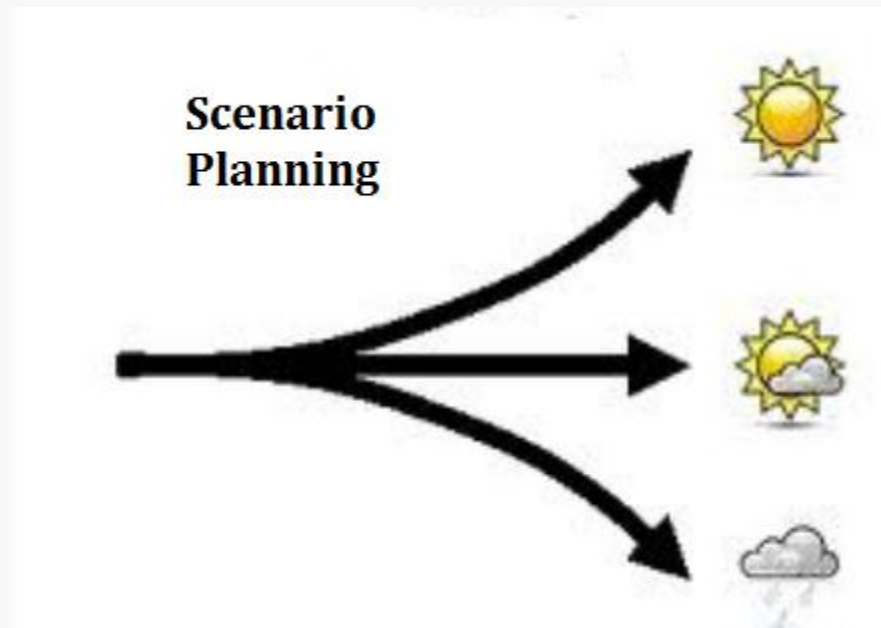


Cash flow stays behind due to massive investments in working capital:

- Stock.
- Accounts receivable.

EXAMPLE

- According to these calculations. This company needs about 165.000 EUR to start.
- But you would be wise to calculate 3 scenario's.
- Also calculate a worst case scenario. It is interesting to see how much money is needed in case things do not work out well in the start.
- Also take the worst case scenario into account when you are collecting investments.



REAL CASE EXAMPLE

Read the case of startup “Stocker” that will be handed out shortly. Moreover, use the excel template provided.

Team up in groups of 3 persons.

Work out how much capital is needed for this startup !!

Goodluck! You have 45 minutes.

www.financeyourstartup.com/presentations



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END OF WORKSHOP

Any questions ?



Any questions in the future do not hesitate to contact me at:

joris@kerstencf.nl

And feel free to add me on



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3. Valuation for startups (what is the value of your startup);
4. Investments structuring for startups.

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