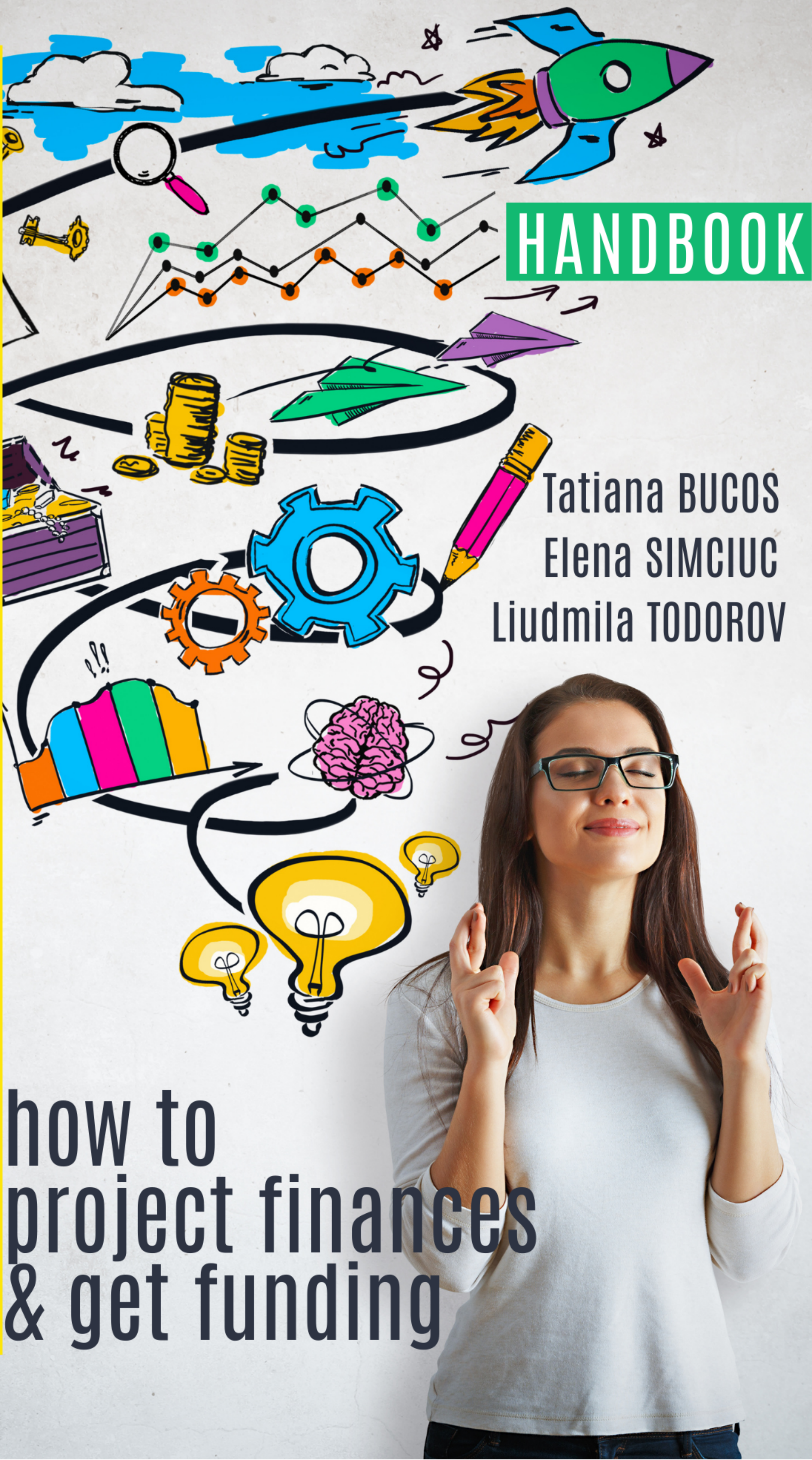
STARTUP'S FINANCES

HANDBOOK

Tatiana BUCOS
Elena SIMCIUC
Liudmila TODOROV

how to project finances & get funding



Co-funded by the Erasmus+ Programme of the European Union
Academia de Studii Economice a Moldovei
Universitatea Agrară de Stat din Moldova

Tatiana BUCOS   Elena SIMCIUC   Liudmila TODOROVA

STARTUP'S FINANCES

HOW TO PROJECT FINANCES & GET FUNDING

HANDBOOK

Chișinău, 2021

CZU 336.63:334(075)
B 86

Authors:

- **Tatiana BUCOS**, PhD, Associate professor, Academy of Economic Studies of Moldova
- **Elena SIMCIUC,** PhD, State Agrarian University of Moldova
- **Liudmila TODOROVA**, PhD, Associate professor, State Agrarian University of Moldova

Reviewers:

- **M. TIMOSHENKO**, PhD, Associate professor, Belarus
- **E. BUȘMACHIU**, PhD, Associate professor, Moldova

Recommended for publication by:

- Department of Economic Theory and Policy, ASEM (March 31, 2021)
- Methodical Commission of the Faculty of General Economics and Law (June 21, 2021)

DESCRIEREA CIP A CAMEREI NAŢIONALE A CĂRŢII DIN REPUBLICA MOLDOVA

Bucos, Tatiana.

Startup's finances : how to project finances & get funding : Handbook / Tatiana Bucos, Elena Simciuc, Liudmila Todorova ; Academia de Studii Economice a Moldovei, Universitatea Agrară de Stat din Moldova. – Chişinău : ASEM, 2021. – 116 p. : fig., fot., tab. color.

Cerinţe sistem: PDF Reader.

Referinţe bibliogr.: p. 108 (6 tit.). – Co-funded by the Erasmus+ Programme of the European Union.

ISBN 978-9975-155-21-2 (PDF).

336.63:334(075)

B 86

This handbook was developed within the project "Fostering university-enterprise cooperation and entrepreneurship of students via SMART Caffes", co-financed by the ERASMUS + program of the European Union *, reference number 585620-EPP-1-2017-1-EL-EPPKA2-CBHE-JP (2017-2886 / 001-001.

For more details visit: www.smartcaffe.eu

TABLE OF CONTENTS

PREFACE

Two of the most painful questions that novice entrepreneurs ask themselves are financially related: 1. where to get money to start a business; 2. how to prove to potential investors that they will get back the money they invest. The authors of the book Startup's finances came up with answers to both questions.

The book Startup's finances is a guide, which explains step by step how to plan the money of the future business but also what sources of financing you can use to carry out the activities provided by the business model.

The book is dedicated to novice entrepreneurs and can be used as teaching material in trainings for beginner entrepreneurs, but also for teaching university courses on topics related to entrepreneurship and startup.

The book was developed within the SMART project, co-financed by the European Union, within the ERASMUS + program.

INTRODUCTION

After you have identified / tested the product and developed the business model, you need to focus your attention on the financial aspect of the startup. As you already know, a product or service will not be accepted by consumers if it is not able to solve a certain problem, at the same time, your startup will not be able to stay on the market if you do not earn enough money to cover expenses related to offering this product / service. You didn't come to the market just to solve the consumer's problems, you want to make money by solving these problems.

Even if at this stage it is very difficult to anticipate how exactly you will earn money from your business idea, you still need to understand what are the main financial flows, how they will be organized and from what sources will be used to cover expenses in case if the revenues are lower than the expenses.

The handbook is divided into two parts: in part 1, you will be guided step by step in developing of the the financial model of your startup; in part 2, you will receive advice on how to use different funding opportunities. At the same time you will be offered multiple case studies from which you can learn, but also resource recommendations.

Your business idea will energize you as long as it is associated with the ability to make money, but the money will not appear from day one ... maybe not even in the first few months. With a financial projection you will be able to better understand when and how the money will appear from the idea you are working on, and this will help you get rid of the feeling that your money and time are going in the trash. The financial projection of the business idea will keep you in focus but will also help you to convince other people to associate with you for idea implementation or to give you money for its development.

So, let's design the finances of your business and find the fundings …

PART 1

FINANCIAL MODELING

It is said that money is the king of business
… and that they likes to be counted.

To ensure that your idea can be transformed into a sustainable business, you need to think about the monetary projection of all the processes included in the business model. In other words, you need to design the financial model of your business idea.

Financial projections are a must-have when planning a new business.

By integrating the financial aspects of the business idea into a model, you will understand how different organizational decisions will affect the financial statement of the business. Meanwhile, the financial model will allow you to determine the required investments for the idea to turn into a real business, but also to convince potential investors.

Let's **start to learn** how to do financial model!

To determine if the business project you are working on is sustainable, you need to design its financial flows, both those that involve cash inflows and those that involve outflows. If you manage to develop a realistic financial model that will integrate all financial flows, you will have a clear vision of how decisions regarding pricing, production organization, sales, etc. they will affect the business's finances but also its ability to sustain itself over time.

So, let's start by understanding what a financial model is and why you have to think about it being at the startup stage.

What is a financial model

What is the financial model?

Financial model *is a tool that reflects the future financial performance of the developed business model. In other words, it is a simulation of the future financial performance of your company.*

Financial model will help you to understand the likely financial results of the all assumptions you had put in the business model. It reflects all cash inflows and outflows, anticipated for the future, based on which can be evaluated financial statement of the business. Because cash inflows and outflows are accompanied by certain events related to operational processes (for example, cash inflows are generated by the sale of goods, and outflows, by the purchase of materials and payrolls), all cash flows in the model are correlated with the certain specific events.

After integrating into the model all the events that will generate cash inflows or outflows, we can understand if the business, as it was thought, is able to bring in enough money to cover the cash outflows. If, in a certain period, there will not be enough cash inflows, will be necessary to seek funding or rethink some processes, which will either bring in more cash inflows or reduce outflows.

Because changes in the real activity occur frequently, in order to see immediately the impact of different events/decisions on the company's finances, it is recommended to develop the model on a spread sheet (Microsoft Excel, Google Sheets etc.).

Each business has its own specificity - so, the financial model must be adapted to this specificity. At the same time, a good financial model usually contains at least three following outputs:

→ Financial statements

The financial statements are the generally accepted way of communicating financial information across companies, banks, investors, governments and basically anyone that needs to show and/or understand financial performance in some way.

Financial model includes a forecast of the three financial statements: the profit & loose (or income) statement, the balance sheet and the cash flow statement.

Cash flow statement

For fundraising purposes a forecast of the financial statements is typically shown on a yearly basis. But for the actual day to day financial management of the company it is useful to include an cash flow statement for the coming 12 months ahead in financial model.

A cash flow statement is a tool that provides a detailed overview of cash inflows and outflows for next period. It is important to predict the money needs in advance, by cash flow statement, because, money are the king in the business. What does mean? All the strategy, tactics, and ongoing business activities it will be impossible to achieve if there isn't enough money to pay the bills.

Key metrics

Some crucial metrics/KPI (key performance indicators) that are used to measure business performance. There are metrics that show sales and profitability performance (such as revenue growth rate, gross margin, operating profit, net margin), metrics related to cash flow and raising investment (such as the burn rate, runway and funding need breakdown) and company or industry specific metrics.

Based on these metrics can be detected the impact of different acquisition channels, business models and cost structures to financial performance of the company.

What does mean

(definitions & explanations)

Profit & Loose statement

The **Profit & Loose** (P&L) or Income statement, is basically an overview of all the income and costs the company has generated (or will generate) over a specific period of time and shows if the business is profitable or not.

This statement shows several crucial performance metrics such as the gross margin, operating profit, net margin.

- **Gross margin** – it is the sales revenue a company retains after incurring the direct costs associated with producing the goods it sells, and the services it provides.

  The Formula for Gross Margin is:

  Gross Margin = Net Sales (or revenue) – COGS,

  where: COGS=Cost of goods sold

- **Operating profit** - refers to an accounting metric measuring the profits a company generates from its core business functions.

The Formula for Operating profit is:

Operating Profit = R - COGS - OE – Amortization

where: R- revenue, *COGS- cost of goods sold, OE- operating expenses.*

<u>Net margin</u> <u>or</u> **<u>net profit margin</u>** - is equal to how much net income or profit is generated as a percentage of revenue. Is typically expressed as a percentage but can also be represented in decimal form and illustrates how much of each Euro, Dolars etc. in revenue collected by a company translates into profit.

The Formula for Net Margin is:

$$\boldsymbol{Net\ margin = \frac{R-COGS-E-I-T}{R} \times 100 = \frac{Net\ income}{R} \times 100}$$

where: R- revenue, *COGS=cost of goods sold, E – operating and other expenses, I – interest, T – taxes.*

Balance sheet

The **balance sheet** is an overview of everything a company owns (its assets) and owes (its liabilities) at a specific point in time. It shows a snapshot in time (for instance the end of the year).

Liabilities show the obligations of a company and how it has financed itself using debt.

Assets show how these funds are used within the company (for instance as capital to pay for inventory or assets such as computers and buildings).

Cash flow statement

The **cash flow statement** shows all cash going in and out of a company over a specific time period. The cash flow statement consists of three different parts: the operational cash flow, the investment cash flow and the financial cash flow.

- **Operational cash flow** shows the cash inflows and outflows caused by core business operations.
- **Investment cash flow** shows cash inflows and outflows related to buildings, equipment, software, etc. In most cases investment cash flow will have a cash outflow, because investing in assets costs money.
- **Financial cash flow** relates to cash changes arising from financing activities. Cash inflow occurs in case of raising capital (such as loans) and cash outflow occurs in case dividends are paid or when interests

on cash financing are paid.

The cash flow statement helps to define a company's investment needs and supports the timely payment of expenses and debts.

The reasons to have a financial model for startup

All businesses had to perform financial planning, but there are some particular reasons why a financial model is important for startups specifically:

1. Financial model will help you to build an economically viable business

Once you have developed and validated your business model, it is important to make sure that you can make more money than you spend in the long run. At the same time, by financial modeling, you will find out when the business will run out of cash, and how much cash you will need until your business is self-sustaining.

Moreover, if there are several business development scenarios, the financial model will make you much more prepared for cases where things do not go exactly as you planned. As an example, if the product / service will be launched 4 months later, based on the model you can predict what the effect will be on the cash flow, on the financing needs, etc.

2. Working on the business model will clarify your thinking about the business

In order to build a model, you are forced to concretely write down all of your assumptions about the business that may have just been floating around in your mind until now. For example, will you be able to charge customers $100 for your product, or $1000? Where that number ends up being will have a drastic impact on your company.

3. Without the financial model you will be unable to get funds

If you are planning to look for funding, financial model will serve as a key piece of the pitch to investors. A well-crafted model shows how you will make money, how much money you will need to build the business, what the expected timeline is, and who you will need to hire to get there. It also helps quantify potential return on investment.

At the same time, the financial model will be useful for choosing of the most suitable source of financing - perhaps for your business it is much more convenient to take a loan from the bank than to attract an investor, to whom you must give a share of the future business.

4. The financial model will help you to monitor the startup and adjust your decisions to the market realities

If you do not have a financial model, how will you know if your results are good and if you have sufficient resources to continue the activity? Plus, model can help you to enforce some discipline - you will know what part of the revenue you can get as a personal reward, without harming the business.

At the same time, if the assumptions on which your startup is based have not been fulfilled, or in the meantime the market conditions have changed, based on the business model, you will be able to evaluate the impact of the decisions you need to make in order to save the business.

So, if you really want to do a real and sustainable business, it is absolutely necessary to convert into figures / money the organizational processes through which you want to apply the business idea in practice.

Good to Know

30-50%

of startups fail in the first year

According to research done in 2019 by CB Insights platform based on the "goodbye letters" of 101 startups, the five top causes of startup death are:

- ✓ *42% failed because there's no market need for their services or products.*
- ✓ *29% failed because they ran out of cash.*
- ✓ *23% failed because they didn't have the right team running the business.*
- ✓ *18% failed because of pricing and cost issues.*
- ✓ *17% failed because they lacked a business model.*

2 out of 5 top causes that led to business failure (cash shortage and miscalculation of prices / costs) refer to the financial part of the business.

For more information about startups failure see: www.cbinsights.com, www.failory.com

Building financial model for startups

Because at the stage of developing of the business model, the company does not yet have activity and assets, a simplified business model can be developed. In the simplified version, the business model will refer to the following:

- **Revenue Statement** – which will shows how much money you expect to make, how much you expect to spend, and your Net Income;
- **Operating Metrics** – KPI which will impact the Revenue Statement;
- **Cash summary** – that will shows how much cash you expect to have on hand at the end of each period, along with how much investment capital you expect to raise.

How the information is presented in the model:

1. several tables are drawn up, which refer to different aspects of the financial model, for example, the first table shows the receipts, the second the expenditures and the third, the cash flow budget.
2. the information in each table is presented in the following logic:
   - ✓ **the columns** represents time, with each column typically representing a month, quarter, or year;

- ✓ **each row** represents either: a label, a cash inflow or outflow over time, which is summed over the indicated period, a snapshot of some metric as it stands at the end of the indicated period.

3. the key indicators that describe the financial situation of the business are presented in summary, on the first page of the model .

Everything on this summary page simply links to other places in the model where each of the items are forecast. This view is just meant to pull the most interesting pieces into a single dashboard.

The steps you need to take to develop the model:

- Forecast Revenue
- Forecast Expenses
- Calculate Net Income
- Forecast Cash Flow

In fact, the forecasting of the business revenue and expenses during the startup stage is really more art than science. Many entrepreneurs complain that building forecasts with any degree of accuracy takes a lot of time - time that could be spent selling rather than planning. But investors will put money in your business just if you're able to provide a set forecasts. At the same time, proper financial forecasts will help you to develop operational plans that will help make your business a success.

The financial logic of startup

Because at the startup stage the financial model is built on the basis of forecasts, before doing the financial planning it is necessary to understand the financial logic of your business. That means before you start forecasting revenue and expenses, it's important to understand how, in fact, the money will enter and leave your business. Of course, the money in your business will come from the sales of the goods or services you provide to customers, but the form in which they will reach the business, can be different. As an example, having a business in the field of taxi services, you can get payments for passenger transportation or the fees from car owners who use your infrastructure. The way the business is organized, will influence the structure of expenses. In the first case, the highest expenses refer to the formation of the car fleet, fuel consumption, salaries and licenses, in the second one, the money is spent mainly on the development and promotion of the online platform.

Thinking about the financial logic of your business, you need to focus your attention, first and foremost, on how the business will generate revenue, or on the revenue streams you rely on. That means – you have to start the design of the financial logic of your business revenue streams planning.

What is the revenue stream?

Revenue streams *(or revenue levers)* are the various opportunities to earn revenue.

Your business can use different levers for revenue generation:

Transaction-based revenue

Proceeds from sales of goods that are usually one-time customer payments.

Service revenue

Revenues are generated by providing service to customers and are calculated based on time. For example, the number of hours of consulting services provided.

Project revenue

Revenues earned through one-time projects with existing or new customers.

Recurring revenue

Earnings from ongoing payments for continuing services or after-sale services to customers. The recurring revenue model is the model most commonly used by businesses because it is predictable and it assures the company's source of revenue as ongoing. Possible recurring revenue streams include: subscription fees, renting, leasing, or lending assets, licensing content to third parties, brokerage fees, advertising fees etc.

You can't plan the startup revenue if you don't know the leverage to monetize your business. So, start with a list of all the revenue levers that will produce income over the period of the financial projections.

How it works

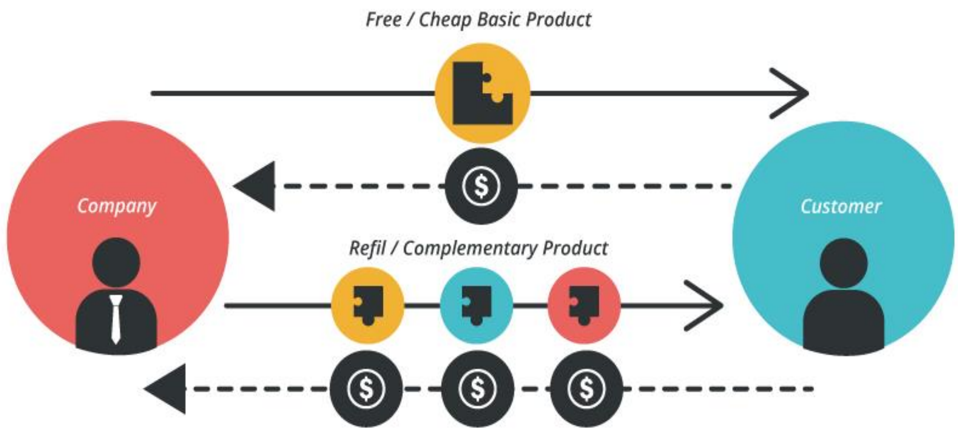
Even the revenue levers are common for different businesses, the way they are used can be different. Innovative elements are added to the traditional product sales model, which change the essence of the business model[1].

Let's see some examples of business with transaction-based revenue.

Hook & Bait

Revenue comes from two streams - the basic product (hook) and the complementary product or refill (bait). The basic product cannot be used without the complementary product. The bait and hook pattern works in the way that the basic product is sold at a very cheap price in order to make profit by selling complementary products/refills for a high price or simply increase sales of the profitable complementary product.

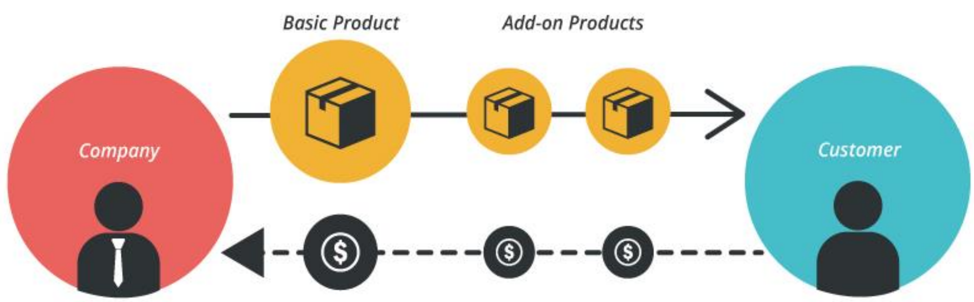
[1] The examples used below in this section are taken from the site https://bmtoolbox.net/



Examples: *P&G – Gillette: razor and blade; Inkjet Printer: printer – inkjet cartridges; Nestlé – Nespresso: coffee machine – capsule.*

Add on

In this case the basic product can be bought and used for a good price and satisfies the core need. Various additional elements are available to enhance the product and cost extra money.

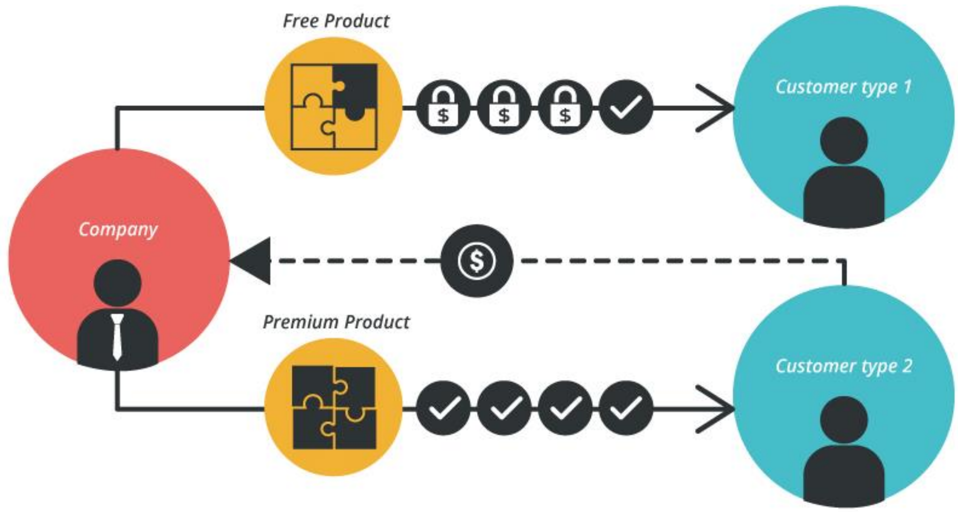


Examples: Cars – *customers can choose a basic version of the car for a reasonable price but every extra that makes the car faster, nicer or more special means additional payments.* ***Low Cost Airlines -*** *Basic air travel is very cheap but every extra needs to be purchased additionally: seat reservation, baggage, food, priority check-in.*

The development of the Internet and of the sales technologies, have created conditions for the diversification of business models based on recurring revenue. Some of these are presented below.

Freemium

The term freemium combines the words 'Free' and 'Premium'. The basic product is available for free. The company generates revenue by offering connected premium product, i.e. additional functions or services which usually attract a small number of users. By giving away the basic product for free it is easier to lure users and create a customer base. This business model pattern is one of the most widely used for Internet start-ups.



Examples: Dropbox *- free storage and sharing of data; additional storage space available for a monthly fee.* ***Spotify*** *- free music streaming service; for a monthly fee it is possible to listen off-line and ad-free.* ***MailChimp*** *- free newsletter service; monthly fee if you want to send a larger number of newsletters or if you want to send your newsletter to more than 2,000 subscribers; MailChimp changed their business from premium to freemium and had a huge increase in users.*

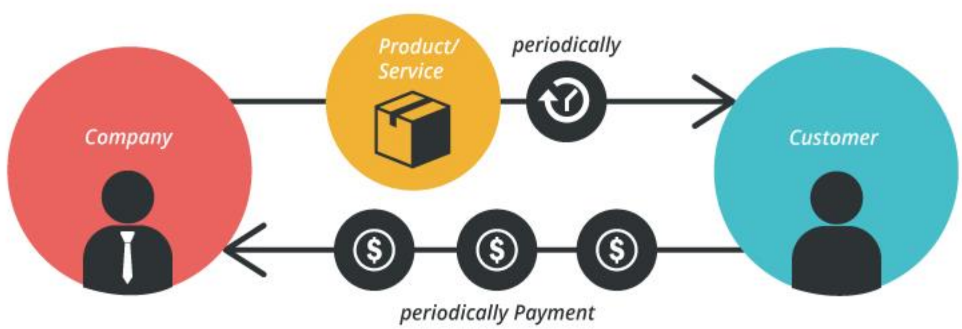
Subscription

The subscription model aims at selling a product or service over a period of time. The subscription model has been introduced by newspapers and magazines and is now used by many different products and services, which the customer can access by paying a periodic fee.

There are two different kinds of subscription models:

1. The customer receives a product/service periodically: the ownership is transferred to the customer;
2. The customer gains access to a service or virtual product: the customer gets the right to use it (SAAS = software as a service).

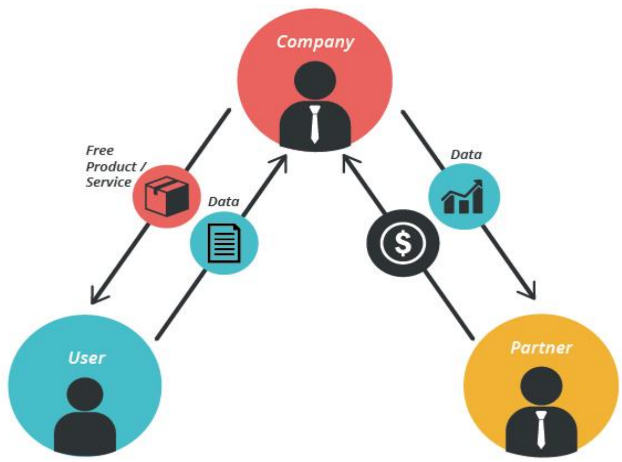
Digital business models often provide a basic service for free and offer premium features together with a subscription model (LINK Freemium + Subscription pattern).



Examples: Newspapers & magazines *- receive every issue over a period of time;* ***Pay TV and on-demand video streaming - m****onthly payment to get access to premium channels (Pay TV) or the possibility to stream video whenever required;* ***Blacksocks - o****ffers a subscription for black socks and underwear;* ***Birchbox - a*** *service that sends its subscribers a box of four to five samples of make-up or other beauty products;* ***Adobe Software - t****he software provider changed the business model from selling the software to offering a subscription.*

Customer Data Monetization

Customer Data Monetization means that the user gets the service (for free) and the company sells the data to a partner. The idea behind the "Data Monetization" pattern is to generate revenue out of available data or real-time streamed data. Examples of data sources are social media, portable devices, products or services accessed by the user and used in financial transactions. These data can be combined with external sources, like geodata, weather and data from objects (Internet of Things).
There are different kinds of value propositions that can be created by selling: raw data, processed data, insights.

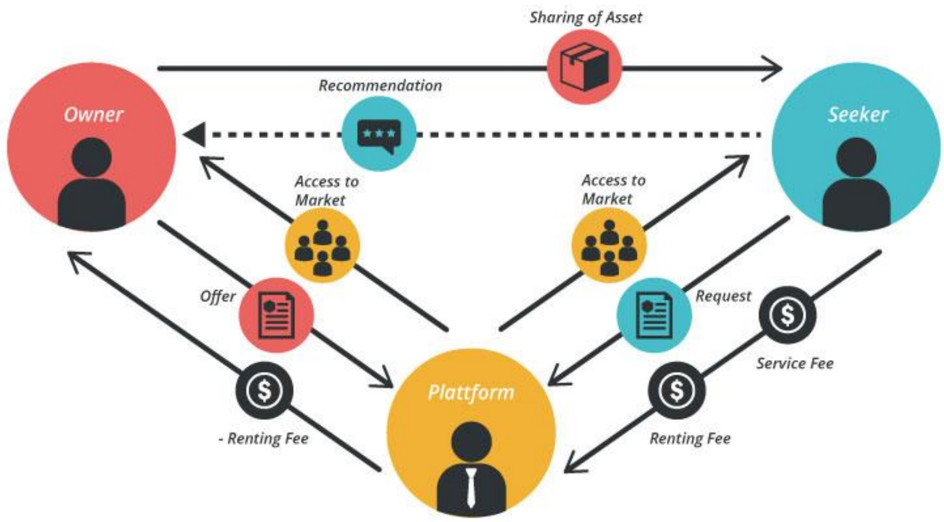


Examples: Facebook - a*nalyze and sell user data to third parties in order to place personalized advertisements.* ***PatientsLikeMe - g****ather customer data on diseases, anonymize them and sell them to pharmaceutical and health companies.* ***Payback - l****oyalty card for different retail businesses: customer can collect points and redeem them – Payback tracks customer behavior and sells the information back to retail businesses.*

Sharing Economy

Private customers share access to products or services with other private customers – a platform serves as intermediary. Sharing economy is becoming more and more popular across all kinds of assets: flats, cars, transportation, tools, toys. In 2011, sharing was nominated as one of the "10 ideas that will change the world". The most common revenue model of the platform provider is to charge a service fee for the matchmaking service.
The main features of a sharing economy business model are:

- Access instead of ownership: rather than buying an asset, the seeker rents it from someone else;
- A platform brings together owners and seekers and facilitates all processes between them;
- The business / platform itself does not possess any of the assets on offer.



***Examples: Airbnb** - offers the possibility for home owners to share their home space with travelers.* ***Uber** - car-owners are enabled to offer rides to passengers.* ***Blablacar** - enables matching of drivers and passengers to share the fuel cost of the ride.* ***Dogvacay** - find the perfect pet sitter near you.* ***LendingClub** - the world's largest marketplace for peer-to-peer loans.* ***Neighborgoods** - share goods with your friends and neighbors.*

After the channels and the form in which the money will enter the business have been identified, you can start forecasting the revenue.

Forecasting start-up revenue

Revenue will influence the rest of the profit and loss (P&L) assumptions. So if revenue estimates are materially misstated, the company risks overstaffing or understaffing and/or purchasing assets incorrectly. Revenue is also a key metric for potential investors. Estimates do not need to be precise, but they do need to be realistic and supported by a viable story.
Once you have made the list of revenue levers, estimate the amounts that can be collected from each of them. The income you will get using each revenue lever depends on 3 crucial inputs:

1. **Revenue drivers**

   Revenue drivers are the activities that influence how revenue levers produce income. Each revenue lever could potentially have a different driver. Think about what activity will increase or decrease revenue for each lever.

2. **Revenue driver activity assumptions**

   Activity assumptions are the inputs that will indicate how the revenue driver will act. To determine assumptions, work with marketing, sales, or the CEO, depending on the company organization.

3. **Pricing**

   Pricing is a necessary input to calculate total revenue. Here we will not go into detail on pricing methodology. If prices have not yet been determined, look in Internet for pricing guides and/or articles to ensure effective pricing methods are being implemented.

REVENUE LEVERS, DRIVERS & ASSUMPTIONS

SOME EXAMPLES

Lever 1. Product sales

Revenue driver: Foot traffic and conversion rates.

Revenue assumptions: 7,000 visitors in month at a 30% conversion rate and a $10 average order.

Lever 2. Personal shopper fees

Revenue driver: Advertising spend and advertising return.

Revenue assumptions: One personal shopping order will occur for every $1.50 in advertising dollars spent in month 1, $1 in month 2, and $0.95 in month 3.

Lever 3. Software license revenue

Revenue driver: Sales staff and number of licenses each sales team member is able to sell per year.

Revenue assumptions: 10 new licenses in year 1; 11 additional licenses in year 2 net of churn; and 13 additional licenses in year 3 net of churn.

Knowing revenue levers and assumptions, the futures sales can be estimate. For example, if for a physical market you have 7,000 visitors in the month and 30% will shop, the number of sales will be 2100. If each buyer makes an average purchase of $ 10, the monthly income will be $ 2100.

So, monthly revenue from a certain lever will be planned by multiplying the **prices** (or the average basket of a sale) by the **number of sales**:

$$Revenue = Sales \times Price$$

The conclusion we reached - you can estimate the future income of the startup if you know two important indicators: 1. the future sales; 2. the prices at which the products / services will be marketed.

How to forecast sales for different businesses

Because revenue drivers differ for different businesses, the way in which the future sales are estimated also differs. Sales estimating process is a difficult exercise but there are a couple of techniques you can apply:

Historical Forecasting

This method takes historical sales data and assumes you'll grow year-on-year. If you sold 1000 pieces or sales baskets in November last year, this model assumes you'll sell at least 1000 pieces in November of this year. Add in your average or projected growth rate and you'll get an even better picture. So, if you grow an average of 5% year-on-year, you can expect 1050 pieces will be sold.

This is a quick way to predict how much you'll sell in a month, quarter, or year. But this technic it's completely isolated from what's going on elsewhere in the market – it doesn't take into account seasonality, it assumes that buyer demand is constant etc. But if anything outside of the ordinary happens, your model won't hold up. Ultimately, historical demand should be used as a benchmark rather than the foundation of your sales forecast.

Forecasting sales of location based businesses

If you are operating a location driven business, such as a shop or a restaurant, the best thing to do is to go in the street where your business will be based and look at how many customers the other shops or restaurants in the street have.

If you feel that your concept is too different from the shops and restaurants in your street, then try to find a street with similar traffic which has shops and restaurants with a similar concept to yours.

Once you have estimated the traffic, all you need to do is to apply a conversion rate to deduct the number of sales.

In the end your sales forecast should look like this:

- 600 people come to the street every day;
- 1 out of 10 will enter in the shop: 60 people / day;
- 1 out of 5 people coming to the shop will buy: 12 sales / day.

Test-market analysis forecasting

This technic is great if you're rolling out a new product or service and want to get an idea of what your sales might look like. As the name implies, this method involves doing a limited launch of your product or service and then analysing the response. Using that number as a base, you can then make an accurate forecast on the response of a full rollout.

Lead based sales forecasting

One of the best techniques to forecast the sales of businesses is to build your volume forecast based on your lead generation capacity.

Let's see how it works with an example. Let's say that you sell services to small businesses and that your sales process is as follow: you phone potential customers to get a meeting and then go to the meeting and try to close the sale.

To forecast your sales, you can estimate how many phone calls an average sales representative can handle in one day. From there you can deduct how many meetings your sales representative is likely to get based on an estimated success rate. And then apply another estimated success rate to deduct the number of sales from the number of meetings.

Try to work out the entire sales funnel rather than using a global conversion ratio. That way you will be able to track the intermediary steps and adjust your sales forecast on the fly as you get more clarity on what the conversion rate at each step is. You will also be able to set more precise objectives to your sales force.

With this technique your sales forecast will look like this:

- 2 sales representatives generating 250 phone calls / month
- 1 phone call out of 5 leading to a meeting, which results in 50 meetings / month
- 1 meeting out of 10 leading to a sale, which results in 5 sales / month

Forecasting sales of an online business

If you are on online business you can use Google Adwords keyword tool. This tool will give you an estimate of the traffic associated with each keyword as well as an estimate of the number of clicks you should get for a given ad campaign. Then to build your volume forecast you need to figure out how much you can afford to spend on Adwords which will give you an estimated number of clicks. You can then apply a conversion ratio to the number of clicks to estimate the number of sales.

Your sales forecast will be something like this:

- Marketing budget: $600 / month
- Average cost per click: $0.08, hence 7,500 clicks
- Conversion rate: 4%, which results in 300 sales

What about the pricing

The most important element of your price is that it needs to sustain your business. If you price your products at a loss, or at an unsustainable profit margin, it will be very difficult to grow and expand the business. At the same time - set prices too high, and you miss out on valuable sales.

So, your task at this stage is quite complicated - you have to choose a price that will allow you to maintain and grow your business, at the same time, the price must generate enough sales. Before deciding at what price to go on the market - take a look at key factors in two areas: the market and your business.

Do Market Research

Before price the product it's important to know:

- what's most important to your target customers - for example, price point, convenience, or quality - will help you to set your prices and put together a marketing strategy;
- what's already out there in terms of competition can give you a ballpark estimate of a typical pricing range.
- what trends are characteristic of the market in which you operate - for example, trends such as increasing demand or the introduction of new technologies could impact where you set your prices.

Find Out Your Business' Fixed & Variable Costs

Once you have a understanding of the market, do some reflection about your business:

- write down everything you spend money on as a business. Your costs will generally fit into two categories: fixed costs and variable costs.

Fixed costs are the same no matter how many products you sell. Examples include rent, insurance, loan payments, and employee salaries.

Variable costs change with the amount of products you sell. They can include packaging, shipping, the value of your time, and the cost of goods sold (COGS). COGS is how much you, the business, pay to acquire or make each product. If you buy it from someone else, the variable cost it's what you paid for the product.

It's essential to know these data points before putting together your pricing strategy, because if you don't at least cover your costs, your business will fail!

Consider Price Elasticity

Elasticity will help you to understand how changing your prices could affect your immediate sales volume. If the demand for your product is elastic, it means people will stop buying it or switch to a competitor if you raise your price too much. On the other hand, you can raise the price on an inelastic product such as cigarettes or salt and many people will still continue buying it.

Luxury goods are often elastic products while basic necessities are frequently inelastic.

Set Your Volume & Branding Goals

- decide on your business goals - where do you want to be in terms of revenue, profit, and desired sales volume? Would you rather have low prices and high sales volume or high prices and low sales volume?
- think about, how do you want your brand to be perceived? Pricing must go hand-in-hand with your branding strategy and desired positioning in the minds of consumers. If you sell at low prices, you will position your business as a place for buying cheap products and vice versa.

Once you have considered these key moments, it is time to adopt a certain pricing strategy. There are dozens of pricing models and strategies that can help you better understand how to set the right prices for your audience and revenue goals.

Let 's look at some of the price strategies you can use

Cost-Plus Pricing Strategy

A cost-plus pricing strategy focuses solely on the **cost of producing your product or service, or your COGS**. It's also known as markup pricing since businesses who use this strategy "mark up" their products based on how much they'd like to profit.

To apply the cost-plus method, add a fixed percentage to your product production cost.

For example, let's say you sold shoes. The shoes cost $25 to make, and you want to make a $25 profit on each sale. You'd set a price of $50, which is a markup of 100%.

Cost-plus pricing is typically used by retailers who sell physical products. This strategy isn't the best fit for service-based or SaaS companies as their products typically offer far greater value than the cost to create them.

Competition-Based Pricing Strategy

This pricing strategy focuses on the existing market rate for a company's product or service; it doesn't take into account the cost of their product or consumer demand. Using this strategy, you can price your products slightly below your competition, the same as your competition, or slightly above your competition. For example, if you sold marketing automation software, and your competitors' prices ranged from $19.99 per month to $39.99 per month, you'd choose a price between those two numbers.

Businesses who compete in a highly saturated space may choose this strategy since a slight price difference may be the deciding factor for customers.

Dynamic Pricing Strategy

Dynamic pricing is also known as surge pricing, demand pricing, or time-based pricing. It's a flexible pricing strategy where prices fluctuate based on market and customer demand.

Hotels, airlines, event venues, and utility companies use dynamic pricing by applying algorithms that consider competitor pricing, demand, and other factors. These algorithms allow companies to shift prices to match when and what the customer is willing to pay at the exact moment they're ready to make a purchase.

Freemium Pricing Strategy

Unlike cost-plus, freemium is a pricing strategy commonly used by SaaS and other software companies. They choose this strategy because free trials and limited memberships offer a "peek" into a software's full functionality — and also build trust with a potential customer before purchase.

With freemium, a company's prices must be a function of the perceived value of their products. For example, companies that offer a free version of their software can't ask users to pay $100 to transition to the paid version. Prices must present a low barrier to entry and grow incrementally as customers are offered more features and benefits.

Hourly Pricing Strategy

Hourly pricing, also known as rate-based pricing, is commonly used by consultants, freelancers, contractors, and other individuals or laborers who provide business services.

Skimming Pricing Strategy

A skimming pricing strategy is when companies charge the highest possible price for a new product and then lower the price over time as the product becomes less and less popular.

Technology products, such as DVD players, video game consoles, and smartphones, are typically priced using this strategy as they become less relevant over time. A skimming pricing strategy helps recover sunk costs and sell products well beyond their novelty.

Penetration Pricing Strategy

A penetration pricing strategy is when companies enter the market with an extremely low price, effectively drawing attention (and revenue) away from higher-priced competitors. Penetration pricing isn't sustainable in the long run, however, and is typically applied for a short time.
This pricing method works best for brand new businesses looking for customers or for businesses that are breaking into an existing, competitive market. Another tangential strategy is **loss leader pricing**, where retailers attract customers with intentionally low-priced items in hopes that they'll buy other, higher-priced products, too.

Premium Pricing Strategy

Also known as premium pricing and luxury pricing, a **prestige pricing strategy** is when companies price their products high to present the image that their products are high-value, luxury, or premium. Prestige pricing focuses on the perceived value of a product rather than the actual value or production cost.
Prestige pricing is a direct function of **brand awareness** and brand perception. Brands who apply this pricing method are known for providing value and status through their products. Fashion and technology are often priced using this strategy because they can be marketed as luxurious, exclusive, and rare.

Project-Based Pricing Strategy

A project-based pricing strategy approach charges a flat fee per project instead of a direct exchange of money for time. It is also used by consultants, freelancers, contractors, and other individuals or laborers who provide business services.
Project-based pricing may be estimated based on the value of the project deliverables or of the estimated time of the project.

Value-Based Pricing Strategy

A value-based pricing strategy is when companies price their products or services based on what the customer is willing to pay. Even if they *can* charge more for a product, they decide to set their prices based on customer interest and data.
If used accurately, value-based pricing can boost your customer sentiment and loyalty. On the flip side, value-based pricing requires you to constantly be in tune with your various customer profiles and **buyer personas** and possibly vary your prices where your customers vary.

Bundle Pricing Strategy

A bundle pricing strategy is when you offer (or "bundle") two or more complementary products or services together and sell them for a single price. You may choose to sell your bundled products or services only as part of a bundle, or sell them as *both* components of bundles and individual products.

After you know prices and you have chosen a way for sales planning, put this information in the spread sheet and set the revenue calculation formulas.

Below is an example of revenue projection, taking into account sales drivers and information about the average basket of a buyer.

	A	B	C	D	E	F	L	M	N	O	P
1	**Revenue Forecast**										
3											
4	**Revenue (for 12 month)**	$ 121,500									
5	month		1	2	3		9	10	11	12	
6	**Monthly revenue**		$ 9,000	$ 9,000	$10,500	...	$10,500	$ 12,000	$ 12,000	$13,500	
7	Marketing budget		$ 600	$ 600	$ 700		$ 700	$ 800	$ 800	$ 900	
8	Average cost per click	$ 0.08									
9	Numbers of clicks		7,500	7,500	8,750		8,750	10,000	10,000	11,250	
10	Conversion rate	4%									
11	**Sales**		300	300	350		350	400	400	450	
12											
13	Price (or average basket)	$ 30									
14											

Based on the example presented, you can see how important analytical data for sales planning is important for financial planning (as an example, cost per click and conversion rate). Thus, if I know the cost per click, I can determine the online store traffic through the marketing budget. According to the example above, increasing the budget from $ 600 to $ 900 led to an increase in the number of visitors from 7500 to 11250, and finally, with a conversion rate of 4%, sales increased from 300 to first month, up to 450 in the 12th month.

The conclusion: the more qualitative and realistic are the analytical data we work with, the more realistic the data in the income projection table will be.

Expenses forecasting

The revenue you expect from the business involves certain expenses. Only after you estimate the expenses related to the activity you are going to carry out, you can draw conclusions about the profitability and sustainability of the business.

The expenses of your business must be divided into two categories: 1. current expenses - expenses related to the day-to-day business activity; 2. start-up expenses - the expenses you have to assume until the day you open the doors to customers.

We will learn how to plan both categories of expenses.

How to estimate day-by-day expenses

In business practice it is common to divide day-to-day expenses into two groups: 1. direct expenses, related to the product / service put up for sale (COGS); 2. indirect expenses, which create necessary conditions for the operation of the business, for the organization of sales, etc. (SG&A expenses).

COGS - costs of goods sold

What are the COGS?

Costs of goods sold (COGS) *are the costs directly related to a product or service, and they represent the cost of producing revenue.*

COGS refer to the direct costs of producing the goods sold by a company - this amount includes the cost of the materials, services, equipment depreciation, labour etc. directly used to create the good or services you are selling. It excludes indirect expenses, such as administrative costs. Cost of goods sold is also referred to as "cost of sales".

Companies in different industries have different COGS structure. For example cost of goods sold for a manufacturing business will be different from that of a retailer or a wholesaler.

For a company that produces goods, COGS will include materials, labour, production equipment hire or depreciation, etc. At the same time, in the Retail/Wholesale Based Business the COGS includes the cost of purchasing the product and getting it into a position ready for sale: the cost of purchasing the product, the costs of adapting the product for sale, salaries (if paid according to the sales made by sellers) etc.

! *The cost of goods sold is an important number for any business as it is used to determine the gross margin.*

As an example, if you sell the product for $ 300 and the COGS for it is $ 200, the gross margin is $ 100, and if the COGS is $ 250, the gross margin will be only $ 50. The conclusion that can be made based on this example – for a given selling price, the higher the COGS the lower the gross margin of the product.

Even if the gross margin does not indicate the amount that can be taken from the business by the founder or that can be used for business development, this indicator is a very important one - the gross margin covers other expenses (administrative, marketing, sales, etc.) and net profit is formed.

So, in order to calculate the gross margin of your business, you need to identify all the expenses directly related to the production of the good or service with which you intend to enter the market.

Important

COGS only applies to those costs directly related to producing goods intended for sale.

As a rule of thumb*, if you want to know if an expense falls under COGS, ask: "Would this expense have been an expense even if no sales were generated?"*

Once you have identified the expenses that make up COGS, add them to the spread sheet that are used for financial planning. Each expense included in the COGS will be shown in the worksheet in $. But the way in which these figures will be calculated can be different:

1. Calculate the monthly expenses by multiplying the expenses per unit of product / service ($) with the sales planned for the respective month - see expenses for raw materials in the table below. Expenses for raw materials were calculated by multiplying sales (eg 300 in the first month and 450 in the 12th month) by material costs per piece ($ 12). Sales information is given in the Revenue forecast table (see table above).

2. Multiply the ratio of these expenses in the price of the good / service with the projected revenue for this month - see the expenses for salaries, packaging and delivery in the table below. In order to project the expenses for salaries, the data referring to the planned incomes (from the table with Revenue forecast) were multiplied by 11%. The same was done in the case of expenses for packaging and delivery.

T41 fx

	A	B	D	E	F	L	M	N	O	P
1	**Expenses forecast**									
2	month		1	2	3	9	10	11	12	
3	**Monthly COGS**		**$ 5,040**	**$ 5,040**	**$ 5,040**	**$ 6,720**	**$ 6,720**	**$ 6,720**	**$ 7,560**	
4	raw materials	$ 12	$ 3,600	$ 3,600	$ 3,600	$ 4,800	$ 4,800	$ 4,800	$ 5,400	
5										
6	salary	11%	$ 990	$ 990	$ 990	$ 1,320	$ 1,320	$ 1,320	$ 1,485	
7										
8	packing	2%	$ 180	$ 180	$ 180	$ 240	$ 240	$ 240	$ 270	
9										
10	delivery	3%	$ 270	$ 270	$ 270	$ 360	$ 360	$ 360	$ 405	
38										
39										

Note

To make the data in the table more visible, the columns for months 4-9 have been hidden, but the finance planning spread sheet contains the data for all these months.

SG&A expenses

What are the SG&A expenses?

SG&A expenses – selling (S), general (G), and administrative (A) expenses include all other expenses outside of product costs.

SG&A includes nearly everything that isn't included in the COGS.

Selling Expenses in SG&A

Selling expenses can be broken down into direct and indirect costs associated with selling a product. Direct selling expenses only occur when the product is sold and may include shipping supplies, delivery charges, and sales commissions. Indirect selling expenses are costs that occur throughout the manufacturing process and after the product is finished. Indirect costs are basically items that money is spent on in order to earn sales. Indirect expenses include product advertising and marketing, telephone bills, travel costs, and the salaries of sales personnel.

So, if there are direct sales expenses, and they have already been included in the COGS in the category of selling expenses (in our case we had such expenses - for packaging and delivery), here you have to include only indirect expenses.

General and Administrative Expenses (G&A) in SG&A

G&A expenses are referred to as the overhead of the company. These are the costs a company must incur to open the doors each day. G&A expenses are incurred in the day-to-day operations of a business and may not be directly tied to any specific function or department within the company. They are more fixed than selling costs because they include rent or mortgage on buildings, utilities, and insurance. G&A costs also include salaries of personnel in certain departments, other than those related to sales or production.

In order project SG&A expenses, consider the following major categories:

- **Salaries and benefits**

  This category will include those staff costs that were not included in the COGS. Salary expenses include salaries themselves as well as various types of taxes, mandatory social payments. As an example, in Moldova, companies pay social payments 18% and contributions to the health insurance fund 4.5%. These are calculated based on the monthly salary fund - that is, if the monthly salary fund is $ 10,000, in addition to these staff costs will include $ 1800 social payments and $ 450 payments to the health insurance fund. Which means that this month the staff costs are $ 12,250 (10,000 + 1800 + 450).

  In addition to salaries and social payments, here you have to put bonuses, various facilities that you plan to use to motivate staff.

- **Marketing expenses**

  Marketing expenses are an important consideration for all businesses because marketing is a primary business function that creates a customer for the business. Typically, some common marketing expenses include marketing salaries, marketing research, promotions, public relations and advertising costs.

  Marketing expenses as a percentage of revenue vary depending on the industry and the company's size, business stage etc. The authors say that younger companies (1-5 years old) should spend 12-20% of gross revenue on marketing. Older companies (assuming you've established some level of market share) should commit 6-12%. Although it has B2C budgets considerably higher than for B2B businesses.

  The list of marketing expenses can be very long - include it in your sales expenses.

- **Legal**

  Several one-time and recurring legal-related costs are associated with incorporating a new business. Consider the following to avoid expensive surprises:

  - ✓ negotiation of customer contracts;
  - ✓ business license fees;
  - ✓ industry-specific state licensing;
  - ✓ incorporation fees;
  - ✓ insurance;
  - ✓ other legal fees relating to copyrights and/or trademarks.

- **IT-related costs**

  Most new businesses require a website and have some technology needs, even if the industry is not technology specific. Technology ignorance is dangerous for any new business owner and can create unplanned expenses. Consider the following:

  - ✓ data storage;
  - ✓ help desk;
  - ✓ website hosting fees;
  - ✓ software and software maintenance;
  - ✓ data security efforts.

- **Other**

  Consider all other potential business expenses such as credit card fees, office rent, office supplies, depreciation of office equipment etc.

Make the list of the SG&A expenses and integrate them into the spread sheet. After you have identified the list of S&GA expenses, add them in the spread sheet and put the data corresponding to these expenses. Some expenses in this category can be constant, others variable - it depends on how you plan the organization of the business. At the same time, some expenses will be made each month, others not.

See the table below.

T14

	A	B	D	E	F	L	M	N	O	P
1	**Expenses forecast**									
2	month		1	2	3	9	10	11	12	
3	**COGS**		**$ 5,040**	**$ 5,040**	**$ 5,040**	**$ 6,720**	**$ 6,720**	**$ 6,720**	**$ 7,560**	
4	raw materials	$ 12	$ 3,600	$ 3,600	$ 3,600	$ 4,800	$ 4,800	$ 4,800	$ 5,400	
5	salary	11%	$ 990	$ 990	$ 990	$ 1,320	$ 1,320	$ 1,320	$ 1,485	
6	packing	2%	$ 180	$ 180	$ 180	$ 240	$ 240	$ 240	$ 270	
7	delivery	3%	$ 270	$ 270	$ 270	$ 360	$ 360	$ 360	$ 405	
8	**SG&A expenses**		$ 2,980	$ 2,860	$ 2,910	$ 3,210	$ 3,160	$ 3,210	$ 3,260	
9	**Selling Expenses**		$ 1,300	$ 1,300	$ 1,300	$ 1,500	$ 1,500	$ 1,500	$ 1,600	
10	marketing expenses		$ 700	$ 700	$ 700	$ 900	$ 900	$ 900	$ 1,000	
11	staff expenses		$ 600	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600	
12	**General and Administrative Expenses**		$ 1,680	$ 1,560	$ 1,610	$ 1,710	$ 1,660	$ 1,710	$ 1,660	
13	staff expenses		$ 900	$ 900	$ 900	$ 1,000	$ 1,000	$ 1,000	$ 1,000	
14	website hosting fees		$ 70							
15	office rent	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600	
16	office supplies		$ 50		$ 50	$ 50		$ 50		
17	business license fees	$ 60	$ 60	$ 60	$ 60	$ 60	$ 60	$ 60	$ 60	
19										
20	**Total expenses**		$ 8,020	$ 7,900	$ 7,950	$ 9,930	$ 9,880	$ 9,930	$ 10,820	
21										

Note

Completing the table with expenses, make sure that they are realistic, plus they correspond (if applicable) to the data that have been presented in the table dedicated to revenue forecast.

To make sure the data match, create the calculation formulas to correlate the data in these two tables.

As an example, the marketing expenses for our example consist of 2 categories: 1. expenses for online advertising (these expenses were presented in the income table); 2. expenses for printed materials (it is assumed that $ 100 will be spent per month). Based on these data, the marketing expenses for the first month are $ 700 (600 + 100), in the 12th month $ 1000 (900 + 100).

By completing this spread sheet, we obtained an image regarding the expenses that the company will have for 12 months, starting from the sales plan and the activities that the management has planned for this period. Because we have both fixed and variable expenses, we see that expenses increase from $ 8020 in the first month to $ 10820 in the 12th month.

Comparing the data in this table and those in the table with revenue projection (see above), we can conclude that the company will have profit even from the first month of activity. Profit from the first month - $ 980 (9000-8020), in the last month the profit will be $ 2680 (13500-10820).

But, what we did not take into account is the fact that before starting the sales, the company also had certain expenses for starting the business, which we did not show in the table, here being present only the current expenses.

Respectively, the next step we have to take - to add the startup costs in the spread sheet, this will help us understand when our business will reach the break-even point, respectively when we will start to have profits that can be used for the founders' dividends or for development.

How to estimate start-up costs

Before your business opens its doors, you'll have bills to pay. It's really important to have an idea of what you need before you start – so, you have to project starting costs. The starting costs are critical to determining whether a startup can bootstrap or needs outside funding.
Startup costs is a sum of two kinds of spending: 1. Startup expenses; 2. Startup assets.

What is startup expenses?

Startup expenses - expenses that happen before the beginning of the plan, before the first month of operations.

What expenses may you have until the opening of the business? These depend on the type of business but also on how you will organize the processes. For example, many new companies incur expenses for legal work, logo design, brochures, site selection and improvements, and signage. If there is a business location, then normally the startup pays rent for a month or more before opening. And if employees start receiving compensation before the opening, then those disbursements are also startup expenses.
These expenses can be split into one-time and ongoing expenses, and by separating them in this way you can give yourself a more accurate estimate of what it will take to launch your business.
Here are some common expenses to consider in both categories:

→ **One-time expenses**

- ✓ permits and licenses;
- ✓ state registration fee;
- ✓ logo design;
- ✓ website design;
- ✓ brochure and business card printing;
- ✓ security system;
- ✓ down payment on rental property;
- ✓ improvements to chosen location.

→ **Ongoing expenses**

- ✓ rent;
- ✓ payroll;
- ✓ phone/internet connection;

- ✓ taxes;
- ✓ legal services;
- ✓ loan payments;
- ✓ insurance payments;
- ✓ utilities;
- ✓ marketing costs.

Using the examples above, make your own list of the startup expenses, taking into account the specifics of the business model you are working on. Look through this list, and make sure to add any other expenses that are unique to your business.

→ Let's talk about startup assets

What is startup assets?

Startup assets - part of startup costs and are the amounts which you need to spend on long term assets, that are necessary for starting producing and selling goods and services.

Typical startup assets are cash (the money in the bank when the company starts), business or plant equipment, office furniture, vehicles, and starting inventory for stores or manufacturers.

The money you spend on assets before starting the business is not considered expenses of the starting period. Why? Because the furniture or equipment you bay now, will be used by companies for several years, which means that the money invested in these assets will be recognized as expenses, in small tranches for a long period. As an example, if a machine purchased today will be used in manufacturing for 60 months, every month, your companies expenses will include 1/60 part of the price of this machine.

Notes

By initially separating startup expenses and assets, you potentially save yourself some money on taxes - expenses are deductible against income, so they reduce taxable income but assets are not deductible.

The point of estimating start up assets is not to categorize expense, but you must to plane it to get an idea of what financial capital your business is likely to need before actually starting to trade.

→ Next step in startup costs projection

Once you have made the list of expenses and start-up assets, it is time to add them to the financial projection of the future business. Make a new page in the financial planning spread sheet, then you will connect it with the sheet in which the expenses are presented.

	A	B	C
1	**Startup costs**		
3	**Startup expenses**		
4	Legal		$ 200
5	Website		$ 800
6	Logo design		$ 150
7	Rent office		$ 600
8	Staff expenses		$ 300
9	Marketing expenses		$ 400
10	Other		$ 100
11	**Total startup expenses**		**$ 2,550**
12			
14			
15	**Startup assets**		
16	Startup inventory		$ 1,200
17	**Current assets** (16+17)		**$ 1,200**
18	Manufactory equipment		$ 5,600
19	Office equipment		$ 400
20	Office furniture		$ 850
21	**Long term assets** (19+20+21)		**$ 6,850**
22	**Total startup assets**		**$ 8,050**
23			
24	**Startup requirements**		**$ 10,600**
25			

According to the data in the table, the costs of starting the business are $ 11,100, of which $ 2550 are current costs of preparation, and the other $ 8550 are for the creation of assets necessary for the launch of the business.

The next step we take is to add the business start-up expenses to the table of expenses planned for 12 months. An important moment that we must take into account - in the table of expenses will be added only the startup expenses, not those for the acquisition of assets. Asset data will be used when planning cash flow.

Let's see what the expenses look like after adding in the table the startup expenses.

S33 fx

	A	B	D	E	F	G	M	N	O	P	Q
1	**Expenses forecast**										
2	month		startup period	1	2	3	9	10	11	12	
3	**COGS**			$ 5,040	$ 5,040	$ 5,040	$ 6,720	$ 6,720	$ 6,720	$ 7,560	
8	**SG&A expenses**			$ 2,980	$ 2,860	$ 2,910	$ 3,210	$ 3,160	$ 3,210	$ 3,260	
20	**Startup expenses**		$ 2,550								
28	**Total expenses**		$ 2,550	$ 8,020	$ 7,900	$ 7,950	$ 9,930	$ 9,880	$ 9,930	$ 10,820	
29											

Once we have identified all the business expenses we want to launch we can determine the Profit & Loss Statement of our business - or the information about the financial situation is the final goal of all the calculations made so far.

Startup Profit & Loss Statement

In order to determine the profit or loss that your business will have in the next 12 months, it is necessary to integrate the two tables - the table in which the revenues were estimated with the one in which the expenses were estimated.

By integrating these two tables, several indicators (KPIs) can be calculated that reflect the financial statement of the business:

- **Gross margin** (Gross profit)

  Sales revenue a company retains after incurring the direct costs associated with producing the goods it sells, and the services it provides.

  Calculation: Gross margin=Revenue - COGS

- **Operating profit** (EBIDTA)

  Earnings (or profit) before interest and tax. Operating profit serves as a highly accurate indicator of the business's potential profitability.

  Calculation: EBIDTA=Gross margin – S&GA expenses

- **Net profit** (Nnet Income)

  Company's profit once operating costs, taxes, interest and depreciation have all been subtracted from its total revenues. The term is often referred to as a company's 'bottom line' and may also be described as 'net earnings' or 'net income'.
  Net profit is the amount can be used for development or for dividend payments.
  Calculation: Net profit=EBIDTA – Taxes – Amortization -Depreciation

Let's see what are the respective indicators for our business. We will first calculate the gross margin.

Notes

At the beginning we will calculate the financial indicators taking into account only the current expenses, that is, ignoring the expenses we had at the stage of preparing the business for launch.

Later we will add these expenses to understand why it is important not to ignore them.

Y34

	A	B	E	F	G	M	N	O	P	Q
1	**Profit&Loss Statement**									
2	Net profit (for 12 months)									
3	month		1	2	3	9	10	11	12	
4	Revenue		$ 9,000	$9,000	$9,000	$ 12,000	$12,000	$12,000	$ 13,500	
5	COGS		$ 5,040	$5,040	$5,040	$ 6,720	$ 6,720	$ 6,720	$ 7,560	
6	raw materials	$ 12	$ 3,600	$3,600	$3,600	$ 4,800	$ 4,800	$ 4,800	$ 5,400	
7	salary	11%	$ 990	$ 990	$ 990	$ 1,320	$ 1,320	$ 1,320	$ 1,485	
8	packing	2%	$ 180	$ 180	$ 180	$ 240	$ 240	$ 240	$ 270	
9	delivery	3%	$ 270	$ 270	$ 270	$ 360	$ 360	$ 360	$ 405	
10	Gross margin (4-5)		$ 3,960	$3,960	$3,960	$ 5,280	$ 5,280	$ 5,280	$ 5,940	
11	Gross margin, % (10/4)		44%	44%	44%	44%	44%	44%	44%	

The data in the table indicates that we have a Gross margin starting from the first month, it constituting 44%, that is, from the revenue received from sales 44% are gross profit, or from every $ obtained from sales $ 0.44 is Gross profit.

Remember that Gross Profit does not yet show your net income, because that amount is also intended to cover S&GA expenses. Respectively, the next step we take is to exclude S&GA Gross Profit expenses and calculate operating profit or EBIDTA. EBITDA is the amount based on which the income tax is calculated and from which the interests are paid, the losses are covered.

U38

	A	B	E	F	G	M	N	O	P
1	**Profit&Loss Statement**								
2	Net profit (for 12 months)								
3	month		1	2	3	9	10	11	12
4	**Revenue**		$ 9,000	$9,000	$9,000	$ 12,000	$12,000	$ 12,000	$ 13,500
5	COGS		$ 5,040	$5,040	$5,040	$ 6,720	$ 6,720	$ 6,720	$ 7,560
10	**Gross margin** (4-5)		$ 3,960	$3,960	$3,960	$ 5,280	$ 5,280	$ 5,280	$ 5,940
12	**SG&A expenses**		$ 2,980	$2,860	$2,910	$ 3,210	$ 3,160	$ 3,210	$ 3,260
13	**Selling Expenses**		$ 1,300	$1,300	$1,300	$ 1,500	$ 1,500	$ 1,500	$ 1,600
14	marketing expenses		$ 700	$ 700	$ 700	$ 900	$ 900	$ 900	$ 1,000
15	staff expenses		$ 600	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600
16	**General and Administrative Expenses**		$ 1,680	$1,560	$1,610	$ 1,710	$ 1,660	$ 1,710	$ 1,660
17	staff expenses		$ 900	$ 900	$ 900	$ 1,000	$ 1,000	$ 1,000	$ 1,000
18	website hosting fees		$ 70						
19	office rent	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600
20	office supplies		$ 50		$ 50	$ 50		$ 50	
21	business license fees	$ 60	$ 60	$ 60	$ 60	$ 60	$ 60	$ 60	$ 60
22	**Operating profit /EBITDA** (10-12)		$ 980	$1,100	$1,050	$ 2,070	$ 2,120	$ 2,070	$ 2,680
23	EBITDA, %		11%	12%	12%	17%	18%	17%	20%
24	Cumulativ EBITDA		$ 980	$2,080	$3,130	$ 13,330	$15,450	$ 17,520	$ 20,200

Based on the table we see that Operating profit margin is much lower than Gross margin (11% in the first month and 20% in the 12th). At the same time, this figure varies from month to month, due to the fact that these expenses do not change in proportion to sales.

And the last step we need to take is to calculate the net profit. For this we will exclude Income Taxes, calculated from EBITDA, losses, interest on loans. From what has been planned so far, we will only exclude taxes - we do not have information on loans and losses. We will assume that 15% taxes are paid every 3 months.

	A	B	C	D	E	F	K	L	M	N	O
1	**Profit&Loss Statement**										
2	Net profit (for 12 months)	$ 17,170									
3	month		1	2	3	4	9	10	11	12	
4	Revenue		$ 9,000	$9,000	$ 9,000	$ 10,500	$ 12,000	$12,000	$ 12,000	$ 13,500	
5	COGS		$ 5,040	$5,040	$ 5,040	$ 5,880	$ 6,720	$ 6,720	$ 6,720	$ 7,560	
10	Gross margin (4-5)		$ 3,960	$3,960	$ 3,960	$ 4,620	$ 5,280	$ 5,280	$ 5,280	$ 5,940	
12	SG&A expenses		$ 2,980	$2,860	$ 2,910	$ 2,960	$ 3,210	$ 3,160	$ 3,210	$ 3,260	
30	Operating profit /EBITDA (10-12)		$ 980	$1,100	$ 1,050	$ 1,660	$ 2,070	$ 2,120	$ 2,070	$ 2,680	
31	EBITDA, %		11%	12%	12%	16%	17%	18%	17%	20%	
32	Cumulativ EBITDA		$ 980	$2,080	$ 3,130	$ 4,790	$ 13,330	$15,450	$ 17,520	$ 20,200	
34	Taxes	15%			$ 469.50		$ 790.50			$ 1,030.50	
35	Net profit		$ 980	$1,100	$ 581	$ 1,660	$ 1,280	$ 2,120	$ 2,070	$ 1,650	
36	Net profit, %		11%	12%	6%	16%	11%	18%	17%	12%	
37	Cumulativ Net profit		$ 980	$2,080	$ 2,661	$ 4,321	$ 11,331	$13,451	$ 15,521	$ 17,170	
38	Taxes for 12 month	$ 3,030.00									

Integrating the data with reference to income and expenses, the final financial results were reached - the company will have an annual net profit of $ 17170, being profitable even from the first month of activity. Profitability thus varies, in the first month the net profit rate is 9%, and in the 12th month 17%.

Such a situation is beneficial for both founders and potential investors.

But, let's remember that, in fact, the start-up expenses were not included in the Profit & Loss Statement.

Let's see how the financial condition of the business will change if we add these expenses. We will include them in S&GA expenses.

	A	B	C	D	E	F	G	L	M	N	O	P
1	**Profit&Loss Statement**											
2												
3	Net profit (for 12 months)	$ 15,003										
4	month		pre-startup	1	2	3	4	9	10	11	12	
5	Revenue			$ 9,000	$9,000	$ 9,000	$ 10,500	$ 12,000	$12,000	$ 12,000	$ 13,500	
6	COGS			$ 5,040	$5,040	$ 5,040	$ 5,880	$ 6,720	$ 6,720	$ 6,720	$ 7,560	
11	Gross margin			$ 3,960	$3,960	$ 3,960	$ 4,620	$ 5,280	$ 5,280	$ 5,280	$ 5,940	
13	SG&A expenses			$ 2,980	$2,860	$ 2,910	$ 2,960	$ 3,210	$ 3,160	$ 3,210	$ 3,260	
23	Startup expenses		$ 2,550									
24	Legal		$ 200									
25	Website		$ 800									
26	Logo design		$ 150									
27	Rent office		$ 600									
28	Staff expenses		$ 300									
29	Marketing expenses		$ 400									
30	Other		$ 100									
31	Operating profit /EBITDA		$ (2,550)	$ 980	$1,100	$ 1,050	$ 1,660	$ 2,070	$ 2,120	$ 2,070	$ 2,680	
32	EBITDA, %			11%	12%	12%	16%	17%	18%	17%	20%	
33	Cumulativ EBITDA		$ (2,550)	$(1,570)	$ (470)	$ 580	$ 2,240	$ 10,780	$12,900	$ 14,970	$ 17,650	
35	Taxes	15%				$ 87		$ 790.50			$ 1,030.50	
36	Net profit		$ (2,550)	$ 980	$1,100	$ 963	$ 1,660	$ 1,280	$ 2,120	$ 2,070	$ 1,650	
37	Net profit, %			11%	12%	11%	16%	11%	18%	17%	12%	
38	Cumulativ Net profit		$ (2,550)	$(1,570)	$ (470)	$ 493	$ 2,153	$ 9,163	$11,283	$ 13,353	$ 15,003	
39	Taxes for 12 month	$ 2,647.50										

After adding the data regarding the startup expenses, the financial situation changed. In the first 2 months of activity the company works with losses - startup expenses are covered only in the third month. Respectively, the company reaches the break-even point only in the third month after starting the activity.

If the startup expenses are ignored, the feeling is created that the company is more profitable, the real situation being different. After adding startup expenses, the annual profit decreased by $ 2167. At the same time, the addition of startup expenses to the financial plan led to a decrease in annual income taxes by $ 382.5.

Notes

Including of the startup costs in the Profit & Loss Statement crucial for your futures business. In this way you will understand when exactly will come the period in which you will cover the current expenses from the current income. But until then, you will need to find solutions that will allow you to maintain your business - for example, find money on loan or negotiate with suppliers to postpone the payment of bills for 90 days.

Payments for assets (equipment, startup inventory, etc.) were not included in the Profit&Loss Statement, but these payments cannot be ignored either. They will be reflected in the cash flow forecasting.

Cash Flow forecasting

Cash flow is vital for companies of all shapes and sizes but for start-ups understanding cash flow is crucial to make sure your business can survive.

The fact that previous calculations have shown that the business is profitable is not a guarantee that it can last over time. The business will only last if you have enough cash to pay the bills on time, otherwise you will run out of office, raw materials, staff and other vital resources - or money is actually the blood of your business.

The fact that previous calculations have shown that the business is profitable is not a guarantee that it can last over time. Due to insufficient cash, profitable businesses also go bankrupt. How is this possible? There are several explanations, here are some: 1. until you reach the break-even point you have to purchase resources, rent spaces, hire staff, etc. - if you don't have money today to make the payments related to attracting resources, you can't get to the day when the business will make a profit; 2. concluding a profitable transaction does not guarantee that you will have cash in your account - payments related to this transaction may enter the account in just over a month, because you have given the buyer the opportunity to pay the invoice for 30 days.

So, the business will be maintained over time and will reach the estimated profits, only if you have enough cash to pay the bills on time. It is said that money is the blood of business, and you must make sure that you always have the amount of money needed to make it work.

How can you do that? Through cash flow forecast and management.

What is cash flow forecast?

Cash flow forecast - a document that helps estimate the amount of money that'll move in and out of your business. It also includes your projected income and expenses.

The cash flow farecast includes:

- ✓ **Cash received**. This might include income from sales, loan proceeds or interest income. If you've already made some sales or received some orders, you can estimate when you will actually get paid.
- ✓ **Cash paid out**. This includes inventory and other purchases, payroll, rent, utilities, taxes, loan payments and more. (This cash flow statement template includes a "pre-startup" column for cash paid out before the beginning of the cash flow statement period.)

Creating a detailed forecast of when money will be leaving and coming into your business will help you to plan its future; showing you when you'll have enough money to, for example, expand your offering or grow your team. Cash flow forecasts also give you an insight into when you should look to raise finance for your business.

Typically forecasts cover the next 12 months, but can also be used for shorter periods of time – like a week or a month.

How to Draft a Cash Flow Forecast?

To prepare a cash flow forecast, you'll use many of the same figures you use for a Revenue and Expenses forecast. The main difference is that you'll include all cash inflows and outflows, not just sales revenue and business expenses. For example, you'll include loans, loan payments, transfers of personal money into and out of the business, taxes, equipment purchase and other money that isn't earned or spent as part of your core business operation.

To start making your projection, you need a new page in the financial planning document. Because, in the example we use for expenses projection the spread sheet includes 12 months of activity, plus the preparation period, the same will be done in the spread sheet for cash flow forecast.

Additionally, in this spread sheet you should include the following categories:

- ➢ **Beginning Cash** – this category shows the whole sum of cash you will own in the first days of the month;
- ➢ **Cash Sources** – it will show all money coming every month from direct sales and other receivables;
- ➢ **Total Source** – here, you can include the amounts on the "Beginning Cash" row to the amounts in "Cash-Sources" for every month;
- ➢ **Uses of Cash** – as well, you can write all possible expenses your company may have, such as money that must be paid to merchants, payrolls, rental, equipment, etc.
- ➢ **Total expenses** – record all expenses so that you would be able to view what will be going out as expenditure each month.

- **Excess/Deficit** – this shows the most vital part, it shows the figure that counts. If there are positive figures across the chart, this means that you have enough money (excess cash) to invest back into the business or to pay dividends to business owners. If the figure indicates the cash deficit, this means that it is necessary to find new sources of cash (for example, bank loan) or to postpone some payments.

Let's complete the cash flow spread sheet using the information from the tables with the planning of income, expenses. For the beginning we will do the planning without using the data for the pre-start period, later we will add these data as well.

	A	B	C	D	J	K	L	M	N
1	**Cash flow Forecast**								
2									
3	**month**	**1**	**2**	**3**	**9**	**10**	**11**	**12**	
5	**Beginning Cash**	**$ -**	**$ 980**	**$ 2,080**	**$ 10,434**	**$ 11,713**	**$ 13,833**	**$ 15,903**	
6	**Cash Sources**								
7	Sales revenue	$ 9,000	$ 9,000	$ 9,000	$ 12,000	$ 12,000	$ 12,000	$ 13,500	
10	**Total Source**	**$ 9,000**	**$ 9,000**	**$ 9,000**	**$ 12,000**	**$ 12,000**	**$ 12,000**	**$ 13,500**	
11	**Uses of Cash**								
12	Operational payments								
13	raw materials	$ 3,600	$ 3,600	$ 3,600	$ 4,800	$ 4,800	$ 4,800	$ 5,400	
14	staff expenses	$ 2,490	$ 2,490	$ 2,490	$ 2,920	$ 2,920	$ 2,920	$ 3,085	
15	packing	$ 180	$ 180	$ 180	$ 240	$ 240	$ 240	$ 270	
16	delivery	$ 270	$ 270	$ 270	$ 360	$ 360	$ 360	$ 405	
17	marketing expenses	$ 700	$ 700	$ 700	$ 900	$ 900	$ 900	$ 1,000	
18	website hosting fees	$ 70	$ -	$ -	$ -	$ -	$ -	$ -	
19	office rent	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600	
20	office supplies	$ 50	$ -	$ 50	$ 50	$ -	$ 50	$ -	
21	business license fees	$ 60	$ 60	$ 60	$ 60	$ 60	$ 60	$ 60	
22	Income taxes	$ -	$ -	$ 87	$ 791	$ -	$ -	$ 1,031	
40	Total expenses	$ 8,020	$ 7,900	$ 8,037	$ 10,721	$ 9,880	$ 9,930	$ 11,851	
41									
42	**Net flow (total)**	**$ 980**	**$ 1,100**	**$ 963**	**$ 1,280**	**$ 2,120**	**$ 2,070**	**$ 1,650**	
43									
44	**Excess/Deficit**	**$ 980**	**$ 2,080**	**$ 3,043**	**$ 11,713**	**$ 13,833**	**$ 15,903**	**$17,553**	
45									

When drawing up this table, it is important to pay attention to the bottom line, which indicates whether we have excess cash in the cone or deficit. In case of deficit, the data will be presented in parentheses.

In the case of the table above, the cash situation is good, at the end of the month the amounts corresponding to the net profit are accumulated in the company's content. But this situation will be valid only if the payments and receipts provided in the tables of income and expenses of the company are made in the months in which they are recognized.

In reality, they often do not coincide in time - that is, in reality, the income recognized in January, as an example, can lead to cash inflows into the account only in March, because the customer was offered the opportunity to pay later. The same can happen with expenses, for some resources payments are made in advance, for others you can get the option to pay in 30 days (as an example) or pay in installments for 12 months.

Let's see how the cash flow status will change, if we assume that 50% of sales are made with immediate payments and for the other 50% payments will be collected next month (we change in the table the formula for calculating cash inflows).

	A	B	C	D	J	K	L	M	N
1–2	**Cash flow Forecast**								
3	month	1	2	3	9	10	11	12	
5	Beginning Cash	$ -	$ (3,520)	$ (2,420)	$ 5,184	$ 5,713	$ 7,833	$ 9,903	
6	Cash Sources								
7	Sales revenue	$ 4,500	$ 9,000	$ 9,000	$ 11,250	$ 12,000	$ 12,000	$ 12,750	
10	Total Source	$ 4,500	$ 9,000	$ 9,000	$ 11,250	$ 12,000	$ 12,000	$ 12,750	
11	Uses of Cash								
12	Operational payments								
13	raw materials	$ 3,600	$ 3,600	$ 3,600	$ 4,800	$ 4,800	$ 4,800	$ 5,400	
14	staff expenses	$ 2,490	$ 2,490	$ 2,490	$ 2,920	$ 2,920	$ 2,920	$ 3,085	
15	packing	$ 180	$ 180	$ 180	$ 240	$ 240	$ 240	$ 270	
16	delivery	$ 270	$ 270	$ 270	$ 360	$ 360	$ 360	$ 405	
17	marketing expenses	$ 700	$ 700	$ 700	$ 900	$ 900	$ 900	$ 1,000	
18	website hosting fees	$ 70	$ -	$ -	$ -	$ -	$ -	$ -	
19	office rent	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600	
20	office supplies	$ 50	$ -	$ 50	$ 50	$ -	$ 50	$ -	
21	business license fees	$ 60	$ 60	$ 60	$ 60	$ 60	$ 60	$ 60	
22	Income taxes	$ -	$ -	$ 87	$ 791	$ -	$ -	$ 1,031	
40	Total expenses	$ 8,020	$ 7,900	$ 8,037	$ 10,721	$ 9,880	$ 9,930	$ 11,851	
41									
42	Net flow (total)	$ (3,520)	$ 1,100	$ 963	$ 530	$ 2,120	$ 2,070	$ 900	
43									
44	Excess/Deficit	$ (3,520)	$ (2,420)	$(1,457)	$ 5,713	$ 7,833	$ 9,903	$10,803	
45									

According to the table above it shows that giving the customer the opportunity to pay in the next month resulted in a cash deficit in the first month of $ 3520, which means that they will not be able to make current payments this month, respectively. there are problems related to the company's activity.

In such situations, solutions must be sought - such as canceling customers' ability to pay next month (but this will affect sales) or negotiating with the material suppliers to pay them next month.

let's see how the situation will change if the suppliers of raw materials will offer us the possibility to pay in over 30 days for the delivered materials.

	A	B	C	D	J	K	L	M
1–2	**Cash flow Forecast**							
3	month	1	2	3	9	10	11	12
5	Beginning Cash	$ -	$ 80	$ 1,180	$ 9,384	$ 10,513	$ 12,633	$ 14,703
6	Cash Sources							
7	Sales revenue	$ 4,500	$ 9,000	$ 9,000	$ 11,250	$ 12,000	$ 12,000	$ 12,750
10	Total Source	$ 4,500	$ 9,000	$ 9,000	$ 11,250	$ 12,000	$ 12,000	$ 12,750
11	Uses of Cash							
12	Operational payments							
13	raw materials	$ -	$ 3,600	$ 3,600	$ 4,200	$ 4,800	$ 4,800	$ 4,800
14	staff expenses	$ 2,490	$ 2,490	$ 2,490	$ 2,920	$ 2,920	$ 2,920	$ 3,085
15	packing	$ 180	$ 180	$ 180	$ 240	$ 240	$ 240	$ 270
16	delivery	$ 270	$ 270	$ 270	$ 360	$ 360	$ 360	$ 405
17	marketing expenses	$ 700	$ 700	$ 700	$ 900	$ 900	$ 900	$ 1,000
18	website hosting fees	$ 70	$ -	$ -	$ -	$ -	$ -	$ -
19	office rent	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600
20	office supplies	$ 50	$ -	$ 50	$ 50	$ -	$ 50	$ -
21	business license fees	$ 60	$ 60	$ 60	$ 60	$ 60	$ 60	$ 60
22	Income taxes	$ -	$ -	$ 87	$ 791	$ -	$ -	$ 1,031
40	Total expenses	$ 4,420	$ 7,900	$ 8,037	$ 10,121	$ 9,880	$ 9,930	$ 11,251
41								
42	Net flow (total)	$ 80	$ 1,100	$ 963	$ 1,130	$ 2,120	$ 2,070	$ 1,500
43								
44	Excess/Deficit	$ 80	$ 1,180	$ 2,143	$ 10,513	$ 12,633	$ 14,703	$16,203
45								

As can be seen from the table, this solution allowed the restoration of the cash flow balance.

But because the activity in the first month cannot take place without the pre-start measures, which in turn have generated costs (startup expenses and assets that we talked about earlier) it is necessary to add them to the cash flow table.

After adding these costs, the situation will definitely change:

	A	B	C	D	E	J	K	L	M	N	O
1–2	**Cash flow Forecast**										
3	month	pre-start	1	2	3	8	9	10	11	12	
5	Beginning Cash	$ -	$ -	$ 40	$ 1,100	$ 2,244	$ 2,824	$ 2,873	$ 3,913	$ 4,903	
6	Cash Sources										
7	Sales revenue		$ 4,500	$ 9,000	$ 9,000	$ 10,500	$ 11,250	$ 12,000	$ 12,000	$ 12,750	
10	Owners capital	$ 1,000									
11	Bank loan	$ 4,000									
12	Total received cash	$ 5,000	$ 4,500	$ 9,000	$ 9,000	$ 10,500	$ 11,250	$ 12,000	$ 12,000	$ 12,750	
13	Uses of Cash										
14	Operational payments	$ -	$ 4,420	$ 7,900	$ 8,037	$ 8,840	$ 10,121	$ 9,880	$ 9,930	$ 11,251	
25	Startup expenses	$ 2,550	$ -	$ -	$ 560	$ 560	$ 560	$ 560	$ 560	$ 560	
33	Startup assets	$ 2,450	$ -	$ -	$ 280	$ 280	$ 280	$ 280	$ 280	$ 280	
34	Startup inventory	$ 1,200									
35	Manufactory equipment	$ -			$ 280	$ 280	$ 280	$ 280	$ 280	$ 280	
36	Office equipment	$ 400									
37	Office furniture	$ 850									
38	Financial expenses	$ -	$ 40	$ 40	$ 240	$ 240	$ 240	$ 240	$ 240	$ 240	
39	loan repayment				$ 200	$ 200	$ 200	$ 200	$ 200	$ 200	
40	Interest		$ 40	$ 40	$ 40	$ 40	$ 40	$ 40	$ 40	$ 40	
41	Total cash paid out	$ 5,000	$ 4,460	$ 7,940	$ 9,117	$ 9,920	$ 11,201	$ 10,960	$ 11,010	$ 12,331	
42											
43	Net flow (total)	$ -	$ 40	$ 1,060	$ (117)	$ 580	$ 50	$ 1,040	$ 990	$ 420	
44											
45	Excess/Deficit	$ -	$ 40	$ 1,100	$ 983	$ 2,824	$ 2,873	$ 3,913	$ 4,903	$ 5,323	
46											

The table indicates that after adding the start-up costs the company faces a cash deficit until the 10th month of activity. What this means? If the property owner, the staff, the suppliers of products, services would accept that the company pays them when the company will have enough cash from the current activity, the company could fully cover the debts only in the 10th month of activity.

Obviously, such a situation is difficult to imagine, therefore, being in the pre-start period, the founders must find the sources from which they will obtain cash to make payments in the pre-start period.

Which means that after the list of startup costs has been made, it is necessary to indicate the financing sources. See the table below.

	A	B	C	D	E	F	G	H
1	**Startup costs**							
3	**Startup expenses**				**Startup funding**			
4	Legal		$ 200		**Liabilities**			
5	Website		$ 800		Accounts payable (outstanding bills)		$ 5,600	
6	Logo design		$ 150		Bank loan (long term)		$ 4,000	
7	Rent office		$ 600		**Total liabilities**		**$ 9,600**	
8	Staff expenses		$ 300					
9	Marketing expenses		$ 400		**Capital**			
10	Other		$ 100		Owners		$ 1,000	
11	**Total startup expenses**		**$ 2,550**		Investors		$ -	
12					**Total capital**		**$ 1,000**	
14								
15	**Startup assets**				**Total startup funding**		**$ 10,600**	
16	Startup inventory		$ 1,200					
17	**Current assets** (16+17)		**$ 1,200**					
18	Manufactory equipment		$ 5,600					
19	Office equipment		$ 400					
20	Office furniture		$ 850					
21	**Long term assets** (19+20+21)		**$ 6,850**					
22	**Total startup assets**		**$ 8,050**					
23								
24	**Startup requirements**		**$ 10,600**					
25								

According to the table, the founders of the business plan to finance startup costs from 3 sources: 1. the founders' contribution ($ 1000); 2. bank loans ($ 4000); outstanding bills ($ 5600).

How will these amounts be presented in the table?

- the owners capital - will be presented in the Cash sourses section for the pre-start period;
- outstanding bills - this source does not involve the collection of cash, but the transfer of payments for another period, as an example, will be transferred to the provider $ 560 starting with the 3rd month (respectively, the payment will be removed from the pre-start period and distributed during the year to cover it from current income);
- bank loans – the amount will be presented as a source of cash in the pre-start period, but it will automatically generate some payments, starting with the first month of activity - interest (for example, $ 40 per month) and loan repayment (for example, $ 200 per month). Respectively, the use of credit as a source of financing will entail additional expenses, which we will present in the financial expenses section.

After adding these sources, the state of the company's cash changes cardinally.

Cash flow Forecast

month	pre-start	1	2	3	8	9	10	11	12
Beginning Cash	$ -	$ -	$ 40	$ 1,100	$ 2,244	$ 2,824	$ 2,873	$ 3,913	$ 4,903
Cash Sources									
Sales revenue		$ 4,500	$ 9,000	$ 9,000	$ 10,500	$ 11,250	$ 12,000	$ 12,000	$ 12,750
Owners capital	$ 1,000								
Bank loan	$ 4,000								
Total received cash	$ 5,000	$ 4,500	$ 9,000	$ 9,000	$ 10,500	$ 11,250	$ 12,000	$ 12,000	$ 12,750
Uses of Cash									
Operational payments	$ -	$ 4,420	$ 7,900	$ 8,037	$ 8,840	$ 10,121	$ 9,880	$ 9,930	$ 11,251
Startup expenses	$ 2,550	$ -	$ -	$ 560	$ 560	$ 560	$ 560	$ 560	$ 560
Startup assets	$ 2,450	$ -	$ -	$ 280	$ 280	$ 280	$ 280	$ 280	$ 280
Startup inventory	$ 1,200								
Manufactory equipment	$ -			$ 280	$ 280	$ 280	$ 280	$ 280	$ 280
Office equipment	$ 400								
Office furniture	$ 850								
Financial expenses	$ -	$ 40	$ 40	$ 240	$ 240	$ 240	$ 240	$ 240	$ 240
loan repayment				$ 200	$ 200	$ 200	$ 200	$ 200	$ 200
Interest		$ 40	$ 40	$ 40	$ 40	$ 40	$ 40	$ 40	$ 40
Total cash paid out	$ 5,000	$ 4,460	$ 7,940	$ 9,117	$ 9,920	$ 11,201	$ 10,960	$ 11,010	$ 12,331
Net flow (total)	$ -	$ 40	$ 1,060	$ (117)	$ 580	$ 50	$ 1,040	$ 990	$ 420
Excess/Deficit	$ -	$ 40	$ 1,100	$ 983	$ 2,824	$ 2,873	$ 3,913	$ 4,903	$ 5,323

The latest changes ensure the balance of cash, which means that if things are assessed in this way, the company will be able to cover current expenses. According to the table, at the end of the 12th month the company will have free cash on the current account ($ 5323) which it can use for investments or pay dividends to the owners.

The data in the bottom line shows the cash the company has at the end of each month. The owners of the company will decide what to do with this cash - they will keep it as a reserve, they will pay dividends or maybe use it for new investments.

Cash flow forecast was actually the last piece of the financial model puzzle of your future business. using spread sheet for the elaboration of the financial model, all the data presented in the table we have worked with so far will be integrated in a table of synthesis of the financial situation.

See the table below.

Co-funded by the Erasmus+ Programme of the European Union

SMART CAFFE

Business name:

Idea short description :

Owners:

Financial Statement for 12 month

Revenue (for 12 month)	**$ 129,000**
Net profit (for 12 month)	**$14,522.5**
Cash (12th month)	**$5,322.50**

month	0	1	2	3	4	5	6	7	8	9	10	11	12
Revenue	0	$ 9,000	$ 9,000	$ 9,000	$ 10,500	$ 10,500	$ 10,500	$ 10,500	$ 10,500	$ 12,000	$ 12,000	$ 12,000	$ 13,500
Net profit	$ (2,550)	$ 940	$ 1,060	$ 923	$ 1,620	$ 1,570	$ 881	$ 1,500	$ 1,620	$ 1,240	$ 2,080	$ 2,030	$ 1,610
Cash	$ -	$ 40	$ 1,100	$ 983	$ 1,413	$ 1,943	$ 1,784	$ 2,244	$ 2,824	$ 2,873	$ 3,913	$ 4,903	$ 5,323

Note

The Net profit from this table is lower than the situation presented in the Profit & Loss Forecast section, due to the fact that after we decided to apply for a bank loan, the company's expenses increased monthly by $ 40 - monthly interest for the loan.

After you have developed your own financial model, follow the way things go after launching your business. Having already the model, you have the possibility to make all kinds of adjustments, in order to conform it to the situations that appear on the market or to various scenarios for solving the problems you face along the way.

CONCLUSIONS & RECOMMENDATIONS

Finance projection is a crucial moment in the stage of preparing the business for launch. The product / service you want to get on the market can be a very good one, one that perfectly corresponds to the pain that the potential customer has, but if you do not have money to start the business or if the sales revenue will not cover expenses, the business either it will never open its doors to the customer, or it will be a short-term business.

Therefore, as soon as you have made the outline of how the business will work, make an effort and plan the finances. You may not have enough information at the pre-start stage to make a realistic plan, but if you already have a financial model that shows you how money enters and leaves the business, as soon as you start the activity you will be able to adjust and adapt it to the real situation.

Plus, only if you have a financial model you will be able to understand if the money you intend to spend at the launch stage will be recovered. Moreover, you will be able to anticipate their recovery period.

And obviously, only with a financial model will be possible to discuss with investors or creditors about financing. At the same time, having the financial model you will be able to analyze the impact on the business of different financing sources, and respectively, it will help you to choose the best financing source.

So, do not hesitate to start the financial design of the business model. When working on the financial model, consider the following recommendations:

- ✓ use as a starting point the structure of the model proposed in Appendix 1 to the Handbook (will find them at the end of the book), where appropriate, adjust it to the needs of your business;
- ✓ follow the steps and recommendations for completing the model you read about in the part 1 of the Handbook;
- ✓ use spread sheets to develop the model (Excel, Google sheets, etc.) - if you still don't know how to work with spead sheets, it's the right time to start exploring;
- ✓ when completing the spread sheets, set the formulas so that they link the data from various tables, so you will save time later, when you make adjustments, thanks to automatic data changes;
- ✓ and most importantly, do not refuse the business idea if in the developed model you obtained insufficient financial results, this is the role of the model - to present what your business finances will look like if things are arranged as you originally intended in the business model, and if the financial situation is not what you expected, adjust the business model before investing money, adjust it to the form that will ensure its sustainability.

PART 2
STARTUP FUNDING

After you have developed the financial model in which you have shown the sources of income of the business but also the costs you have to cover to obtain these revenues, it is time to think about the sources from which the business will be financed at the startup stage.

As an entrepreneur you need to know not only what and how to sell, but also how to find the money you need to start or to grow your business. Obviously you can start your business using only your own money, but if you manage to attract finances, you will be able to grow your business much faster.

There are various options for raising funds by startups, each of which is associated with certain consequences. Going through this part of the handbook will help you understand what funding sources are available at different stages in the development of a startup, but also how you can attract finance using these channels.

… so, **let's identify** the most suitable source of funding for your startup.

How to find financing for startup

If the financial projection of the future business shows you that it will be profitable, but you will have a profit only a few months after the launch, you need to think about how you make the business work and reach the break-even point.

After you have shown in the financial model what are the startup costs, but also the periods of activity that still do not allow you to fully cover your expenses, you need to find money to cover these costs and losses.

Being at the stage where you only have the business idea and some projects on how it works, it will be quite difficult to attract financing from creditors or investors, you have to think about how you could self-finance the startup. Self-funding, also known as bootstrapping, is an effective way of startup financing, specially when you are just starting your business.

How to finance startup by Bootstrapping

What is Bootstrapping?

Bootstrapping *is building a company from the ground up with nothing but personal savings, and with luck, the cash coming in from the first sales.*

Bootstrapping, is an effective way of startup financing, specially when you are just starting your business. First-time entrepreneurs often have trouble getting funding without first showing some traction and a plan for potential success. You can invest from your own savings or can get your family and friends to contribute. This will be easy to raise due to less formalities/compliances, plus less costs of raising. In most situations, family and friends are flexible with the interest rate.

Bootstrapping is also about stretching resources – both financial and otherwise – as far as they can.

Being only at the launch stage of the business, look for ways to reduce expenses. Check the list of below, hope you will find some useful ideas to cut startup costs.

- **Review all expenses, even the little ones**

  If you are not keeping a record of all your expenses, you should start doing it. This records can help you categorise expenses and help you take measures to reduce them.

- **Use 80/20 principle**

  Pareto's 80/20 principle states that 80% of the outcome is caused by 20% efforts. You can apply this powerful principle to limit expenses on those 80% activities that are not generating enough income for you.

- **Use low-cost advertising**

  Traditional advertising methods can get very expensive. Explore new tools like Google AdWords & Facebook Ads to advertise your product to the targeted audience. Bu using this tools you can target users from a specific city, age-group and demographics and get good returns on your marketing investment.

- **Cut Office Expenses by using cloud**

  You can save a lot of time and resources by adopting cloud computing. Employees can work remotely and use online collaboration tools to get the work done. For example, you can use Dropbox, Google Drive to share files, ProfitBook for managing finances online, Skype, Zoom etc. to have virtual meetings.

- **Have virtual meetings**

  You can ask your clients to have online meetings. Using the latest technology, you can save a lot on travelling expenses.

- **Use open source software**

  You can save a substantial amount of money if you start using open source software. There are a lot of open source softwares like CRM, Document management, etc. are available which are easy to use and don't cost money.

- **Cut equipment costs**

  being at the starting line do not invest money in equipment, use your personal computer, some equipment at home, or use the spaces for beginner entrepreneurs, who usually have some equipment that you can use.

- **Track inventory closely**

  If you run an inventory-based business, carrying less inventory means having less money tied up and more money in the bank. Begin monitoring inventory more closely to make sure you aren't spending more than is really needed.

- **Sell online**

  This can save huge costs in marketing and inventory maintenance. In fact, this is something which you can let you operate from a small room.

- **Hire smart, inexperienced people.**

  Experience is important but it isn't everything, and it comes at a cost. For critical work scenarios, you have no option but to go for experienced people but in most cases, the strategy of training freshers works.

  You will not only gain a monetary advantage by providing an entry-level salary but you will also benefit by having employees who are enthusiastic, up-to-date on the latest technology, nimble and eager to learn.

- **Commission your sales force**

  If you prefer to have an in-house sales team, try to structure their salaries in such a way that larger percentage is allocated to commision and a fixed component is on a lower side.

- **Outsource Non-Critical Tasks**

  There are a lot of tasks that can be outsourced these days. You can hire freelancers to design company logo, do social media promotion, maintain accounts, generate sales leads and much more.

Success story:

 # Plenty of Fish

Plenty of Fish, one of the largest and most popular dating sites in the world, founded by Markus Frind, became a full-time business in 2004. Until 2008, Frind conducted his startup from his apartment, and then eventually acquired a new Vancouver, Canada headquarters where he began hiring other employees

As of June e2020, Plenty of Fish had over 150 million registered users worldwide and is adding an average of 65,000 new users every day. The free app is available in 11 languages and more than 20 countries on iOS and Android devices. The company makes money via advertising as well as offering premium services as part of their upgraded membership.

Note

More than 80% of startup operations are funded by the founders' personal finances.

Bootstrapping should be considered as a first funding option because of its advantages. When you have your own money, you are tied to business. On a later stage, investors consider this as a good point.

How to find finance when bootstrap is not a solution

Bootstrap is a good financing solution but it is not universal. This is suitable only if the initial requirement is small. Some businesses need money right from the day-1 and for such businesses, bootstrapping may not be a good option. At the same time, businesses that can handle small expenses at the start stage will need investment to grow.

To attract financial resources you can use several sources accessible to start-ups. The first financing option you can apply for is **lending**.

But, many lenders don't work with startups simply because new businesses can be a risky investment. No business is a sure thing, but new businesses can be especially unstable. For this reason, in most cases, lenders ask for businesses to have a certain amount of profit or be a certain age. Those criteria exclude most startups from qualifying for business loans, making it incredibly difficult for them to get funded that way.

While it's not easy to get approved for certain types of business loans as a startup, plenty of other options are available.

- ***microfinance* -** is designed specifically to help new businesses get off the ground. Microfinance it is increasingly becoming popular for those whose requirements are limited and credit ratings not favoured by bank;
- **supplier credit** - if you're already working with a supplier or vendor to provide you with products or services, consider asking if you can set up a supplier credit arrangement. This will allow you to defer payment to a later date, say 30 or 45 days in the future, possibly with no interest. A supplier credit

arrangement can make it easier to manage your cash flow, as it gives you time to convert those costs into sales to your customers.

- **personal loans** - instead of working with a business lender, you might be better off applying for a personal loan.

What you need to consider if you finance your business through lending

#1 The loan involves repayment - to ensure that you will be able to repay the loan, add monthly payments in the financial model (Cash Flow Forecasting table) and see how the cash flow will be affected. To find out how much you have to repay each month, use the calculator on the bank's website - select the type of loan, the amount and the period and it will give you information about the monthly payments.

#2 Creditors, especially the bank and microfinance provider, offer loans against an interest, at the same time different fees may be charged. Before applying for credit, carefully analyze the credit conditions.

#3 Creditors usually require certain company or personal assets as collateral. In case you are not able to repay the loan you could lose the goods offered as collateral.

To avoid problems related to loan repayment, you can look for special sources for financing startups.

Startup financing through crowdfunding

One of the most effective fast and modern way to get fund for startup is **crowdfunding.** Crowdfunding brings a lot more benefits than just raising money. Through effective planning and strategy of your organization can get the most benefit from the campaign.

Let's **learn the basics** about Crowdfunding.

What is crowdfunding?

***Crowdfunding** is an Internet-enabled way for businesses or other organizations to raise money in the form of either donations or investments from multiple individuals*

The term defines the practice of initiating an open call to an undefined network of people, for the provision of needed services, ideas or content. The basic premise is that the small input of many has greater value and impact than the large contribution of a few.

This new form of capital formation emerged in an organized way in the wake of the 2008 financial crisis largely because of the difficulties faced by artisans, entrepreneurs and early-stage enterprises in raising funds. With traditional banks less willing to lend, entrepreneurs started to look elsewhere for capital.

Crowdfunding is fundamentally about creating and exchanging value. We encourage you to think critically about what value you are creating, why people are interested in the work you are doing, and how you can build opportunities for the crowd to participate in your efforts.

There are some advantages of crowdfunding listed below:

➢ **Raise money**	Usually the main goal, but not the only one.
➢ **Marketing and cause awareness**	The very act of crowdfunding gets the word out about the issues you are engaged with.
➢ **Market validation**	It can provide validation for new initiatives allowing the crowd to vote with their dollars in support of your efforts. You could also leverage the crowd's support as key evidence when obtaining other types of funds (i.e. grants).
➢ **Testing marketing channels and target audience**	A great way to see if a specific project resonates with a specific target audience.
➢ **Connect with new audiences**	The buzz that you create can bring new relationships that you can leverage going forward.
➢ **Understand your audience**	Get to know more about the level of support from certain target audiences, issues that resonate, what people say about you via social media, etc.

How does it work

The first time someone hears about your project might not be the best time to include a request for money. Around a month before your project starts, you should spread the word to friends, family, colleagues, and any relevant groups or organisations who might support you later on. This is called a soft launch and can be a very effective way of gaining support so that when you do launch, you can start with a bang!

Crowdfunding typically involves some key players and stakeholders:

- ### Crowdfunder

  The crowdfunder can be a backer, donor, or investor. Individuals make the most of the market, but private and public institutions can invest and/or donate as well.

- ### Beneficiary-investee

person or organization seeking funds for a company, product, project, or initiative. There is a vast range of actors from small companies, NGOs, individuals, start-ups, etc.

- **Crowdfunding platforms**

  Online platforms connecting the crowdfunders with the beneficiary or investee. They charge commissions for participation and/or on interest/dividends.

- **Platforms**

  can provide a wide range of services, including financial due diligence, contracting, etc.

- **Third party verifier and other service providers**

  Platforms and beneficiaries/investees can rely on a number of service providers. Platforms may need to buy services—e.g. financial due diligence—or outsource the assessment of social and environmental outcomes.

- **Sponsors**

  Beneficiaries may obtain support in designing and running crowdfunding campaigns. These services can be offered pro-bono or on a commercial basis.

You can also find new members of your tribe using a blog, or social media sites such as Facebook and Twitter. There's obvious benefit to linking all your profiles and pages together, and to your project page. The rise of social media sites has made it much easier for fundraisers to find people willing to contribute to their campaigns. The growth of crowdfunding, and the associated success of many crowdfunding campaigns, is now heavily attributed to social media and networks.

Good to Know

Crowdfunders invest mostly in:

- ***business and entrepreneurship - 40%***
- ***social causes - 20%***
- ***films and performing arts - 12%***
- ***real estate - 6%***

*In addition, specialized platforms have also emerged, targeting subsectors like **agriculture, retail, food,** and **housing and services**. Environmental projects are at the periphery; while some platforms like Indiegogo (https://www.indiegogo.com/) and Kiva (https://www.kiva.org/) have started to enlist green projects, they remain a minority. An exception is renewable energy with an estimated €200 million in crowdfunding transactions that is facilitated by 25 specialized platforms.*

Credible crowdfunding systems require enabling legislation, and their success depends on supporting ecosystems and other enabling factors. These include:

- forward-looking standards that balance the need to protect investors with capital accumulation;
- effective technology solutions that include reliable broadband Internet or mobile data networks;
- and supporting institutions that offer training, mentoring and other services to beneficiaries and investors.

What crowdfunding models you can meet

When launching a crowdfunding project, it is important to understand what the project objectives are and who the target audience is. Different models of crowdfunding are best suited for different types of projects.

No 1. DONATIONS-BASED CROWDFUNDING

The crowdfunder donates funds without expecting any return. Donations are typically used to support disaster relief, famine, education programmes, etc.

Examples:

***JustGiving* - https://www.justgiving.com**

***GoFundMe* - https://www.gofundme.com**

No 2. REWARDS-BASED CROWDFUNDING

The crowdfunder transfers funds with the expectation of a reward, which may be in the form of a token gift or an early/exclusive release of a product or service offered by the startup company.

Examples:

***Kickstarter* - https://www.kickstarter.com**

***Indiegogo* - https://www.indiegogo.com**

No 3. LENDING-BASED OR PEER-TO-PEER (P2P)

the fastest growing type of crowdfunding has a 73 percent market share. The crowdfunder lends money to individuals or companies in return for interest. While there are platforms exclusively targeting socially-oriented lending, the majority operate as commercial platforms in direct competition with other financial intermediaries

Example:

***KIVA* - http://www.Kiva.org**

is providing small loans (from US$100-US$100,000) to farmers, NGOs and SMEs.

No 4. EQUITY-BASED CROWDFUNDING

The crowdfunder purchases equity in a company. Equity is a new, yet rapidly growing, model in crowdfunding. Equity-based crowdfunding remains highly dependent upon supportive regulatory frameworks, which often restrict equity investment to professional investors.

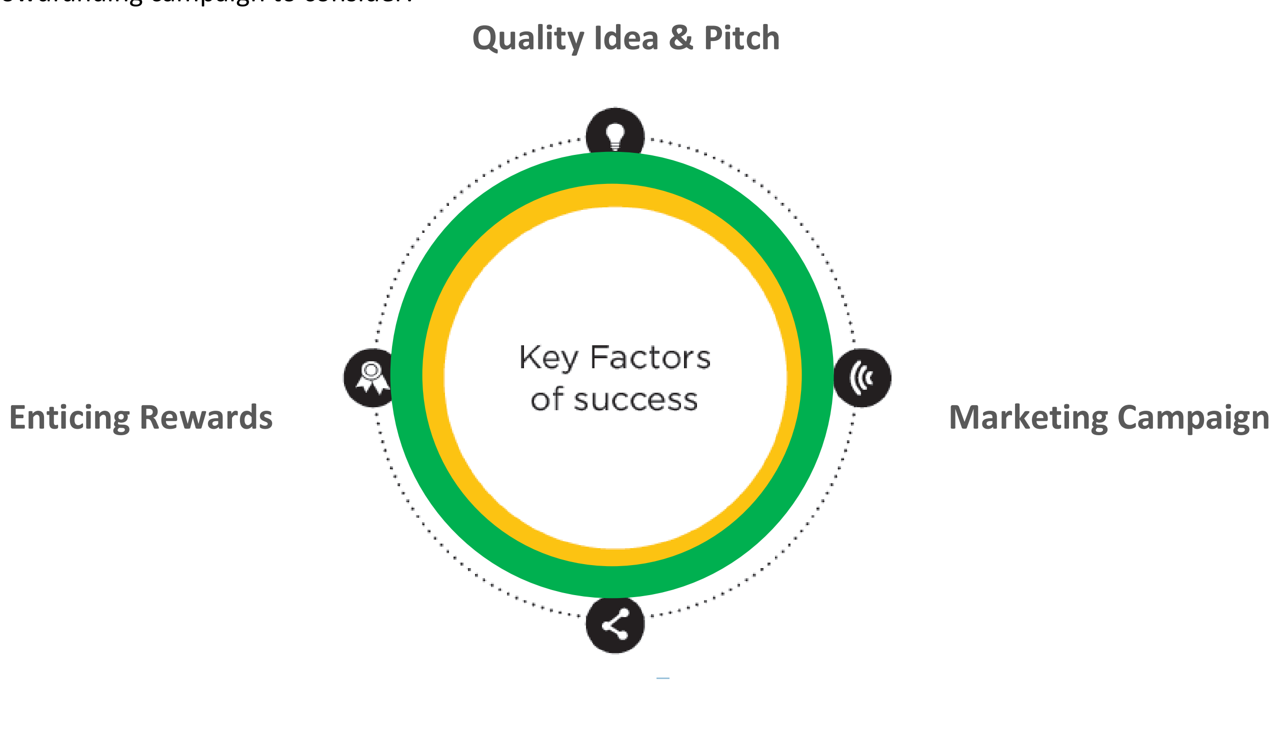
Example:

***EquityNet* https://www.equitynet.com**

A successful crowdfunding campaign may draw on a platform with a wide audience, such as Kickstarter, Indiegogo, Kiva, or GoFundMe. New platforms may also be established under certain circumstances. There are numerous resources on crowdfunding, including blogs, books, networks, and training, including guides on running campaigns from Indiegogo, Fundable, Kickstarter, Crowdfunding Guides, and Shopify. For many potential donors, this is where they will hear about you first, so getting all the information you need on the crowdfunding page without overwhelming them is key.

How to prepare a crowdfunding campaign

Preparing for a crowdfunding campaign should take time – it should be well thoughtout, and inspiring. You need to think strategically, and make sure that you are telling a compelling story about your project. People will want to donate to your crowdfunding campaign when they feel inspired. It's worth spending time developing powerful assets to accompany your campaign. There are several key factors for the success of a crowdfunding campaign to consider:



Quality Idea and pitch

Strength of your network

A crowdfunding campaign is only as good as the idea seeking funding, which must create or be seen to be creating value in some way. All successful crowdfunding ideas hold some sort of merit. Your pitch should be clear, compelling, and memorable. If you are unable to communicate the idea to others in a manner that is easy to understand in less than 30 seconds, you may need to rethink your presentation.

Campaigns with a larger network are correlated with greater success. Remember to think holistically about the size of your network via your organization, campaign team members, and partners. Also know that even the most popular crowdfunding platforms will generally bring you less than 10% of your total number of backers, so the size and reach of your own network is key!

Marketing campaign

Without undertaking a concerted series of steps to share, disseminate, and communicate, the crowd will not learn about your campaign. It is important to think carefully about how you will market your campaign.

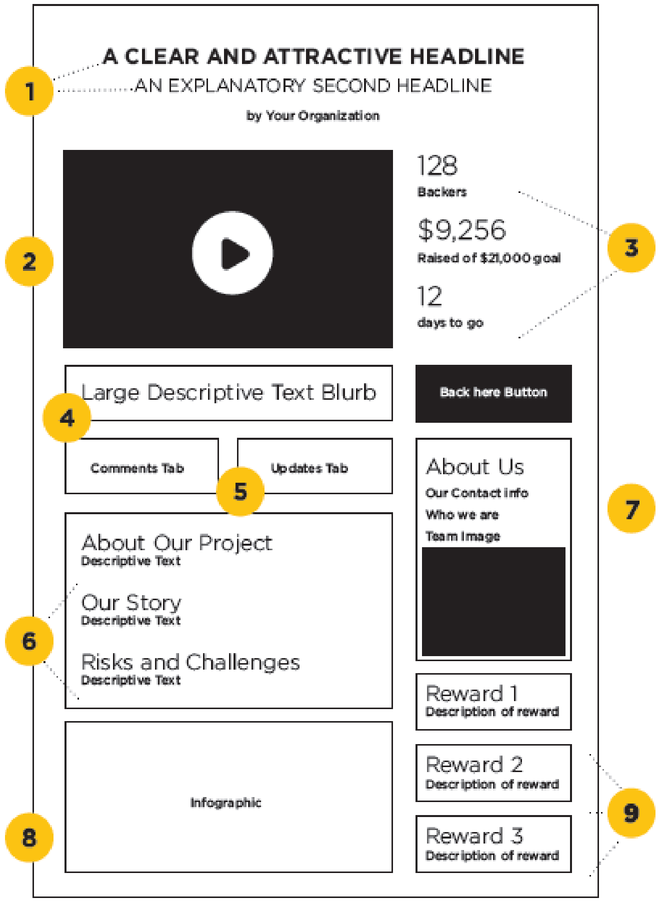
Enticing Rewards

Most successful crowdfunding efforts address the 'what's in it for me?' question for those that are contributing funds to a campaign. Rewards may be tangible or intangible, and are an opportunity to create value for your donors.

Anyone can start a fundraiser through crowdfunding, but it's important to be mindful of the steps you take. Doing it correctly the first time around is how successful funding is achieved. To organize a successful crowdfunding campaign for your business idea, you need to remember that creating an attractive page, an interesting video of your product, as well as a constant presence on social networks and rewards are important components along the way. Further each of these aspects well be described that can ensure you hit your campaign targets.

Anatomy of a crowdfunding page

Almost all crowdfunding campaigns include a video in which you engage people more personally about your story and project. A video is your opportunity to get this across, and is far more effective than even the most elegant prose. It can convince your sponsors that you are serious about carrying out your project and making it a big success. The following anatomy of a crowdfunding page can help you create a unique image on your chosen platform, when you want to tell people who you are, what your project is about, what problem you are trying to solve, and what you hope to achieve with their money:



1. Campaign Title

The title of your campaign should immediately communicate what your project is about. Choose a campaign title that is catchy, engaging and concise. Your goal is to create a title that draws people to investigate further. If available, use a secondary headline that elaborates on your title.

2. Video

The crowdfunding video is the most important piece of content on your crowdfunding page. Most crowdfunding platforms allow you to select a custom still image for your video, so ensure that it is relevant, attractive, and enticing for the user to click.

3. Campaign Information

Create a campaign target that communicates to the potential contributor that your raise is reasonable. Be sure to consider what amount of funds you need, what your costs are likely to be, and how much you can likely raise.

4. Descriptive Text

When scanning the web page, people's gaze will land on large prominent text before reading the small print. Include a more full explanation than your title and secondary headline, but keep it concise.

5. Comments & Updates Tab

Many crowdfunding platforms have tabbed campaign pages where backers can leave comments on the campaign. It is important to monitor and respond to comments promptly, as well as provide updates to ensure transparency and build on early interest in your campaign.

6. Main Content Area

While campaign contributors often report skipping reading the main copy of a campaign, you should nonetheless include the details here. This can help convince contributors that your campaign is worthwhile by addressing questions and concerns.

7. About us

Be sure to include relevant summary information about your team, organization, and contact information. If you have a homepage or project landing page, be sure to include that here.

8. Images and Infographics

Enhance the appearance of your page and avoid having a 'wall of text' by including images and infographics. These graphics can communicate essential information

9. Rewards

Select reward levels that match with the traditional donor amounts mentioned elsewhere in the rewards section below. Ensure that your about your rewards, goals, and campaign in an attractive manner.

rewards are attractive to your target audience by testing them out before your campaign begins, and don't be afraid to add or delete rewards in response to how your campaign is progressing!

Putting together a great video takes time and effort, and a willingness to develop your concept through testing and iteration. Ultimately you want to create a clear video that quickly engages with the audience, and is understandable enough that they know what you are doing (and why) within the first minute. Brainstorm several different approaches, and get feedback from others, long before beginning to physically create your video.

The success of a crowdfunding campaign depends largely on two major factors: how well the campaign is presented and how many people it reaches. If you want to kill both these two birds with one stone, then you're going to need a solid social media strategy.

Email & Social Media Plan

One of the unique things about crowdfunding is its ability to centralize your fundraising efforts and put you closer than ever to your backers and investors. But for all the engagement and social momentum that can come from that, you have to have a plan for keeping everyone informed. That means knowing:

- **Whom You'll Contact**

  Existing customers, committed backers and investors, or potential supporters.

- **When You'll Do It**

  Before your campaign as a soft-launch, during your campaign as a funding update, or after closing as a big "thank you" to your supporters.

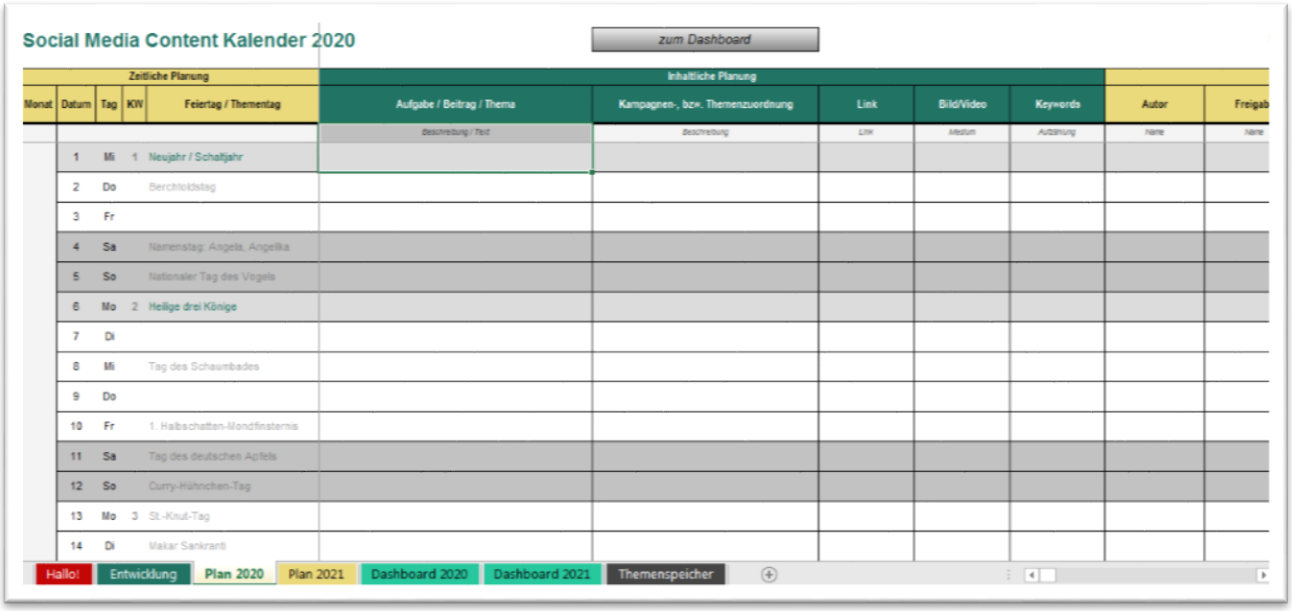
- **How You'll Do it**

  Email, Facebook, Twitter, Instagram, Linkedin, Google +, Pinterest, Soundcloud, Reddit, Tumblr, notice boards, newsletters, flyers, forums. You can't put your campaign in too many places.

Planning ahead of time ensures that the time period during which your campaign is live runs smoothly, and allows you to use your campaigning time as efficiently as possible. Most importantly it allows you increase your chances of achieving success.

It is crucial for the success of a campaign to plan your communication in advance. You can use different tools to plan your communication, such as Spreadsheets, Wordpress plugins etc.:

1. Example of social media calendar[2]


Social Media Content Kalender 2020

zum Dashboard

Zeitliche Planung					Inhaltliche Planung						
Monat	Datum	Tag	KW	Feiertag / Thementag	Aufgabe / Beitrag / Thema	Kampagnen-, bzw. Themenzuordnung	Link	Bild/Video	Keywords	Autor	Freigab
					Beschreibung / Text	Beschreibung	Link	Medium	Auflistung	Name	Name
	1	Mi	1	Neujahr / Schaltjahr							
	2	Do		Berchtoldstag							
	3	Fr									
	4	Sa		Namenstag: Angela, Angelika							
	5	So		Nationaler Tag des Vogels							
	6	Mo	2	Heilige drei Könige							
	7	Di									
	8	Mi		Tag des Schaumbades							
	9	Do									
	10	Fr		1. Halbschatten-Mondfinsternis							
	11	Sa		Tag des deutschen Apfels							
	12	So		Curry-Hühnchen-Tag							
	13	Mo	3	St.-Knut-Tag							
	14	Di		Makar Sankranti							

Hallo! | Entwicklung | Plan 2020 | Plan 2021 | Dashboard 2020 | Dashboard 2021 | Themenspeicher

Get organized by building spreadsheets that you can use to keep track of key relationships, media contacts, etc. Also include a calendar and/or gantt chart so that you stay on track with all of the outreach efforts that will need to be done. This spreadsheet will be your central repository of campaign execution information, and should be continually updated.
One month at a time is fine for managing your appointments, but it isn't right for blog posts. Blogs care much more about days of the week than months. You want to see partial months more often.
People will follow you if you tweet lots of interesting content. The majority of your tweets should be about relevant topics, and not just about your project. You have to get them interested!

If you're launching a crowdfunding campaign, you'll need to carefully consider your campaign's rewards—the incentives you offer your backers for pledging a certain dollar amount.

Rewards

Think carefully about your rewards. Your goal is to make your rewards relevant to your campaign and entice your target audience to support your campaign.

Types of rewards

- **Things**

  An object that backer receives, or can pick, and can look forward to getting it. An item that can increase your brand awareness. Examples: *discounted product, DVD, photograph, prototype, t-shirt, bag, digital downloads, etc.*

[2] https://srd.wordpress.org/plugins/editorial-calendar

- **Recognition**

  Let people be recognized in public places. Examples: *social media shoutout, email thank you, name in the credits, logo somewhere, etc.*

- **Services**

  Leverages your teams or others expertise. Examples: *Workshop, training, dance lesson, bike tune-up, one-on-one tutorial, etc.*

- **Experiences**

  Something unique that someone normally wouldn't experience. Examples*: dinner/lunch with the CEO, apprentice for day, be a builder for a day, meet a VIP, etc.*

- **Access**

  Give access to allow the backer to participate in the journey. Examples: *tickets to event (e.g. launch party), Backstage pass, VIP access to conference, access to information, etc.*

The decision of how many reward levels to offer is generally based on the specifics of your particular campaign, what value you can give back, and what reward strategies are being used:

1. ***a small price point*** that offers some sort of simple recognition,
2. ***a mid-sized price*** point that offers a pre-order,
3. and ***a large price*** point that offers special recognition for generous backers. The key takeaway here is to consider offering more rewards for higher target amounts.

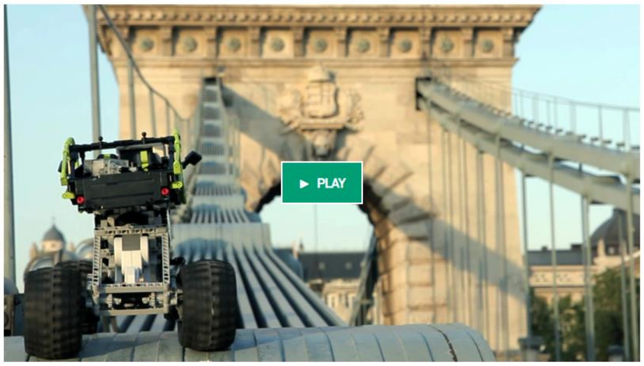
This is a great chance to build backer confidence by showing that you've spent the time to chart your business's course forward. Some common categories we see in rewards campaigns are product development, sales and marketing, recruitment of key personnel, legal and accounting, and operating expenses.

You can use these broad categories as a starting point, but be sure to expand upon them where you can. For example, explain which product features this funding will help you develop, or which key team members you'll be able to hire, and what they'll do for your business.

Examples & Success stories

Crowdfunding campaigns are effective enough to stand on their own or work alongside other fundraising efforts. There are hundreds of crowdfunding examples and we'll look at some of them, that have met their goals and brought about hope and change. Not only have these campaigns succeeded, but they have also expressed their gratitude in effective ways that encouraged even more donors to give:

SBrick - Smart way to control all your LEGO® Creations



Platform: kickstarter, US

Country of the project: UK

Link to project: https://www.kickstarter.com

Amount raised: £88,152

Supporters: 1,284

Reward-based

SBrick is "a Smart RC Receiver that connects to a mobile or tablet device, allowing to Control all LEGO®'s Led, Motor and Power functions from a great distance", which has been developed in Budapest since 2014, founded by some true LEGO fans.

Its first Kickstarter campaign reached almost 1300 backers. than, mostly through word-of-mouth, through social media channels like Youtube, Facebook and Instagram, people all over the world got to know SBrick and SBrick Plus. Now, more than 40,000 people have chosen SBrick to play and learn with.

GOAT MUG: original goat story crafted into a coffee mug

Platform: https://www.kickstarter.com

Country of the project: Slovenia

Funded: 458.071 $

Target: 25.000 $

Supporters: 10.617

Reward based/Presale

GOAT Mug was launched on Kickstarter as GOAT STORY's first product in 2014. It reached close to half a million dollars in a couple of days. It's a mug-slash-fashion-accessory with an interesting inspiration: the Ethiopian goats that allegedly discovered coffee berries centuries ago. It's shaped like a goat horn, which seems like it'd be completely useless when you want to set the cup down, except that its included sleeve doubles as a stand on any flat surface.

In 2016 GOAT STORY created nearly 1.6 million EUR in sales revenue. Two years later, this company upgraded its "coffee portfolio" with Gina, a smart coffee machine. Gina was a success on Kickstarter as well; they collected more than half a million USD in 2017 and convinced 2.400 supporters.

Specialized quality coffee is an increasingly strong trend in the world, and that is why the brand Goat Story and the coffee segment got more than 300-percent growth in the years 2017 and 2018.

Common mistakes & best practices

While it’s true that many startups have been able to raise funds through crowdfunding, it should be noted that not every crowdfunding project turns into a success. That’s why it’s so important that before you launch your campaign, you do your research and have a clear understanding of all the issues that can crop up with a campaign as well as evaluate standard errors and follow the progress already made:

Ordinary errors and lessons associated with crowdfunding:

- ✓ **Starting without a goal or a plan**. One of the biggest (and easily avoidable) mistakes nonprofits make in crowdfunding is failing to make a plan and set a clear fundraising goal.
- ✓ **Forgetting to rally your supporters (also called, "lack of communication").** Like almost every other type of fundraising, crowdfunding requires communication and engagement with current and potential donors.
- ✓ **Setting your funding goal to high.** Keep the limit low, but have good stretch goals to make it attractive to overfund.
- ✓ **Not buffering for the unexpected.** So when promising delivering dates for your perks, always add a little bit of a buffer.
- ✓ **Failing to set suggested giving levels.** Donors tend to give more money when there are suggested giving levels. It's psychological.

Also, you need to consider the best methods and practices that you should take for your successful crowdfunding campaign.

Best practices proved:

- ✓ **Setting non-financial goals**. Expanding your focus beyond the money will help you get the most out of your crowdfunding efforts.
- ✓ **Choose the right platform for your crowdfunding campaign.** When picking a crowdfunding platform, be sure your host offers fully customizable giving pages to your team.
- ✓ **Use social media.** Crowdfunding relies heavily on social networking, so it only makes sense that it works best when done on social media platforms.
- ✓ **Have an excellent crowdfunding page.** As your campaign progresses, your campaign page should change. Update the information regularly.
- ✓ **Build your tribe of supporters!** Engage with your backers and allow them to co-create value with you.

We examined many issues, as well as some important ways in which this exciting industry is changing the game for entrepreneurs and startups in line with the advent of new economic and social needs.
We looked at the early roots of crowdfunding, how it is transforming into the modern industry that we know today, and how you can plan and launch your own successful campaign.

Accelerator program - source of finance

Funding (or running out of funds) is the second most common reason why startups fail. Thus, it is critical for startup founders to raise funds. How? One of the proven ways to do so is by joining a startup **accelerator** program**.**

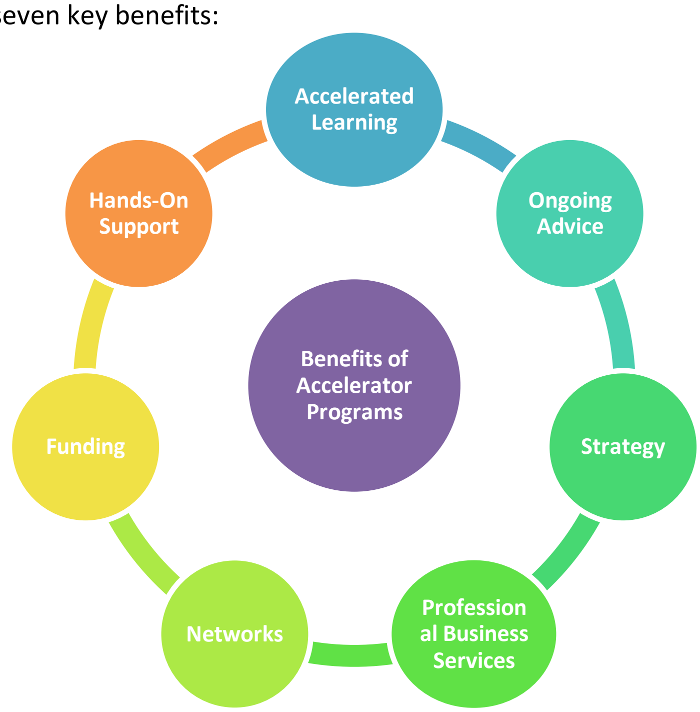
WHAT ARE STARTUP ACCELERATOR PROGRAMS?

*A **startup accelerator program** is an intensive business and personal development program which supports a small team of founders, usually with a business idea of their own.*

*A **startup accelerator** is an organization that offers mentorship, capital, and connections to investors and business partners. It's designed for select startups with promising MVPs and founders, as a way to rapidly scale growth.*

Key Benefits of Accelerator Programs

Accelerators compress years' worth of learning by doing insights into rapid, intense, and immersive learning programs of approximately three to six months. The aim of the programs is to accelerate the speed with which startups progresses through the stages of startup evolution, and to significantly improve their odds of ultimately making it. Although the benefits of accelerator programs differ from one accelerator to the next, our research revealed seven key benefits:



1. **The first benefit**, *accelerated evolution*, relates to the speed with which startups make progress while in the accelerator (and thus advance through one or more stages of startup evolution).

2. **The second benefit**, *accelerated learning*/skills development, usually occurs through education/training delivery and coaching/mentoring elements built into accelerator curriculums.
3. **The third benefit**, *funding*/ investment readiness/fundraising, usually comprises one or more of the following: cash investments in cohort companies in exchange for equity, a living stipend for the period that founders are participating in the accelerator, helping startups understand and do what is required to be attractive to investors.
4. **The fourth benefit**, *networks*, usually comprises access to the accelerator's network of investors, entrepreneurs, professional business service providers, specialist advisors, corporate partners, and other stakeholders. This network can be a great source of a broad range of intangible opportunities.
5. **The fifth benefit**, *professional business services*, is usually comprised of free or discounted access to accelerators' in-house business service providers such as legal, financial advisors, and many more.
6. **The sixthbenefit**, *getting the strategy right*, usually involves accelerators helping founders to think through and make the right short-, medium-, and long-term strategic choices.
7. **The seventh benefit**, *hands-on support*, involves ongoing access to the accelerator networks for advice regarding any number of issues that might come up during the accelerator program.

There's a lot to consider in selecting which accelerator to enter….

The number of accelerators, the global catchment area of accelerators, and differences in the benefits and costs of different startup ecosystems around the world make choosing the right accelerator a challenge.
Choosing the wrong accelerator can be costly, as can failing to get into the right one. With the stakes so high, entrepreneurs need to consider their options carefully.
Getting into the right accelerator is also no easy feat, since many of the best accelerators have very low acceptance rates. Once in an accelerator, founders need to take care to make the most of what the accelerator has to offer; and to ensure they don't neglect their business operations while in the accelerator.
The biggest advice is to prioritize what you want to get out of an accelerator experience. A few things that may be important to your startup are:

- **Mentors**

  This is probably the biggest, often the only, important aspect:

  Many entrepreneurs at this early stage just don't know what they need to be doing right away, so they need access to wisdom. You should insist that the accelerators you're looking at give you a list of the mentors you will have access to. Make sure that these mentors have experience in your startups industry AND that some will be able to help you with more general purpose startup topics (e.g. marketing/branding, legal, etc.)

- **Investment**

  If your startup has potential to grow very quickly, your top priority might be buying gas to fuel your growth engine.

  Consider prioritizing accelerators that have big potential to get you to your next stage of funding. As an example, TechStars does an excellent job of communicating their results, including total funding raised by their startups. You might need to call up directors of your other accelerator options and ask them about their results. Compare the results of a bunch of accelerators to get an understanding of which accelerators are doing it right.
- **Traction**

  Some accelerators aim to build companies with massive user acquisition needs and often accept startups that have potentially strong business models focused around viral marketing. Other accelerators are on the opposite end of the spectrum, aiming to support startups that have very few, high-impact or high-dollar clients. In this case, your startup might be a business-to-business play, and you should find mentors with B2B experience.
- **Customer development and product definition**

  If you already have a product or technology, but you're looking to make a pivot into a fiscally viable market, you need to be around experts in customer development, or mentors with connections to the likes of Steve Blank, Eric Ries, or other lean-startup gurus.
- **Being in a particular location**

  For some, it's good to get out of your current city for any number of reasons.

  For others, your startup may need to be located in a particular region to improve your likelihood of success. For example, if your startup is in the travel space, you should probably be near a source of travelers and mentors that know about travel.
- **Disruption**

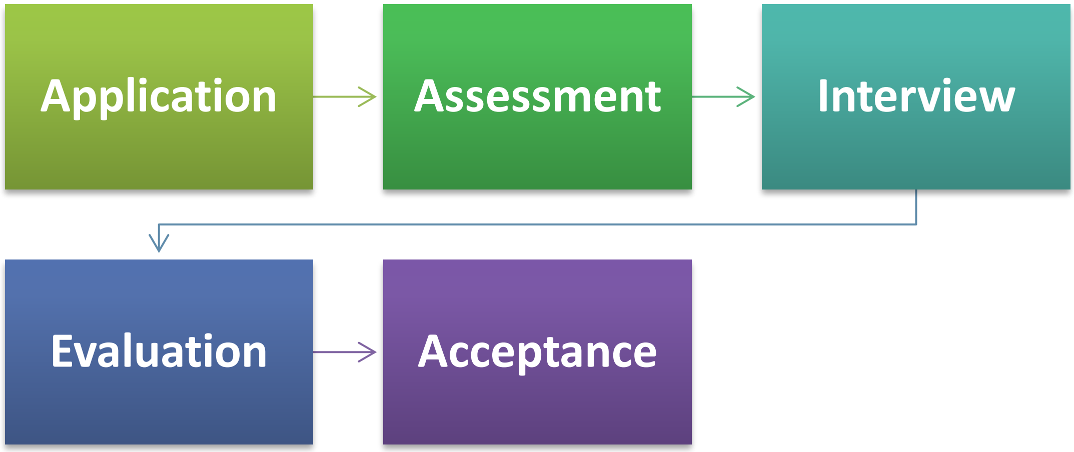
  A very small portion of startup ideas are potentially disruptive in the markets they target.

  Having access to mentors with experience with disruption or technology adoption is important. Next best would be having potential connections to the adoption gurus.

In practice, your startup is going to fit into a handful of these categories, so take an educated guess about which of these are most important to you. Then, make sure that the accelerator's mix of mentorship covers the areas that are important to you. Many accelerators list their mentors on their website, which you can browse through to get a sense for their areas of expertise and prior experience.

Application Process

Accelerator programs accept startups cyclically in cohorts -- this means there's between 45 and 90 slots every year. At most accelerators, the application process is done in stages:



I. Application

An application will ask for specifics on a startup's idea, market, traction, team, and other aspects vital to success.

II. Assessment

Promising teams from the pre-screening phase move on to be assessed for investability, revenue potential, and overall strength of the product/service offering.

III. Interview

At this stage the accelerator is very interested, but wants to know about the team, product and evidence of traction. The interview process typically takes 20-30 minutes.

IV. Evaluation

Interviewees provide documents to prove their statements about revenue, legal standing, or any claims made about the company.

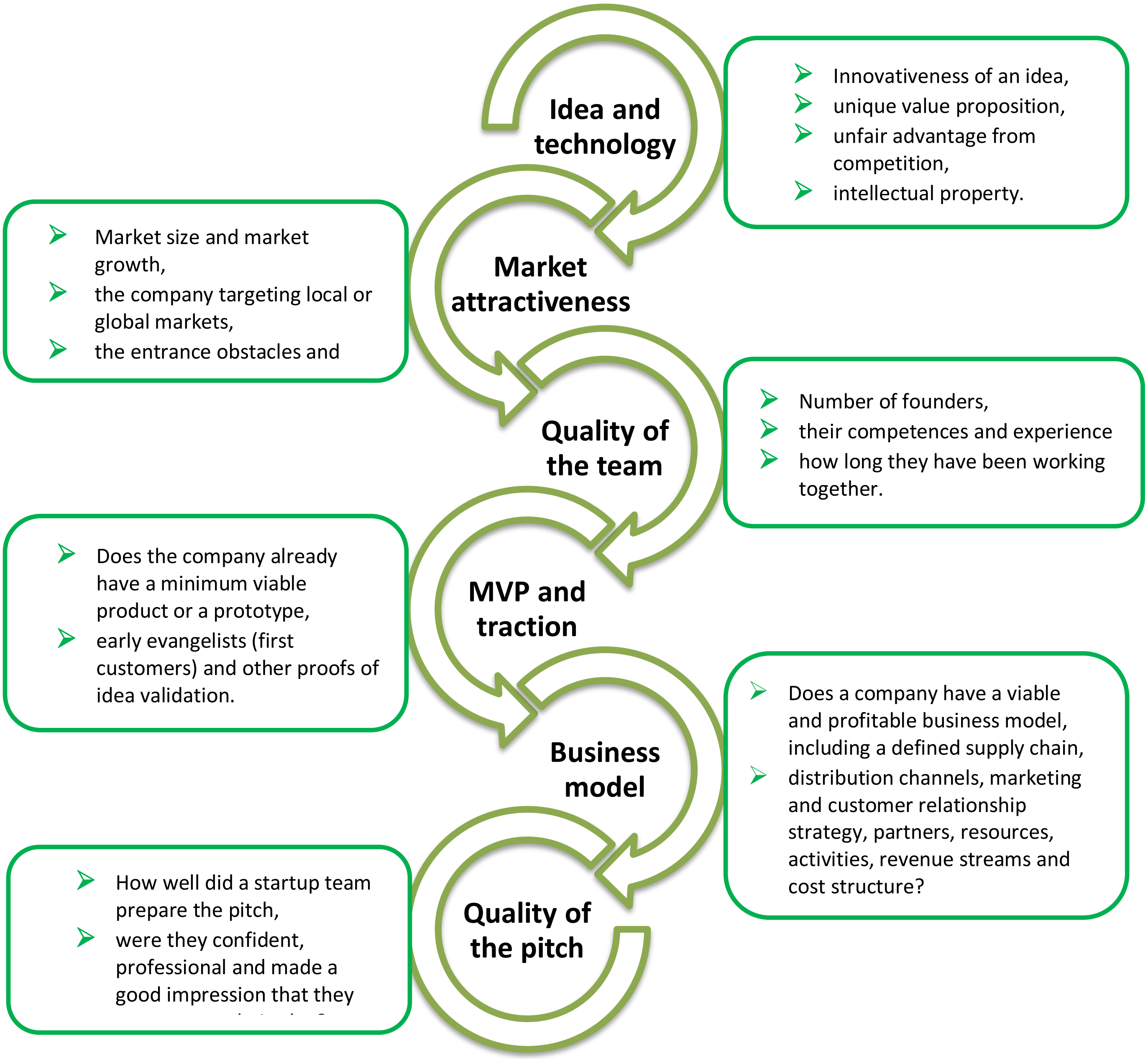
V. Acceptance

Upon completion of the final evaluations, the investment committee will meet to finalize where the funding will go during the 12-16 week program. Roughly 30-60% of the teams that made it to Assessment phase will receive funding.

The more information you have about the selection process and criteria, the better you can estimate whether your product/company fit the type accelerator is looking for. So, make sure all the selection criteria are as transparent as possible.

Application form – online / offline

The application form can usually be filled out and submitted online. Some accelerators develop their own application system, others use online services like FP6 or similar. The main (soft) selection criteria for accelerators are usually the following:



Throughout the application process, write concise answers that leave room for future conversations. Create interest in your proposal but don't try to answer every possible question. Make it easy to access critical business information with links to slide decks, LinkedIn profiles, videos, references, and anything else you think would help investors realize the potential of your startup.

Examples & Success stories

Accelerator programs have emerged as one of the most powerful vehicles for helping entrepreneurs to learn rapidly, create powerful networks, raise money, build their startups, and do this at speed and at scale. Some of the world's biggest and emerging names in tech went through an accelerator program:

DROPBOX

Dropbox, a San Francisco based file hosting service company, made its debut in 2007 as a startup funded by seed accelerator Y Combinator. Since then, it has grown into a successful $ 10 billion company with millions of users. Founded by MIT students Drew Houston and Arash Ferdowsi, the Company offers cloud storage, file synchronization, personal cloud and client software to its millions of users. The founding and success of Dropbox is the perfect example of how inspiration for a new startup can come from anywhere and at anytime.

AIRBNB

Airbnb acts as a middleman for those who want to rent their home and those in search of cheap accommodation. With developing connections and pitching mentors through Y Combinator, they got their first round of funding of $85,000 in the year 2009. Now valued at US$31 billion, it's easy to hold Airbnb in high regard, which enables people to lease or rent short-term lodging over 65,000 cities and 191 countries, its primary intention is for users to feel like they are right at home.

For inspiration, check out the best accelerators from all over the world:

You can find out about the world's best accelerators below who are successful by getting more exits (a larger list of accelerators you can find in Appendix 2 of the Handbook):

Y Combinator

Founded in 2005, it's practically one of the oldest startup incubators. So far they've funded over 2,000 startups, with household names such as Airbnb, Dropbox and Reddit among them. The Y Combinator community numbers more than 4,000 founders and their portfolio of companies has a combined valuation exceeding $100 billion.

If your startup is early stage, you can take advantage of Y Combinator's biannual 3-month program, during which time you will relocate to Silicon Valley to work closely with their team. The companies will get the opportunity to get their offering in shape and get on a path to growth by targeting further investments.

https://www.ycombinator.com/

Techstars

Techstars is an American seed accelerator. It is based in Boston, Colorado, and was founded in 2006. Techstars provides a wide range of programs to startups. Techstars connects their startups with a wide range of peers, mentors, investors, mentors, and corporate partners.

So far, Techstars accepted 16,00 companies into its programs. The combined market capitalization of these programs is $18.3 billion. ClassPass, Digital Ocean, and Contently are some of the most notable names invested by Techstars. The total number of investments Techstars made is 1,557 and the number of their successful exits is 134.

https://www.techstars.com/

Startupbootcamp

Startupbootcamp was founded in 2010. It is a network of industry–focused startup accelerators. It operates its industry-focused programs in more than 20 countries around the world starting from San Francisco, Amsterdam, Mumbai, Singapore, Mexico, and Dubai, etc.

The most famous accelerator programs of Startupbootcamp are in the fields of Fintech, IoT, Insurtech and Foodtech, etc. Startupbootcamp invested in 424 companies and their number of successful exits is 21. It has accelerated startups with an average fund of €1.168 million.

https://www.startupbootcamp.org/

500 Startups

500 Startups is a truly global venture capital firm, with a team of 150 people based in 20 countries that manage investments across 74 countries. Their mission is to create thriving global ecosystems by discovering talented founders and helping them grow through a 4-month seed program.

Their investment team and mentor network has operational experience at companies such as PayPal, Google, Facebook, Instagram, YouTube and Apple. Twilio, Canva, and Udemy are just a few of the 2,000+ technology startups they've invested in over the years, with 4 global funds and 15 thematic funds dedicated to either specific geographic markets or verticals.

https://500.co/

Wayra

Wayra is a global technology innovation hub. It was founded in 2011 in Latin America and then expanded in many countries. Wayra is financially supported by one of the largest telecommunication companies in the world called "Telefonica".

Wayra invests around $50,000 in startups. Wayra offers investment and a unique and smooth interface between entrepreneurs and network of corporates, governments and other partners, adding value to the ecosystems where they are present.

https://www.wayra.com/

SMART Caffe

Network of Smart Caffe is an ambitious project co-funded by the European Commission which supports the development of an innovative entrepreneurial culture among youth and fosters ties between academic sector and business sector thought open innovations.

Smart Caffe provides young people with creative or business ideas with boosting knowledge exchange and learning due to multidimensional extracurricular training programs targeting business development; creating joint open innovations due to design of solutions by individuals and start-ups on operational efficiency, production costs, new products creation and strategic collaborations, growing and scaleup.

https://www.smartcaffe.eu/ www.smartchannel.org

You can choose and join these more specialized programs if they fit with your strategy. That being said, keep a lookout for accelerator programs, they often have free office space, hosting credits, and other resources at their disposal that can help you extend your runway.

Business angels for your startup

Who will invest in your company after you've bootstrapped? Many founders conclude that business angels (private investors who invest their own money in startups) are next. In this chapter we will investigate the best ways to catch a business angel.

WHO IS BUSINESS ANGEL?

***Business Angels** are individual investors who invest directly their own money at a very early growth stage of startups development. Business Angel provides financing to a startup, either in exchange for convertible debt or equity.*
Business Angels sharing more than just capital, they sharing very valuable assets with young entrepreneurs such as: knowledge, skills, contacts. In other words, they offer awareness, networking and education along with the money.

How the activity of Business Angels is organized?

Angel investing is important for several reasons. Angels fill the funding gap between what friends and family can offer and what banks, and Private Equity firms are willing to contribute. They also provide business knowledge, networks and mentorship to entrepreneurs. Through their investments in start-ups, angel investors contribute to job creation. The activity of Business angels could be organized in three different ways:

Business Angel Networks or likeminded organizations tend to improve matchmaking of investors and entrepreneurs a lot. Nevertheless, the diversity of Business angels regarding their investment activity, competence, experience and other should be kept in mind.

Different types of business angels

It's important for entrepreneurs looking for financing to understand the differences between the different groups of business angels, which is the reason they make investment decisions so differently from each other. When speaking on types of Business angels, besides the division in those who are or are not members of any association on network, it is provided to divide them in six categories:

- **Virgin** *Usually newcomers who have not yet invested.*
- **Latent** *Angels who have not invested during last 3 years.*
- **Wealth maximizing** *Experienced investors who pursue the goal of making a profit.*
- **Entrepreneur** *Supports business as an alternative to stock market investments and often out of love for entrepreneurship.*
- **Income seeking** *T hose who invest in order to generate income or to get a job;*
- **Corporate** *Angels who invest permanently, often for majority*

One reason why business angels invest so differently is that they are not a homogenous group but a very diverse mix of people with only their interest in investing in startups in common. Business angels are not just serial-entrepreneurs who have become multi-millionaires!

Some reputable Business Angels:

Paul Buchheit

An investor from Mountain View, California, United States he is also and individual/angel investor but sometimes he works in partnership with other investors. His investor stage is seed and he has made 155 investments and 50 exits. Paul Buchheit is a tech entrepreneur who co-founded social network aggregator FriendFeed that was sold to Facebook, created Gmail and implemented many of his innovative features. His investments are made for a medium-term perspective and directly with his own funds. His standard deal is $125k on a post-money safe in return for 7% of the company when the safe converts. Funding decisions are based on his company application form and personal interviews. Y Combinator, Buchheit's company, was ready to fund his startup and they got an initial funding of $15k, eventually raising $1.2M in seed funding from Sequoia Capital.

Felix Haas

"I'm a software entrepreneur and I care about building software & organizations to make the world a better place."
Felix Haas is a German angel investor who doesn't works through partnerships. Invests using his own funds and unanimously takes his/her decision to invest. He made 11 personal investments, the latest – Seed Round – LemonSwan was made on Jan 21, 2019. His most successful investment is his company – IDnow, founded in February 2014 and in October 2014 was launched their first product – IDnow VideoIdent. It probably provides the world's most advanced machine-learning technology for its Identity-as-a-Service platform that can verify in real time the identities of more than 6.3 billion people from 115 different countries. In April 2016 was launched the second product – IDnow eSign. It has raised a total of $40M in funding over 5 rounds.

How do Business Angels operate?

An investor usually get shares (an equity stake) in your business in exchange for provided funds (equity financing). They usually strive not only to provide the money to grow, but also to share their experience and knowledge, therefore, it is worth remembering the following aspects of the activity of angels:

Angel can invest on his/her own or as part of group of angels (syndicate). Angels typically invests in small businesses the amount of money vary from 20000-50000 Euros. Usually, angels cannot take more than 30% equity in your business. However, there should be 2-3 rounds before the business receives larger institutional money.

Potential investors will want to know all the background behind the business, the people involved, and the expertise of the current management team. Above all, they will need to be confident that their investment is in safe hands.

Angel investors seek to have a return on their investment over a period of 3-8 years. Therefore, they look that the business they intend to invest fulfill certain criteria from thevery beginning.

They will expect you to have taken a risk in starting the business, and will not expect their capital to be used to pay your wages.

Companies that intend to hand over their business plan to a potential investors must make sure that the business angels are certified.

Angels' investment preferences stop at pre-revenue, pre-profit and profit-generating businesses.

For **pre-revenue** businesses model startup should have a proven concept which is able to attract customer interest, or prove that it is „workable" model of the product or service.

You have to show strong points for example for copyright or protected brand. In case you have a patentable idea you can raise angel investment to formally fulfill your patent application.

Startups at very early stage are very high risk affaires and in this position young entrepreneurs will need to show a "proof of concept" or have a sufficiently protected intellectual property rights related to their busness idea. Angels are more interested and trust mostly in companies in medical technology, cleantech and other knowledge-intensive industries because they are more likely to generate upfront income.

You should be able to provide a business angel with an exit strategy, whether it be over one, three, five years or more.

How to find and work with an Angel Investor?

Finding an Angel

- If you think you might want to work with an angel investor, the first step is to find one. There are several web platforms that aim to connect companies with investors, for example www.eban.org, www.eif.org, www.businessangelseurope.com.
- But despite this, in three quarters of angel investing deals, the investor and the company are based in the same region. So as well as looking on the web, it's also worth searching locally.
- You can also find an "angel" who doesn't call herself an angel. Look for prominent local business people in your field, attend industry conferences, and start to network with people who might have the funds and expertise you're looking for.

Pitching to Angels

Making a successful pitch to an angel investor is about knowing what they are looking for. This should be done on an individual basis, looking at the deals they've done in the past, and researching anything they've said or written about the companies they like to invest in.

- ✓ Angel investors typically see hundreds of business plans from hopeful company owners, and can easily recognize padded estimates. Demonstrate exactly how you think you can make your forecasts, and include best case and worst-case scenarios.

Working with Angels

- ✓ After the successful pitch, it's not the end: things are just beginning. You'll now have to work with that person for at least the next few years. Some angel investors are "hands off," while others want to be involved in the running of the businesses, they invest in. It's important to clarify up front what the parameters are.
- ✓ That means reading the initial agreement carefully to see how much power you're giving up, and talking with the angel investor to get an idea of how much they plan to be involved.

Good to Know

According to the data received from more than 3000 early stage investments done in 2018 within EBAN Statistics Compendium, the Sector distribution of early stage investments done in 2018 in EUR:

Business Angels invest mostly in:

Fintech - 16%,	*Health - 11%,*
Enterprise Software -15%,	*Mobility - 8%;*
Food-Agritech -7%;	*Marketing -4%;*
Education 3%;	*Robotics -2%*

For more information about startups EBAN Statistics see: https://www.eban.org/wp-content/up

The next step, if you choose to go down this road, is to start researching angel investors in your area, working out what sort of investment you need, and getting your pitch together:

How to make your business pitch deck stand out from the rest

Remember, your pitch presentation is probably some of the first things that an investor is seeing when they're starting to learn about your company and business idea. And, because investments are rarely made after just one meeting, your goal is to spark interest in your company. If you want investors to ask for more after they hear your presentation, and not just walk you to the door, then there are a few things to keep in mind:

1. **Tell a story:** Nothing will hook investors more than a story that they can relate to. That's why your pitch deck should start by defining the problem you are solving. Make sure your audience can easily understand that there's a real problem that your company can solve by making your story real and relatable

2. **Show that there's a market:** You may have a great idea to solve a real problem, but unless enough people have the problem, it's going to be hard for investors to consider your pitch. Your presentation needs to show that there is a market, but don't exaggerate the size or make the classic mistake of saying that you're going to, "get 1% of a trillion dollar market."

3. **Keep your solution simple:** You don't have a lot of space in a pitch presentation to go into detail about your company and your product, so keep the description of your solution simple and straightforward. Getting a second meeting with investors is your goal, so it's fine if not all questions are answered on the slide that describes what your company does.

4. **Show how you make money:** Surprisingly, many pitch presentations skip one of the most important parts—how your company actually makes money. Don't forget this critical slide in your presentation.

5. **Show that you have traction:** Traction is proof that you have a good idea. Whether you have early customers, or other evidence that your target market is interested in your solution, make sure to share that evidence. It can be in the form of a timeline of milestones you've achieved, or a list of evidence that your company is likely to be successful.

6. **Have a marketing and sales plan:** You don't need to have all of the details fleshed out, but your pitch deck should include some details on how you plan on marketing and selling your product. Investors will want to know that you've thought about this aspect of the business.

7. **Explain why you are the right person:** There are always great ideas, but only so many people who are qualified to turn those ideas into successful businesses. Your presentation should show why you and your team are the right people to build a successful business.

8. **Know your numbers:** Even though any forecast is just educated guess, potential investors will want to understand your thinking on how the business will grow over time and what it's going to take to be profitable.

9. **Know the competition:** Every business has competition, so don't make the mistake of saying that you don't have any. Your presentation should show who your competition is and why your product is better.

10. **Have a spending plan:** If you do get investment, how will you plan on spending it? Investors don't just write checks because you have a great pitch deck. They are going to want to know how you plan on spending their money to build your business.

Another key element that can significantly affect the development of a company is the level of engagement that a business angel seeks to obtain, as in the success stories presented below:

Examples & Success stories

Some striking examples in which Business Angels invested:

RENTLE

Founded in 2019, Rentle is a platform solution created for rental companies from Finland. Its mission is to help rental shops to streamline their business processes and enable modern digital consumer experiences to be part of the overall rental experiences. The startup has raised 250k euros as a pre-seed investment round from Finnish Business Angels Network (FiBAN), namelly: Niko Fagernäs, Ali Omar, Jukka Hienonen, Jussi Heinilä and Business Finland.

SportaPost

Many local sport teams have low budgets, especially on marketing department which makes hard for them to promote and to be better known in the entire country or even world. In order to solve this problem was created an app that offers them the possibility to create and share high quality content 10x faster to social media. The idea was presented at TechCode in April 2018 after which was closed a pre-seed round worth €40k with a syndicate, which consists of four FiBAN angels. These business angels identified the problem and helped the startup by offering their expertise: Reima Linnanvirta helped with juridical aspects; Stefan Lindberg with marketing; Jouni Karjalainen with securing public funds; Fabian Sepulveda with general operations and organizing.

So now you know what an angel investor is, how to find one and make a successful pitch, and how to work with one successfully. You've also seen the pros and cons of dealing with angels, so you're in a better position to know whether it's right for your business.

Venture Capital as a form of startup financing

Venture capital investment has been found to be remarkably effective at stimulating innovation and job growth. Growth equity investment and leveraged buyouts often derive from a country's existing industrial base, as family owned businesses seek financing and advice for their own growth and state-owned conglomerates are rationalized into nimbler and more focused enterprises.

WHAT IS VENTURE CAPITAL?

Venture Capital *(VC) or risk capital is one of the best know alternative types of investments. Venture Capital firms search to invest in startups with exceptional potential to grow rapidly. Usually, it takes a form of monitory investments; however, it is not restricted to provide technical and managerial assistance also. As a rule, investors take equity in the company, thus becoming a member of decision board.*

Venture capital is derived from either individual venture capitalists or venture capital funds, which are managed by venture capital firms. VC "Funds" are pools of money drawn from individuals, pension funds, investor funds, or corporations, established to invest in high-growth business opportunities.

Common characteristics of Venture Capital companies

Summarized characteristics:

- Professional Investors come together, obtain their shares and form venture capital fund which can invest in several high-risky startups;
- VC companies invest capital in potential startups after seed stage. It is important to distinguish between CV companies and VC funds, because it is company controls the funds done by investors and invest in startups that buys the share in these high-risky young companies;
- Wealthy individual investors or companies which have a possibility to accumulate funds;
- As a general rule, VC companies invest in emerging startups seeking substantial funds for the first time in change to the share in private equity of early-stage company which does not generate yet revenue or profit;
- VC companies invest in emerging startups became part owners and can control the activity of the startup;
- Along with the money CV provide valuable experience, information, resources, technical assistance;
- Investments are done from 3 to 10 years along with the design of exit strategy.

Types of Venture Capital funding

Venture capital funds are classified on the basis of their utilization at different stages of a business. There are three main categories of venture capital financing, each with its own subcategories:

Types of Venture Capital funding

Early stage financing	Expansion financing	Cash flow statement
Early stage financing has three sub divisions seed financing, start up financing and first stage financing. Seed financing is defined as a small amount that an entrepreneur receives for the purpose of being eligible for a startup loan. Start up financing is given to companies for the purpose of finishing the development of products and services. First Stage financing: Companies that have spent all their starting capital and need finance for beginning business activities at the full-scale are the major beneficiaries of the First Stage Financing.	Expansion financing may be categorized into second-stage financing, bridge financing and third stage financing or mezzanine financing. Second-stage financing is provided to companies for the purpose of beginning their expansion. It is also known as mezzanine financing. It is provided for the purpose of assisting a particular company to expand in a major way. Bridge financing may be provided as a short-term interest only finance option as well as a form of monetary assistance to companies that employ the Initial Public Offers as a major business strategy.	Acquisition financing and leveraged buyout financing are the categories falling under acquisition/buyout financing. Acquisition or buyout financing is categorized into acquisition finance and management or leveraged buyout financing. Acquisition financing comes into picture during the course when a company requires fund to acquire another company or part of the company. Acquisition financing assists a company to acquire certain parts or an entire company. Management or leveraged buyout financing helps a particular management group to obtain a particular product of another company.

It's important to know the preferences of the VC you're approaching, and to clearly articulate what type of funding you're seeking.

Some of the most experienced entrepreneurs and investors:

FABRICE GRINDA

Fabrice Grinda is among the world's leading Internet entrepreneurs and investors.

He has over 150 exits on 500 angel investments. Fabrice has served as CEO for three multinational companies and has an impressive track record as an early investor in Alibaba, Flexport, Delivery Hero, Betterment and Brightroll.

FJ Labs has 9 business selection criteria when making a decision:

- ✓ $1 billion+ potential value
- ✓ Valid business model
- ✓ Initial unit economics
- ✓ Market leader potential
- ✓ Scalable & capital efficient
- ✓ Growing market
- ✓ No disintermediation risk
- ✓ Execution know-how
- ✓ Quality of team

He made investments in medium and long term and predominantly in seed companies and more in Fintech, Ecommerce, Travel, Mobile and SaaS (Software as a Service) domains. His venture fund, FJ Labs takes the investment decision over the course of 1 – 2 weeks. The financial support is offered both to B2B and B2C companies. One of the biggest investment of Fabrice Grinda is AirCall. A company that made a cloud-based call center software that integrates services such messaging platforms and companies like Uber, Vice and Pipderive are using it. By May 2020, AirCall has accumulated total funding worth $96 million.

WEI GUO

Manager at UpHonest Capital which is an international venture capital firm that specializes in providing investment capital to early-stage startups, Wei Guo is an individual investor and his investor stage is seed. He made 148 personal investments and 13 partner investments along with 16 exits. Most successful domains are Food, Beverage and Software.

The investments are made directly by using his own funds or through his companies and for a medium/long term perspective, predominantly in seed or startup companies.

If a new Startup wants to get funding from UpHonest Capital, the company should be less than 5 founders and must be 2 – 3 years old in order to get the investment from this venture fund.

UpHonest Capital invests in rounds with 6 – 7 participants and the average start-up valuation is 10 – 50 million dollars. Typical investments for this fund are deals in the range of 5 – 10 million dollars. It generally accepts 7 – 12 deals every year. One of his successful investment is Lime, an American transportation company based in San Francisco and founded in January 2017 by Toby Sun and Brad Bao. It runs electric scooters, bikes and car sharing systems in various cities by offering deckles vehicles which users find and unlock via a mobile app based on GPS. Lime has raised a total of $935 million from March 15, 2017 to May 7, 2020.

What is funding process?

This type of financing process as a rule involves four stages in the development of a company:

- Generation of ideas

  Step 1: Idea generation

- Run

  Step 2: Introductory Meeting

- Scaling up

It is very typical that the company seeking venture funding provides a detailed business plan with the following points:

Step 1: Idea generation expressed in the Business Plan

- An executive summary of the whole business proposal
- Market analyse, including its potential and size
- Competitors analyse and expending scenario
- Detailed financial calculations and projections
- Team management

A potential investor examines in detail the submitted plan, and decides whether to continue cooperation and give money or not.

Step 2: Introductory Meeting

Once the introductory part is finished and the business plan get the attention and interest of the VC, a one-to-one meeting will be established for deep discussions after which the final decision regarding the diligence stage will be done.

Step 3: Diligence phase

The due diligence stage depending on the nature of the business proposal. This process includes resolving inquiries related to customer reviews, product and business strategy evaluations, interviews with management, and other similar activities during this period of time.

Step 4: Term and Conditions approval and access to Funding

If the due diligence phase is passed successfully, the VC proceeds to the settlement of all legal aspects explained and fixed in basic terms and conditions of the investment agreement. This document is negotiable and must be agreed upon by all parties, after legal aspects related to the documentation and due diligence part are done, funds became available.

Venture capital financings are not easy to obtain or close. Entrepreneurs will be better prepared to obtain venture capital financing if they understand the process, the anticipated deal terms, and the potential issues that will arise.

Stages of Venture Capital funding

There are some common stages of venture capital financing. As per Venture Capital applications, there are three principal types which include **early stage** financing, **expansion** financing and **acquisition/buyout** financing. In its turn, venture capital funding procedure cover six stages in correspondence with the periods of a company's development:

1. 

Seed money: *Low funding to test and implement a new idea. At this stage, few VCs funds are available and the amount of investment is likely to be small. Investment capital can be used to* ***create a sample product****, fund* ***market research****, or cover* ***administrative set-up costs****.*

2. 

Start-up: *New companies need funds to cover the costs of* ***marketing*** *and* ***product development****. Funding at this stage is also rare. Typically, this includes recruiting other key management staff, additional market research, finalizing of the product or service and launching to the market.*

3. 

First-Round: *Financing of* ***production*** *and* ***early sales****. At this stage, VC financing can help you to increase the sales to break-even point, increase the productivity or efficiency of the startup.*

4. 

Second-Round: *Operating capital is provided to startups which sell products but do not return profits. Funding at this stage can help you* ***expand into new markets*** *or* ***increase your marketing efforts****. At this stage it is recommended to start looking for VCs that provide late investing.*

5. 

Third-Round: *Also known as* ***mezzanine financing****, this is money for expanding a recently formed company. At this point, your company has already impressive sales and revenues and you have a* ***two-level gradation of management staff****. At this stage, companies are interested to increase production capacity or working capital or ramp up marketing and expand sales.*

6. 

Fourth-Round: *Also called* ***bridge financing****, this round envisages funding for "going public" process. There are VCs focused on this end of the business development, specializing in initial public offerings (IPOs), buyouts, or recapitalizations. At this stage, short-term financing allows startups to pay the costs of going public.*

Benchmarks at each financing stage can vary widely for each startup, depending on their industry, geography, and individual goals.

Which financing option is right for your business?

More still approach angel investors and venture capitalists to ensure financing for their company. To make the right decision for financing your company, you will need to know the intricate differences between angel investors and venture capitalists, and what each party can offer:

Criteria	Similarities	Differences
➢ **Average cheque**	Both of them form their portfolios of the invested proposals, the average investment check differs approximately in the same proportion (as the amount of total funds)	✓ **Angels** - invest their own funds in the projects only - invest in one project from $5k to $100k ✓ **Venture funds -** engage funds of institutional investors (pension funds, insurance companies, family funds, high net worth individuals) - do not invest less than $500 thousand in one project - Venture fund has ten times more capital under management than a business angel.
➢ **Investment stage**	Both invest in the process of project realization	✓ **Angels** - enter the projects earlier, usually before there is an MVP or a prototype even - accept high risks directly connected with the realization and development of projects ✓ **Funds** - invest in projects with at least minimal traction (dynamics of financial indicators)
➢ **Geography**	Both could invest in local projects	✓ **Angels** – mostly invest in the local projects ✓ **Venture funds** – are independent from specific regions
➢ **Deal closing rate**		✓ **Angel** - closes in a few weeks — maximum in a month ✓ **Venture funds** - time of closing varies from 3 to 6 months
➢ **Corporate law**	Both have a corporate law and regulation that is followed by them	✓ **Angels** - shares when investing in startups, what equals their rights with the project's founders. ✓ **Funds** - take preferred shares (with additional rights and liquidation privileges)
➢ **Support**	Both provide a financial support for start-up and new entrepreneurship	✓ **Angels** - invest in projects from the industries which they have certain expertise in, so the main value they can give is to help in creating a product. ✓ **Venture funds** grant startups with more structural support, with well-established management systems for all technical and

		administrative issues not related to product development
➢ Communication		✓ **Angels** - usually build their communications on a more informal, conceptual framework ✓ **Funds** - do their best to minimize all possible risks, what results in a much longer process of closing the deals and in much more strict requirements to the report

Knowing the similarities and differences between angel investors and venture capital investors is necessary to make the right decision for your business going forward.

Grants as a source of financing for startups

Money to start your own business - what could be better? Here's what a grant can do for your startup. And while small business owners may dream of receiving grants to fund their startup, they may not be as abundant or easy to get. However, if you know where to look and how to apply, you may be able to get free money for your business.

So, what is a Startup Small Business Grant?

***A startup small business grant** is monetary funding from the government or an organization that is given in order to help small companies and nonprofits succeed in building and growing their business. Unlike loans, you don't have to pay this money back. There's no collateral that you're required to put up, and you won't need to pay fees or interest. The best part about grants is that the money is yours to keep, and you'll never have to pay it back after using it for your startup.*

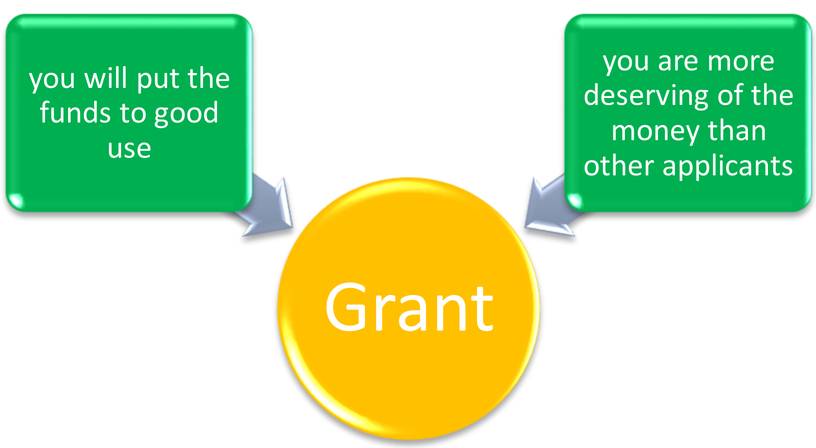
There are many types of business grants offered by myriad organizations, both public and private. As you might figure, eligibility requirements vary for different grants. In general, though, only certain types of businesses are eligible for grants. If your business belongs to any of the following categories, you might eligible for a startup business grant:

➢ **Innovation**	Many startup grants are for innovators and businesses that create novel, potentially disruptive products. These grants are generally for entrepreneurs in technology, medicine, science, agriculture, education.
➢ **Green Businesses**	Generally, these grants cover the cost of installing sustainable infrastructure and/or energy systems.

- **Rural Businesses** — Various grants aim to stimulate the economy in rural and economically distressed areas. These grants serve to attract new businesses to struggling regions.
- **Women-Owned Businesses** — There are certain business grants you might be eligible for if you are a female entrepreneur. Additionally, some grant money goes to businesses that create solutions that benefit women and families.
- **Nonprofit Organizations** — Nonprofit startups are eligible for some government and private grant money. In fact, you're much more likely to be awarded a grant if you run a nonprofit organization, as opposed to a for-profit business.
- **Veteran-Related Businesses** — Veteran business grant money includes retraining grants for veterans returning to civilian life, grants to nonprofits providing services to veterans.
- **Minority-Owned Businesses** — The more active categories of grants are those aimed at businesses that are at least 51% owned by an individual classified as a minority.

In general, government startup small business grants aren't available for starting a business, paying off debt, or covering operational expenses. And unless your business is a nonprofit or is launching a project related to areas such as technology, medical research, or education, government grants may be hard to find.

You can think of business grants as sort of like scholarships for adults. Just as with a scholarship, you have to convince the grant-issuer that:



Before you spend the time and energy finding and applying for a small business grant for your startup, it's important to understand what criteria these grants are looking for and decide if your particular business or industry is right.

How to get a Startup Business Grant?

You're probably wondering about how to get a small business grant. If getting a grant were easy, there'd be no such thing as loans. Getting a grant means competing to stand out from the crowd of other applicants.

While every grant is slightly different in terms of qualifications and expectations, here are some general tips for applying for grants:

1. **Make Sure You're Eligible**. Ensuring eligibility is one of those obvious-sounding tips, but you do not want to put all the effort it takes to apply for a grant into one you don't actually qualify for. If you aren't sure if you qualify, contact a representative of the organization offering the grant and ask.
2. **Tailor Your Pitch to Your Audience**. Research the culture of the entity offering the grant. Are they informal and hip? Formal and professional? Can you put it into your application without sounding forced? You may have the best business idea in the world, but ultimately, you'll have to convince the judges that you're the applicant who deserves the money most.
3. **Don't Skip Any Part of The Application.** Some parts are probably going to be annoying or even redundant. Do not skip them. The thing to remember about judges is they're looking for something, anything, that will help them narrow down the field of applicants. One of the easiest and laziest ways to do that is to discard applications with big blank spaces.
4. **Create A Compelling Narrative**. You may not have lived a life full of adventure, but chances are you have a story to tell about yourself and how you came to be a business owner and grant applicant. Providing these details as a contiguous story with a trajectory and destination can increase your application's chances of standing out.
5. **Be Realistic**. Be honest about your business's quantifiable details, what you need, how long it will take you to reach the goals you've outlined, and any risk factors involved. This isn't for humility's sake; it'll help you look like you know what you're talking about.
6. **Talk About How Your Business Will Affect Your Community.** Many grants are offered with some kind of community advocacy in mind. If appropriate, talk about how your business fits into the broader tapestry of your community and how you provide the most bang for their buck.

A grant application might require an outline of your proposed work and financial data on your organization. Don't be afraid to consult other experts such as your accountant or any team members who may be able to help with the application, too. Whatever you do, just be sure to follow the parameters of the grant application and don't leave anything out. Otherwise, you might not be considered.

No matter how you approach the process, the rewards are there for small business owners who put in the time and energy to submit a complete and compelling grant proposal.

Some grants that can be accessed by startups in Moldova, Armenia, Belarus

Helping small businesses start and thrive is a win-win situation for the government. Local businesses help support the tax base through businesses taxes and through the wages provided to employees. The possibility of workforce expansion and economic growth prompts municipalities, counties, states and the government to offer various forms of assistance, such as **grants**. The financing of the support process is carried out by including in the annual budget law the necessary financial resources, as well as by creating special funds according to the legislation in force. Therefore, the amount of grants differs in different countries and it is necessary to consider the possibilities of accessing grants in several states, such as the Republic of Moldova, Armenia, Belarus.

REPUBLIC OF MOLDOVA

In the Republic of Moldova there is an understanding at the state level that the provision of financial support in the form of grants, optimization of the procedures and time required for an economic agent to open and run a business, by applying innovative approaches to business regulation, such as digitizing the process of providing public services, as well as a shift in focus from audits to consulting, significantly improves the business environment by reducing unnecessary administrative costs and, indirectly, ensuring economic development.

In Moldova, the state support of start-ups, small and medium enterprises is carried out differently, depending on the type of activity, the period of operation and the number of economic agents, using different forms and methods of support and sources of financing.

Support for the development of start-ups, small and medium-sized enterprise sector is carried out by public authorities, in accordance with state strategies and programs approved by the Government, and by non-state organizations. The subjects of state support for the development of start-ups, small and medium-sized business sector are ministries, other central public administration bodies, local public administration bodies, and other authorized bodies. The subjects of non-state support for the development are individuals and legal entities, including foreigners. The objects of state support for the development of the small and medium-sized business sector are start-ups, small and medium-sized enterprises.

Specialized state institutions under the Ministry of Economy of the Republic of Moldova, responsible for the implementation of state policy to support the business environment in accordance with the development strategies of this sector, create opportunities to launch and grow a successful business; and educate and develop culture and entrepreneurial skills. Facilitating the access of startups and SMEs to financial resources is carried out through such mechanisms as state and international programs and projects, presented below:

Nr.	Source name	Specifics of funding	Conditions for obtaining	Examples
1.	**PARE 1 + 1 program includes the Program Support for SMEs in rural areas**	*It is addressed to migrant workers or first-degree relatives, citizens of the Republic of Moldova who have gone abroad in order to work.* *It takes place in 4 compartments:* *1. Information and communication* *2. Training and entrepreneurial support* *3. Business financing. Rule 1 + 1* *4. Post-financing Monitoring and Program Evaluation.*	*In order to have access to the program and to obtain funding it is necessary:* *Person criteria:* *1. Citizen of the Republic of Moldova* *2. Migrant worker from the Republic of Moldova or first degree relative - beneficiary of remittances;* *3. Intends to launch / develop its own business in the Republic of Moldova.* *4. It has its own capital, derived from remittances and can confirm the presentation of supporting documents, the origin of the financial means.* *Organizational and legal criteria:* *1. Individual enterprise* *2. Limited liability company* *3. Production cooperative* *4. Entrepreneurial cooperative* *5. Peasant household* *More information:* https://businessportal.md https://www.odimm.md	*Story of success* https://www.odimm.md/ro/presa/istorii-de-succes/4374-nicoleta-morosanu-pentru-a-ti-pune-ideea-de-afacere-in-aplicare-e-nevoie-de-multa-munca-abilitati-si-rabdare https://www.odimm.md/ro/presa/istorii-de-succes/4376-ana-statova-dumnezeu-imi-trimite-in-cale-oameni-care-doresc-ca-si-mine-sa-pastreze-traditiile https://www.odimm.md/ro/presa/istorii-de-succes/4373-ala-lerner-stilul-vestimentar-care-face-diferenta
2.	**Horticultural Sector Restructuring Program (Livada Moldovei) 2016 - 2024**	*This program provides for preferential loans and leases to recover the horticultural sector (from the expansion stage to export).* *The financier is the European Investment Bank Maximum 5 million euros offered*	*In order to participate, the following procedure must be done:* *1. Submission of the Application Form* *2. Credit / leasing application* *3. Presentation of the investment project* *4. Obtaining the project eligibility notice* *5. Examination and approval of the project* *6. Financing and monitoring of the investment* *More information:* http://livada-moldovei.md	http://livada-moldovei.md/wp-content/uploads/2020/03/istorii_de_succes_2020_RO_integral-compressed.pdf

3.	**European Fund for South East Europe**	*Specific to this fund is that it ensures the provision of small loans to micro and small enterprises (MIM) in the national currency for enterprises in agriculture, industry, trade and services.* *The Fund's partner in the Republic of Moldova is ProCredit Bank MD*	*In order to have access to thsee funds, it is necessary to meet the following criteria:* *1. Be classified as an SME or CSC;* *2. Be located on the territory of the Republic of Moldova;* *3. Work in industries that meet certain criteria;* *4. Must not own and manage a portfolio of equity interests and / or investments in other companies;* *5. Do not work in prohibited industries listed by national legislation.* *This information can be obtained from the Partner Bank (ProCredit Bank): https://www.procreditbank.en*	https://eu4business.eu/mo/success-stories/de-la-sere-la-capre-cum-contribuit-eu4business-la-conturarea-destinului-lui-ilie
4.	**International Fund for Agricultural Development (IFAD)**	*This fund has three components:* *I. Climate change resilience and value chain development.* *II. Inclusive rural financing and capacity building.* *III. Infrastructure for rural climate resilience and growth.* *The first part of the program ended in 2019.* *The second part, called the Rural Resilience Project, has been running since 2017 and will end in 2023.*	*Lending procedure:* *1. The applicant shall apply to the Bank for credit after studying the conditions.* *2. Preparation of the file* *3. Preparation and presentation of the Business Plan.* *4. Evaluation of the file and approval of the Bank financing.* *5. Approval of IFAD funding.* *6. Disbursement of resources by the Bank.* *This project provides grants, credit guarantees, loans and support and technical assistance for SMEs.* *The partner banks are: Mobiasbanca - Groupe Societe Genrale, Enrgbank, ProcCredit Bank, Comerțbank, Moldova Agroindbank.* *More information https://www.ucipifad.md*	https://www.ucipifad.md/success/victor-anghel-fermier-la-tehnologia-mini-till-eficienta-economica-si-beneficiile-pentru-sol-sunt-evidente/ https://www.ucipifad.md/success/gheorghe-terna-la-originile-succesului-meu-a-stat-si-echipa-de-la-programul-de-rezilienta-economico-climatica/ https://www.ucipifad.md/success/afacerea-cu-iepuri-a-angelei-capatina-care-sunt-principalele-provocari/
5.	**Business Advisory Services (BAS) Program - EBRD + Women in Business Program**	*It is a program aimed at developing the field of consulting services in Moldova and increasing the competitiveness of local companies in this field.* *Assistance services are provided in identifying, defining business problems, cooperation and*	*Application procedure:* *1. Submission of the application* *2. Select consultant. Signing the grant agreement.* *3. Implementation.* *4. File evaluation. Approval of financing by the Bank.* *5. Confirm successful implementation. Subsidy payment.* *6. BAS project impact assessment over 1 year.* *Target group: Private SMEs in the Republic of Moldova*	https://businessportal.md/blog/antreprenoarea-marina-andreev.html

		solving the business problems faced by SMEs.	*engaged in production, services and trade.* *More information:* www.ebrd.com/sbs/moldova https://www.odimm.md/ro/femeiinafaceri	
6.	**The World Bank's CAP Competitiveness Improvement Project**	*This program has the following funding structure:* *- 70% of co-financing - consulting services* *- 30% of the co-financing for the equipment used in the project* *The target is: exporters who will export, who will pay at least 50% of the costs and have a maximum of 249 employees.*	*Application procedure:* *1. Verification of eligibility* *2. Application form - completion* *3. The set of documents presented* *4. Approval of the UIPAC request before signing the Consultancy Contract* *5. Granting the grant* *6. Evaluation of the impact of the UIPAC project* *More information:* http://uipac.md/ http://uipac.md/linia-de-credit	https://uipac.md/
7.	**The Performance Agriculture in Moldova (APM) project implemented by Chemonics International Inc 2016 - 2021**	*Funding is provided by USAID and aims to develop the agricultural sector.* *There are annual calls offering grants for:* *Marketing and Promotion (150 - 900 thousand lei / beneficiary)* *Innovation and Technology Transfer in the value chain of berries (200 - 500 thousand lei)* *involvement of young people in high-value agriculture through education (50 - 250 thousand lei)*	*The application for financing is made by filling in the forms presented in the link in the QR Code and sending the file to the indicated address.* *More information:* https://agrobiznes.md/apm	https://agrobiznes.md/un-agricultor-va-scoate-in-curand-pe-piata-capsuni-produse-pe-substrat-din-nuca-de-cocos.html
8.	**Business Angels MD**	*Angel Investors organization that provides finance for starting a business of up to 25,000 euros.* *More information:* https://www.businessangels.md	*1. The application form is completed and the answer is issued within one week.* *2. The meeting for the presentation of the business idea is established.* *3. The decision to finance or reject the financing of the business is taken.*	https://www.businessangels.md/

ARMENIA

Armenia is steadily turning into a new regional hub of advanced technology and innovation. Being one of the leading technology blocks of the former Soviet Union and having a strong human capital, it served a solid ground for Armenia to embrace the power of technology in the 2000s and give it an exponential rise. The country has made significant progress in improving its business environment. The importance of entrepreneurship for the country's sustainable economic growth and national competitiveness is now fully recognized and the promotion of entrepreneurship and SME development are increasingly supported by the Government.

Armenia has shown full commitment to developing the appropriate tools to improve the competitiveness of SMEs, start-ups, to innovation support schemes to technological firms. The state support is carried out differently, depending on the type of activity, the period of operation and the number of economic agents, using different forms and methods of support and sources of financing. Support for the development of start-ups, small and medium-sized enterprise sector is carried out by public authorities, in accordance with state strategies and programs approved by the Government, and by non-state organizations. The main actors in providing business, technical and financial services to start-ups, SMEs in Armenia is the Ministry of Economy of the Republic of Armenia, Armenian Development Agency, Investment Support Center Foundation, other development agencies and support units. Those and many othe units create opportunities to launch and grow a successful business; and educate and develop culture and entrepreneurial skills. Facilitating the access of startups and SMEs to financial resources is carried out through such mechanisms as state and international programs and projects, funding sources that are presented below:

Nr.	Source name	Specifics of funding	Conditions for obtaining	Examples
1.	**EU4Digital**	*EU4Digital builds on a long history of EU cooperation with Armenia in the field of e-government and digitisation, further strengthening EU-Armenia cooperation, with a focus on Telecom Rules, Trust and Security, e-Trade, ICT Innovation, e-Health, and e-Skills. The outcomes of the*	*Four projects are funded under the EU4Digital Initiative – the EU4Digital Facility, EU4Digital Broadband, EU4Digital Cyber and EaPConnect. As well as these, the European Union also supports a number of other projects that contribute to the digital economy and society, at both regional and bilateral (country) level.* *The procedure differs depending on the project.* *More information:* https://eufordigital.eu/other-projects/	*Story of success* https://eufordigital.eu/digitising-industry-best-practices-to-promote-the-digital-transformation-of-smes-in-traditional-sectors-of-the-economy/ https://eufordigital.eu/eapconnect-partners-support-research-and-education-during-the-covid-19-

		initiative will result in improved online services for Armenian citizens, at better prices and with greater choice, attracting investments, boosting trade and employment, as well as strengthening cooperation with EU member states and within the Eastern Partnership.		pandemic/ https://eufordigital.eu/how-to-ensure-rapid-development-in-the-it-sector-eu4digital-highlights-women-as-the-key-to-growth/
2.	**Granatus Ventures**	*Its approach is investing worldwide in those startups that have core value-add activities in Armenia. The fund engages in the early life of a company, providing startups with initial seed capital, and following on with additional investments as the company matures. The first investments by the VC were announced on September 26, 2014 in New York. As of 2019, Granatus Ventures has 14 companies in its portfolio. The fund closed 3 new deals and participated in a number of follow-on rounds in 2018.*	*In order to participate, start-ups need to reach out the team.* *More information:* https://www.granatusventures.com/contact	https://www.granatusventures.com/portfolio

3.	**SmartGateVC**	*SmartGateVC is a Silicon Valley pre-seed venture capital fund backed by Tim Draper and a network of entrepreneurs and professionals from the US, Europe, and MENA. Our key focus is deep tech: Artificial Intelligence, Security, Internet of Things and emerging Computational Biotech, Quantum Computing, and Blockchain across California, Massachusetts, NYC, Armenia, and wider Eastern Europe.*	*In order to participate, start-ups need to reach out the team.* *More information:* https://www.smartgate.vc/contact	https://www.smartgate.vc/highlights
4.	**Business Angel Network of Armenia (BANA)**	*Business Angel Network of Armenia (BANA) is a network of investors, entrepreneurs and executives from Armenia and abroad interested in making investments in startup companies. In addition to capital, the members bring their expertise, experience and network to influence the success of the startups they invest in.*	*BANA invests in Armenian startups with high-growth potential. We focus on startups that already have initial traction or MVP. Our team and partners individually work with startups on their business development plans and prepare them for investment. BANA considers startups from all sectors and evaluates them based on the following criteria:* *Founding team, Market size, Product, Proof of concept, Business model, Funding requirements, Exit strategy.* *More information:* https://bana.am/	https://bana.am/category/blog/
5.	**Angel Investor Club of Armenia**	*AICA is a non-profit organization designed to*	*Application procedure: the general outline of our process pre and post every pitching session can be*	https://aica.social/portfolio/

		foster the development of entrepreneurial environment in Armenia. It is created to help start-ups and entrepreneurs with innovative ideas find high-caliber business professionals who would invest and help steer companies in their endeavors of high impact and growth. AICA is 20 members strong and growing.	*found here:* https://aica.social/start-ups/	
6.	**FAST Foundation**	*FAST is building an ecosystem of innovation to lead scientists, technologists, and innovators in Armenia and beyond to success on the global stage. With a focus on entrepreneurial endeavors, FAST empowers innovators to bring cutting-edge, commercially viable, and globally competitive solutions to life. Academic, governmental, and NGO alongside global players to explore and create what's next.*	*FAST Process* *FAST concentrates the resources behind select breakthrough innovations, inventions, and multi-stakeholder projects.* *FAST coordinates the activities of scientists, inventors, and entrepreneurs to amplify their work and impact at local and global levels.* *FAST catalyzes the development of globally competitive science and technology verticals, driving advancement, and market-readiness.* *More information:* https://www.fast.foundation/en/home	https://www.fast.foundation/en/home
7.	**Enterprise Incubator Foundation**	*Enterprise Incubator Foundation (EIF) is one of the largest technology business incubators and IT*	*The projects cover every important aspect of IT industry development to bring forward a coherent and harmonized industry progress.* *Application procedure and more information:*	http://www.eif.am/eng/startup-ecosystem/

		development agencies in the region, operating in Yerevan, Armenia. Established in 2002 within the framework of the World Bank's "Enterprise Incubator" project, it is called to support the development of information and communication technology sector in Armenia through creating a productive environment for innovation, technological advancement and company growth.	http://www.eif.am/eng/	
8.	**HIVE Ventures**	*HIVE Ventures invests in early stage startups led by Armenian entrepreneurs, anywhere in the world. The mission is to catalyze the global Armenian tech ecosystem, one founder at a time. It provides venture funding, mentorship, and a Silicon Valley network to help to scale the company.*	*In order to participate, start-ups need to reach out the team.* *More information:* https://hiveventures.co/our-portfolio/	https://hiveventures.co/our-portfolio/
9.	**Seaside Startup Holdings**	*Seaside Startup Holdings is investing in promising startups of Sevan Startup Summits as well as other summits in Ras Al-Khaima, UAE and Goa, India. It's co-founded by Russia-based*	*In order to participate, start-ups need to reach out the team.* *More information:* https://www.seasidestartupsummit.com/about-us	https://www.seasidestartupsummit.com/blog

		media entrepreneur Arthur Janibekyan and Startup Armenia Foundation and curated by Granatus Ventures.		
10.	**Sprint Crowdfunders Fund**	*Sprint Crowdfunders Fund is financing crowdfunding campaigns. The Fund is behind a number of crowdfunding campaigns such as Volterman and Bristly. Monthly 8% for pre-launch stage and 5% for in progress campaigns*	*Campaign Funding, Crowdfunding, campaign financing through specialized marketing agencies: INVEST, In both pre-launch stage and already in progress campaigns, RETURN.* *At the end of the campaign, investment amount recovery with interest, EARNING* *More information:* https://www.sprintcf.com/	https://www.sprintcf.com/products.php

BELARUS

In the context of the market economy, as the experience of economically developed countries shows, sustainable social and economic development directly depends on the level of activity of small and medium-sized businesses. This sector of the economy is quite mobile and easily adapts to frequently changing market conditions, due to this development of small and medium-sized businesses is the foundation for the emergence of conditions for intensive economic growth. The Republic of Belarus in this aspect is no exception, and the issues of economic growth and sources of its provision today are more urgent than ever. Development of individual, small and medium-sized businesses in the country is one of the national priorities of the economy.

State Programme "Small and Medium Business in the Republic of Belarus" was created in Belarus with the aim to support development of small and medium-sized businesses as one of the factors for ensuring a consistently high level of employment and economic growth.
Facilitating the access of startups and SMEs to financial resources is carried out through the state and international programs and projects, funding sources that are presented below:

№	Source name	Specifics of funding	Conditions for obtaining	Examples
1.	**Belarusian Fund for Financial Support to Entrepreneurs**	*Belarusian Fund for Financial Support to Entrepreneurs has been operating for 28 years since January 1992 and has accumulated rich experience in supporting business entities for the entire period of its work.* *The main objectives of the Fund were and are to provide small business entities with state financial support, with funds provided in the various state programs.* *Financial instruments of state support of small business*	***State financial support provided by the Fund:*** • *providing small businesses with funds on a repayable basis (loan);* • *provision of property on the terms of financial lease (leasing);* • *provision of guarantees for soft loans, including microcredits, issued by banks of the Republic of Belarus at the expense of local budgets, provided for by programs of state support for small and medium-sized businesses and placed in deposits of these banks.* *State financial support is provided to:* ***1) small businesses:*** ○ *individual entrepreneurs;* ○ *micro organizations (commercial - up to 15*	***Private unitary enterprise Maxipress:*** *http://belarp.by/ru/state-help/our-projects/~shownews/CHUPMaksipress2020* ***Limited liability company «Smart Line Logistics»:*** *http://belarp.by/ru/state-help/our-projects/~shownews/OOOSmartlajnlogistiks2020*

		entities by Belarusian Fund for Financial Support to Entrepreneurs are expressed in the provision of loans, financial lease of property (leasing), as well as guarantees on privileged credits. The Fund has financed more than 1,500 projects of small business entities for more than twenty years of work. *These projects are aimed at the creation and the development of production, the organization of export-oriented and import-substituting products, the implementation of new technologies, etc., for construction, acquisition, repair and reconstruction of real estate properties, acquisition of vehicles, purchase of components, raw materials and so on.* *The mandatory condition for obtaining borrowed funds and property under a finance lease is the new job formation.* *Belarusian Fund for Financial*	*people);* ○ *small organizations (commercial - from 16 to 100 people);* ***2) on a competitive basis (except for granting guarantees);*** ***3) upon implementing investment projects in the following areas:*** ○ *creation, development and expansion of production of goods (works, services);* ○ *organization, development of production, sale of export-oriented, import-substituting products;* ○ *output of products aimed at energy and resource saving;* *introduction of new technologies (with higher quality characteristics in comparison with the best analogs available in this market, in a certain market segment for which this technology is new);* ***4) for the purpose of:*** ▪ *construction, acquisition of buildings, structures, isolated premises and (or) their repair and reconstruction;* ▪ *purchasing equipment, vehicles, special devices and facilities;* ▪ *procurement of component products, primary materials and materials for own production and provision of services;* ***5) granting performance guarantee;*** ***6) on the basis of urgency and repayment;*** ○ *financial resources on the terms of a loan- up to 5 years,* ○ *property on the terms of a financial lease*	***Limited liability company «Konstruktiv- stroy»*** *http://belarp.by/ru/state-help/our-projects/~shownews/OOOKonstruktivstroj2020*

		Support to Entrepreneurs has developed and introduced gradually new mechanisms of providing non-financial instruments of state support to small and medium-sized business entities since December 2014. It includes information activities of the Fund, consultations on various issues, the development of contact and cooperation ties between the industrial sector and small business entities, the evaluation and the examination of investment and business projects, the export promotion, the promotion of innovative products production, the participation in startup-events, etc.	*(leasing) - up to 5 years,* ○ *guarantees for soft loans - up to 3 years;* ***7) on the basis of interest payment:*** *fee for the use of monetary funds is equal to the refinancing rate established by the National Bank of the Republic of Belarus* *(in the period from 06.05.2020 to 31.12.2020 an interest rate for the use of funds is set in the amount of 4.5% per annum with the mandatory creation of at least 1 job position as part of the project)**;*** *remuneration under a lease agreement is set at the rate of refinancing of the National Bank of the Republic of Belarus* ***(****in the period from 06.05.2020 to 31.12.2020 an interest rate for the use of funds is set in the amount of 4.5% per annum with the mandatory creation of at least 1 job position as part of the project****);*** *payment for granting of a guarantee is 5% of the amount of the provided guarantee;* ***8) in the amount of (except for guarantees):*** ○ *up to 216,000 Belarusian rubles (denominated) upon provision of funds on the terms of a loan;* ○ *up to 216,000 Belarusian rubles (denominated) upon provision of property on the terms of a financial lease (leasing);* ○ *the total amount of financial support for a small business entity cannot exceed 270,000 Belarusian rubles (denominated);* ***9) in the national currency of the Republic of Belarus;*** ***10) in non-cash form.***	

			More information: *http://belarp.by*	
2.	**Belarusian Innovation Fund**	*Belinfund provides financial support on a repayable basis:* ➢ *scientific research, development and experimental technological work carried out in frames of implementation of innovative projects;* ➢ *work on organization and development of production of scientific and technical products resulting from implementation of innovative projects and tasks of state scientific and technical programs;* ➢ *venture projects.* *The funds of the Belarusian Innovation Fund are formed at the expense of the republican budget.*	*Belinfund provides financial support on an irrevocable basis in accordance with the Decree of the President of the Republic of Belarus dd May 20, 2013 N229 "On measures of stimulating implementation of innovative projects" in terms of providing:* ▪ *innovation voucher - during implementation of preparatory or design and technological stage (for up to one-year period);* ▪ *grant - during implementation of design and technological stage (financial resources are provided to recipients of state financial support for carrying out scientific research, development and technological work on conditions determined by contract and legislative acts).* *The Fund considers projects in any industry, the main criterion is innovative potential of business (organization and development of new products output, modernization of production with introduction of innovative technologies).* *Companies can receive financing from fund on preferential terms:* ○ *average check - USD 1-2 million (max. USD 7-10 million)* ○ *deficiency of security deposit and loan insurance* ○ *interest rate - 0.5 refinancing rate of the National Bank of the Republic of Belarus* ○ *financing terms - no more than 7 years*	*http://www.gknt.gov.by/upload/iblock/BIF2014.pdf*

			(possibility of deferral of principal debt and interest for up to 2 years) *To obtain funding it is necessary to provide a business plan for the project with a financial model, description of products and production technology, market analysis and marketing strategy.* *More information:* *http://www.belinfund.by, https://rbf.vc*	
3.	Startup accelerator KROKIT	*It provides investments of up to $50,000.* *They teach the business hardware and IT start-ups.The accelerator is not an MBA or an information business. The accelerator gives you the knowledgethat you will apply during and after training. In the accelerator strong networking! Teams help each other, as everything is about the same stage.*	*Candidates from the CIS with start-up ideas in the field of IT can take part. We will select for you a training program depending on the stage of the startup – idea, MVP, sales, scaling.* *The format of training at any stage of the startup development: 80 hours of lectures and weekly meetings with a personal mentor.* *SUBMIT AN APPLICATION*	https://biznespark.by/accelerator/
4.	LaunchME Media Accelerator	*LMA — the first accelerator for technological startups in media industry in Belarus.* *It was launched in 2018 in Minsk. Its aim is to creat ecosystem for startup develepement in the intersection of media and technology in Belarus.* *Initiative Press Club Belarus and SPACE in partnership*	*Application*	https://launchme.by/

		with the British Embassy in Belarus.		
5.	Accelerator TechMinsk	*Summer batch is held in an intensive format: two weeks of full immersion of teams in work on the product, communication with mentors, formulation of key metrics and preparation for investments with the support of the United States Agency for International Development USAID*	*The "seed stage" startups that have launched a product on the market, have traction and have ability to attend the program online for two weeks and study in English are invited to the acceleration program. TechMinsk also accepts applications from new projects that have been developed during the pandemic.* *What awaits the participants:* *• Work 24/7 with international mentors for two weeks.* *• The program is designed specifically for the requirements of the market during the epidemic.* *• Real value through a hands-on approach.* *• Investment analysis of startups.* *• Support of mentors with exit experience.* *• Investments up to 50 thousand dollars based on the results of the demo day.* *• Individual mentoring for the best teams within two months after the program.* *The program consists of practical tools and exercises to help startups fundraise, improve sales, and build a team. The mentors will share their experiences of how they built a successful company and made an exit.*	https://techminsk.com/accelerator2020

EU FUNDING PROGRAMS

In addition to the support programs you can find in your country, you can also use external programs, including those offered by the European Union. Across the European Union, there are various programs, grants and government-backed loans for small and medium enterprises that you may be able to apply for, depending on the nature of your business or project.

Here are some of the funding sources:

Nr.	Source name	Specifics of funding	Conditions for obtaining
1.	**EU4Business**	*The EU believes that small and medium-sized enterprises (SMEs) are indeed a key ingredient of economic life. SMEs therefore have the potential to create further jobs and drive economic growth, if obstacles to growth can be tackled, such as limited access to finance, red tape, and difficulties entering new markets.* *Over 40 projects and €320 million in support* *EU4Business includes 43 projects in the Eastern Partnership region, implemented both on a regional and bilateral level. The overall active portfolio amounts to almost €320 million of EU support under EU4Business, and has triggered a total of more than €1.96 billion of loans granted by partner banks to SMEs in the region.*	*The European Union's EU4Business initiative is an umbrella initiative that covers all EU activities supporting SMEs in the Eastern Partnership countries and is open to everyone.* *Website:* *https://eu4business.eu/*
2.	**Horizon 2020 (2021 - 2027)**	*There is the EU's 8th Framework Program for Research. It is built on three pillars:* *1. Support for Excellent Science* *2. Support for Industrial Leadership* *3. Support for research to tackle societal challenges*	*Horizon 2020 is open to everyone, with a simple structure that reduces red tape and time so participants can focus on what is really important. This approach makes sure new projects get off the ground quickly – and achieve results faster.* *Website: https://ec.europa.eu/info/horizon-europe*
3.	**InvestEU**	*The InvestEU Program builds on the successful model of the Investment Plan for Europe. InvestEU is the EU's proposed flagship investment program to kick-start the European economy. It is well-placed to provide long-term funding and to*	*Through the InvestEU Fund, the European Commission will provide an EU guarantee of €38 billion, divided over four windows which define the policy areas that InvestEU supports:*

		support Union policies in the recovery from a deep economic and social crisis.	• *Sustainable Infrastructure (€11.5 billion);* • *Research, Innovation and Digitalization (€11.25 billion);* • *Small and Medium Businesses (€11.25 billion), and* • *Social Investment and Skills (€4 billion).* *Website: https://europa.eu/investeu/home_en*
4.	**Cosme 2021 - 2027**	*Flagship EU program COSME that supports SMEs reach their full potential is to be integrated into two larger EU programs InvestEU and SINGLE MARKET – in the next financial framework 2021-2027. The total budget allocated for the new SINGLE MARKET program will be €4.1 billion, whereas for InvestEU €38 billion. This allocation will be dedicated to:* ▪ *Access to Markets and Internationalization of SMEs* ▪ *Favorable Business Environment for SMEs* ▪ *Promote Entrepreneurship*	*The InvestEU Fund will mobilize public and private investment and will back the investment projects of the European Investment Bank (EIB) Group and other financial partners with the aim to generate around €650 billion in additional investment in:* • *Sustainable infrastructure: €11.5 billion* • *Research, innovation and digitization: €11.25 billion* • *SMEs: €11.25 billion* • *Social investment and skills: €4 billion* *Website: https://ec.europa.eu/growth/smes/cosme_en*
5.	**Erasmus 2021-2027**	*The proposal for a new regulation is a funding instruments part of the 2021-2027 Multiannual Financial Framework. Establishing a new program would ensure the continuation and evolution of the Erasmus+ funding program for education, training, youth and sport. The new proposal also aims to increase the level of simplification for end users, integrate sports into the program's mainstream structure, supports new areas of knowledge.*	*A program that is closer to the people works for the people and focuses on vulnerable groups to facilitate them and help them evolve is most certainly the kind of program that you're going to want to be a part of. Within the next few months, more information will be revealed before the first calls for proposals are announced. We can safely say that the European Union is turning towards a people-oriented strategy.* *Website:* *https://ec.europa.eu/programs/erasmus-plus/node_en*
6.	**Digital Europe**	*Digital transition is a key to Europe's future prosperity and resilience. As part of the next long-term EU budget, the Multiannual Financial Framework, the Commission has proposed the Digital Europe program, the EU's program to accelerate the recovery and drive the digital transformation*	*The program will boost investments in supercomputing, artificial intelligence, cybersecurity, advanced digital skills, and ensuring a wide use of digital technologies across the economy and society.* *Website:*

		of Europe.	https://ec.europa.eu/digital-single-market/en
7.	**Creative Europe**	*Creative Europe is the European Commission's framework program for support to the culture and audiovisual sectors. The general objectives of Creative Europe are:* *a) to safeguard, develop and promote EU cultural and linguistic diversity and to promote Europe's cultural heritage;* *b) to strengthen the competitiveness of the European cultural and creative sectors*	*The program has set aside funding for 250,000 artists and cultural professionals, 2,000 cinemas, 800 films and 4,500 literary translations. The program will allocate at least 56% of its budget to the MEDIA sub-program for audiovisual and the cinema and at least 31% to the Culture sub-program for performing and visual arts. This broadly reflects the share of funding that the two areas previously received.* *Website:* https://ec.europa.eu/programs/creative-europe
8.	**Enhanced European Innovation Council**	*The Enhanced EIC pilot supports top-class innovators, entrepreneurs, small companies and scientists with bright ideas and the ambition to scale up internationally. It brings together the parts of Horizon 2020 that provide funding, advice and networking opportunities for those at cutting edge of innovation.*	*The EIC Pathfinder Pilot comprises FET-Open and FET-Proactive and offers grants of up to €4 million to promote collaborative, inter-disciplinary research and innovation on science-inspired and radically new future technologies.* *Website:* https://ec.europa.eu/research/eic/index.cfm
9.	**Life program**	*The LIFE program is the EU's funding instrument for the environment and climate action created in 1992.* *The current funding period 2014-2020 has a budget of €3.4 billion. It represents funds for nature conservation and biodiversity, environment and resource efficiency, environmental governance and information*	*Any entity registered in the EU can make a proposal for LIFE traditional, integrated, preparatory, and technical assistance projects under the sub-programs for environment and climate action.* *You could be a:* • *public body operating under a national government's authority, e.g. local authority, national administration etc.* • *private commercial organization* • *private non-commercial organization (NGOs etc.)* *Website:* https://ec.europa.eu/easme/en/life

European funding programs may be available to legal entities, individuals, institutions and organizations if their planned activities correspond to any of the areas to be supported from EU funds. EU funds offer entrepreneurs a wide range of support opportunities.

Finances from EU funds are provided for research, innovation, technology development and implementation, as well as to increase the competitiveness of small and medium-sized enterprises. The EU finances such projects, the implementation of which can contribute not only to achieving the goals of an enterprise or organization, but also to improving the economic and social performance of entire countries in the long term.

CONCLUSIONS & RECOMMENDATIONS

A startup is a completely new entity that is in the process of carefully figuring out what its future customers really want.

Of course, the new business needs funding. If there are not enough own funds to start a business, then the entrepreneur starts looking for external financing.

The old economy was credit-based; the digital economy is more likely to use new sources of funding. Apple, Microsoft, Oracle, eBay, Google, PayPal, YouTube, Facebook - most of the big success stories of the past 30 years have been given to us by stocks, not loans. More precisely, thanks to this type of equity capital, such as venture capital investments. Unlike private equity, for example, venture capital supports the most adventurous and innovative startups.

The reason for this is simple: technology and innovation are changing the world at an ever-faster pace. The favorable conditions for a new product launch are gradually disappearing. Therefore, in order to succeed, it is necessary to take more and more risks and invest in initiatives that have not yet been tested by the market.

In the world of venture capital investments, the investor takes on the risk of losing everything in exchange for a relatively small chance that the company will hit. In a typical case, an investor loses his money in 9 out of 10 cases, but every 10th company brings him a profit in 30 times the amount of the initial investment. When there is an investor willing to part with their money, the entrepreneur has the freedom to add value to the business by increasing risk.

Involving an accelerator, a business angel or an investor in the stock market in a project requires open reporting, control over financial flows, and business transparency from the project. The higher the investment attractiveness of an enterprise, the more likely it is to receive investments.

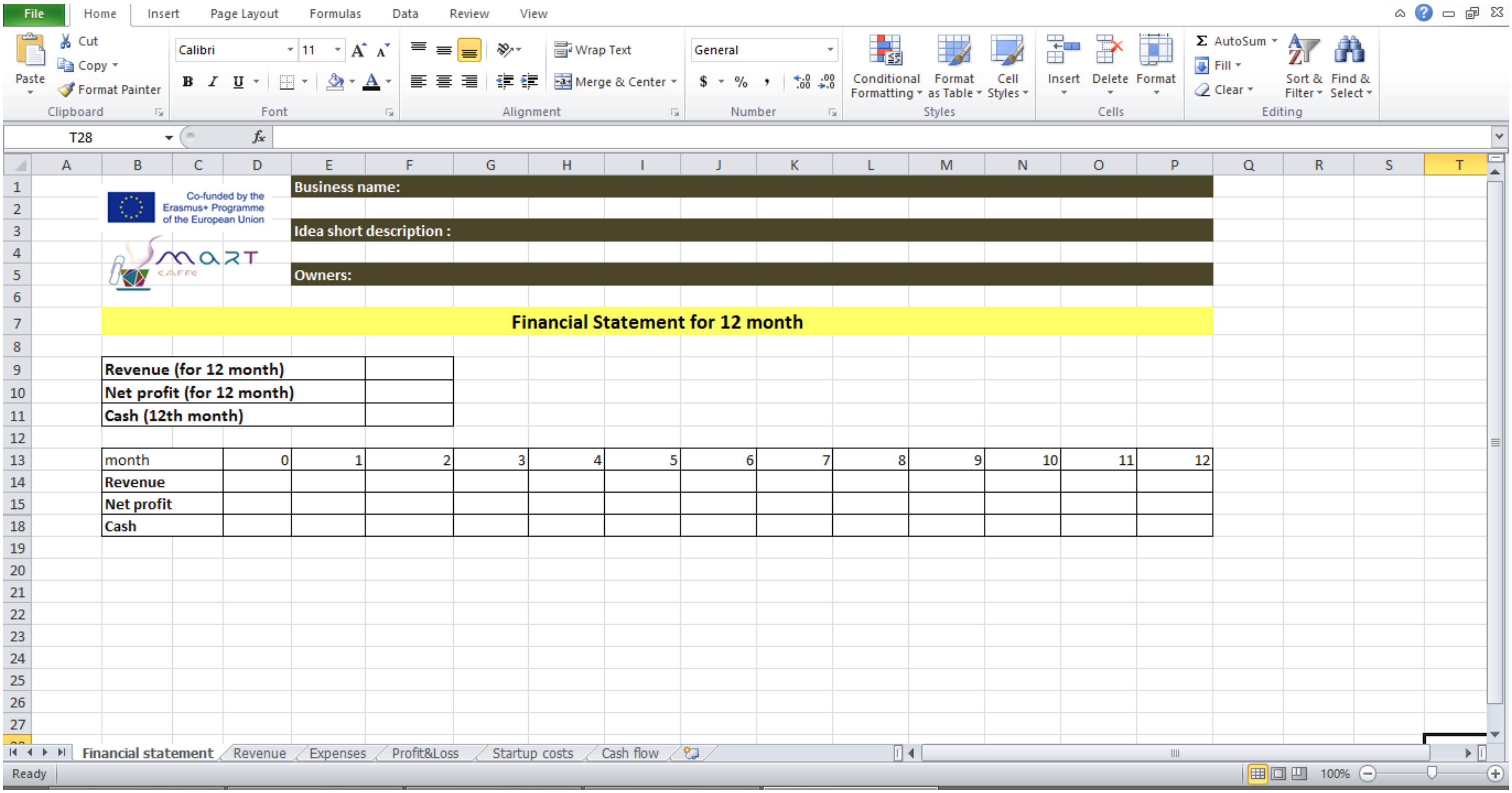
All you have to do is effectively present your business model to the right people, using the steps and recomendations from this handbook, and convince them that your startup has potential.

RECOMMENDED BIBLIOGRAPHY

What else to read?

1. Entrepreneurial Finance: The Art and Science of Growing Ventures, by Luisa Alemany, Job J. Andreoli, 2018, 621 p., Cambridge University Press, ISBN-13: 978-1108431859
2. Financial Intelligence, Revised Edition (A Manager's Guide to Knowing What the Numbers Really Mean), by Karen Berman, Harvard Business Review Press, 272 p., 2013, ISBN 1591397642
3. Financial Management for Technology Start-Ups: A Handbook for Growth 1st Edition, by Alnoor Bhimani, 2017, 240 p., ISBN-13: 978-0749481346
4. Found Money: Simple Strategies for Uncovering the Hidden Profit and Cash Flow in Your Business, by Steve Wilkinghoff, 2009, 224 p., ISBN-13: 978-0470483350
5. How Finance Works: The HBR Guide to Thinking Smart, by Mihir Desai, 288 p., 2019, ISBN 13: 9781633696709
6. Profit First: Transform Your Business from a Cash-Eating Monster to a Money-Making Machine, by Mike Michalowicz, 2017, 224 p., ISBN-13: 979-8551117506

Appendix 1



Revenue (for 12 month)	
Net profit (for 12 month)	
Cash (12th month)	

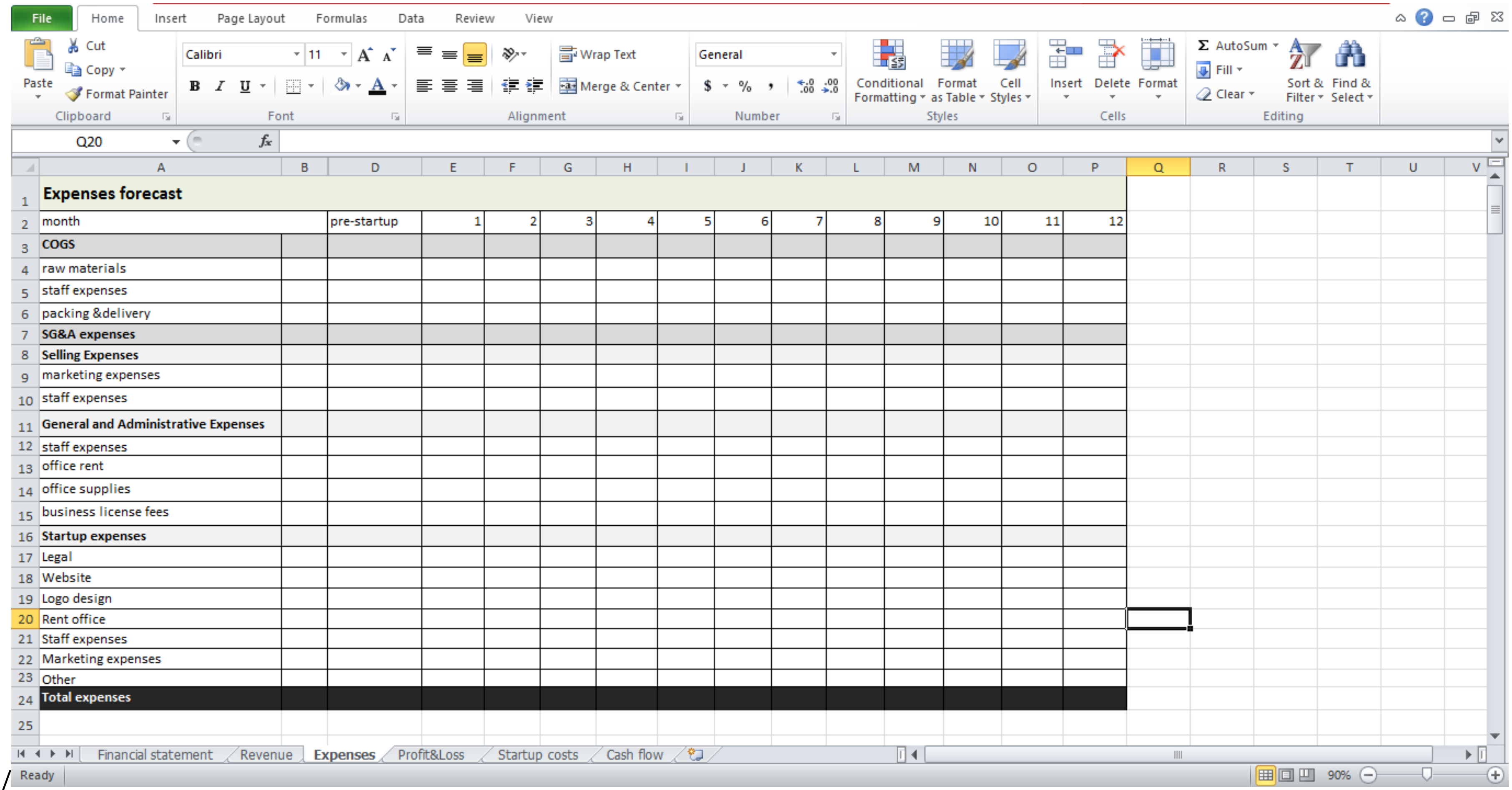
month	0	1	2	3	4	5	6	7	8	9	10	11	12
Revenue													
Net profit													
Cash													

Note: *For this table, set the formulas so that it fills in automatically as you complete the other tables.*

Revenue Forecast

Revenue (for 12 months)	**0**												
month		1	2	3	4	5	6	7	8	9	10	11	12
Monthly revenue													
Revenue lever 1 (ex. online story)													
Sale drivers & assumptions (ex. below)													
Marketing expenses													
Average cost per click													
Number of clicks													
Conversion rate													
Sales													
Price (or average basket)													
Revenue lever 2 (ex. real story)													
Sale drivers & assumptions (ex. below)													
Foot trafic													
Number of visitors													
Conversion rate													
Sales													
Price (or average basket)													

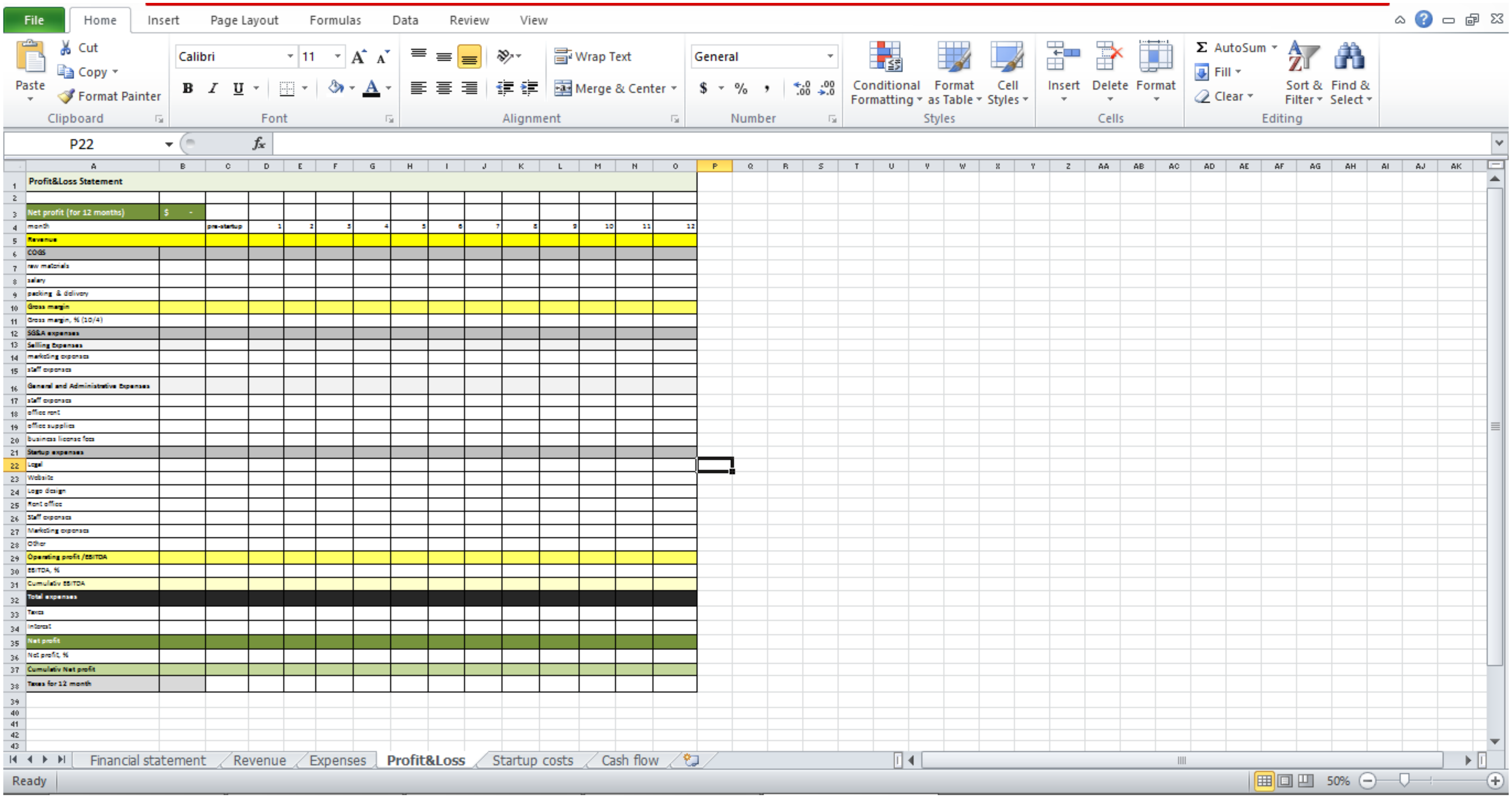
Note: *adapt the table to the way you will organize the sales - for each sales channel design the sales funnel, add this data in the table.*



Expenses forecast														
month		pre-startup	1	2	3	4	5	6	7	8	9	10	11	12
COGS														
raw materials														
staff expenses														
packing &delivery														
SG&A expenses														
Selling Expenses														
marketing expenses														
staff expenses														
General and Administrative Expenses														
staff expenses														
office rent														
office supplies														
business license fees														
Startup expenses														
Legal														
Website														
Logo design														
Rent office														
Staff expenses														
Marketing expenses														
Other														
Total expenses														

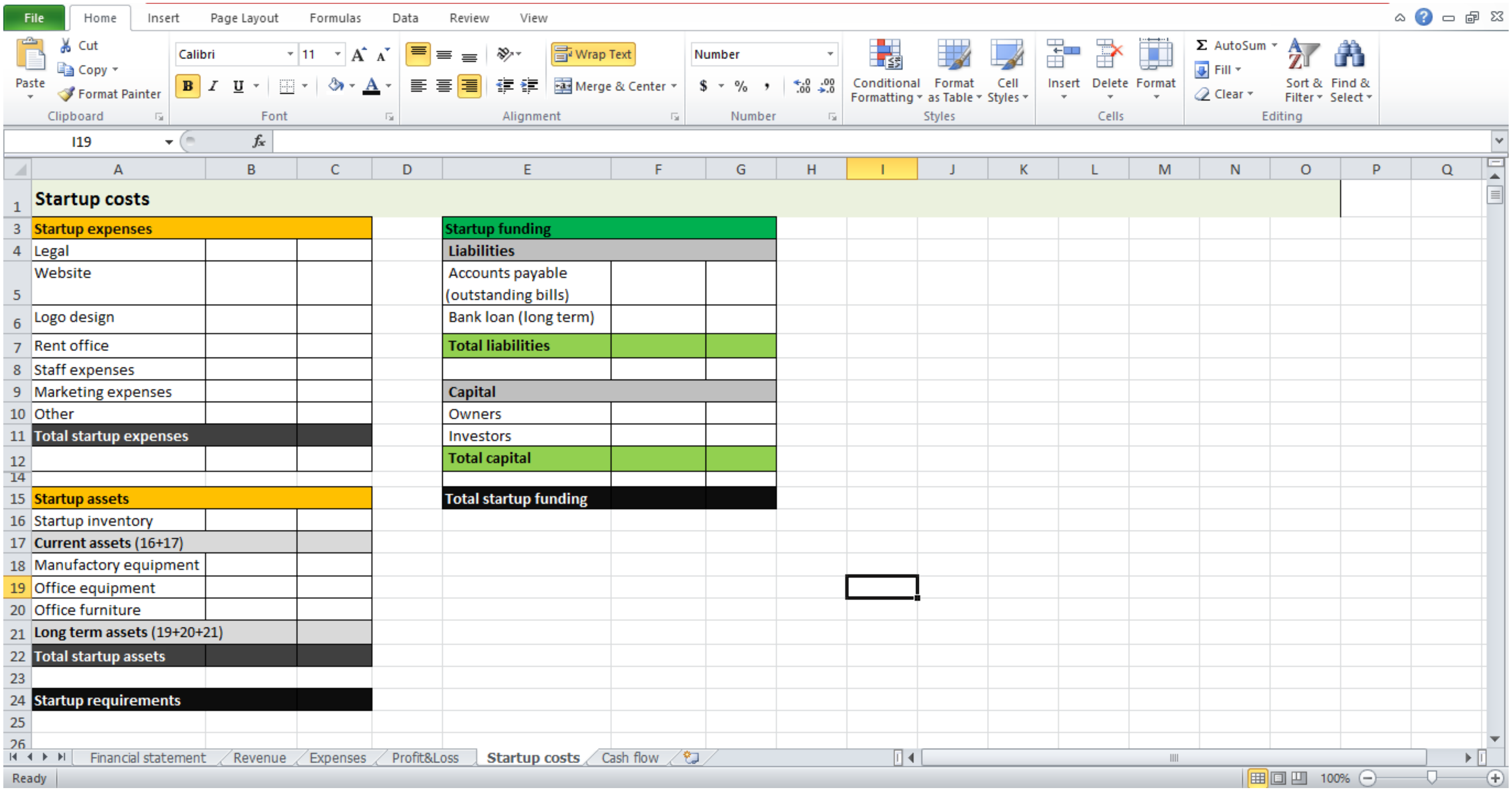
/

Note: *the expenses presented in the table are an example - include in the table the expenses specific to your business.*



Profit&Loss Statement														
Net profit (for 12 months)	$ -													
month		pre-startup	1	2	3	4	5	6	7	8	9	10	11	12
Revenue														
COGS														
raw materials														
salary														
packing & delivery														
Gross margin														
Gross margin, % (10/4)														
SG&A expenses														
Selling Expenses														
marketing expenses														
staff expenses														
General and Administrative Expenses														
staff expenses														
office rent														
office supplies														
business license fees														
Startup expenses														
Legal														
Website														
Logo design														
Rent office														
Staff expenses														
Marketing expenses														
Other														
Operating profit /EBITDA														
EBITDA, %														
Cumulativ EBITDA														
Total expenses														
Taxes														
Interest														
Net profit														
Net profit, %														
Cumulativ Net profit														
Taxes for 12 month														

Note: *In this table are integrated the data from the previous tables (2 and 3), and based on these data the profit indicators are calculated.*

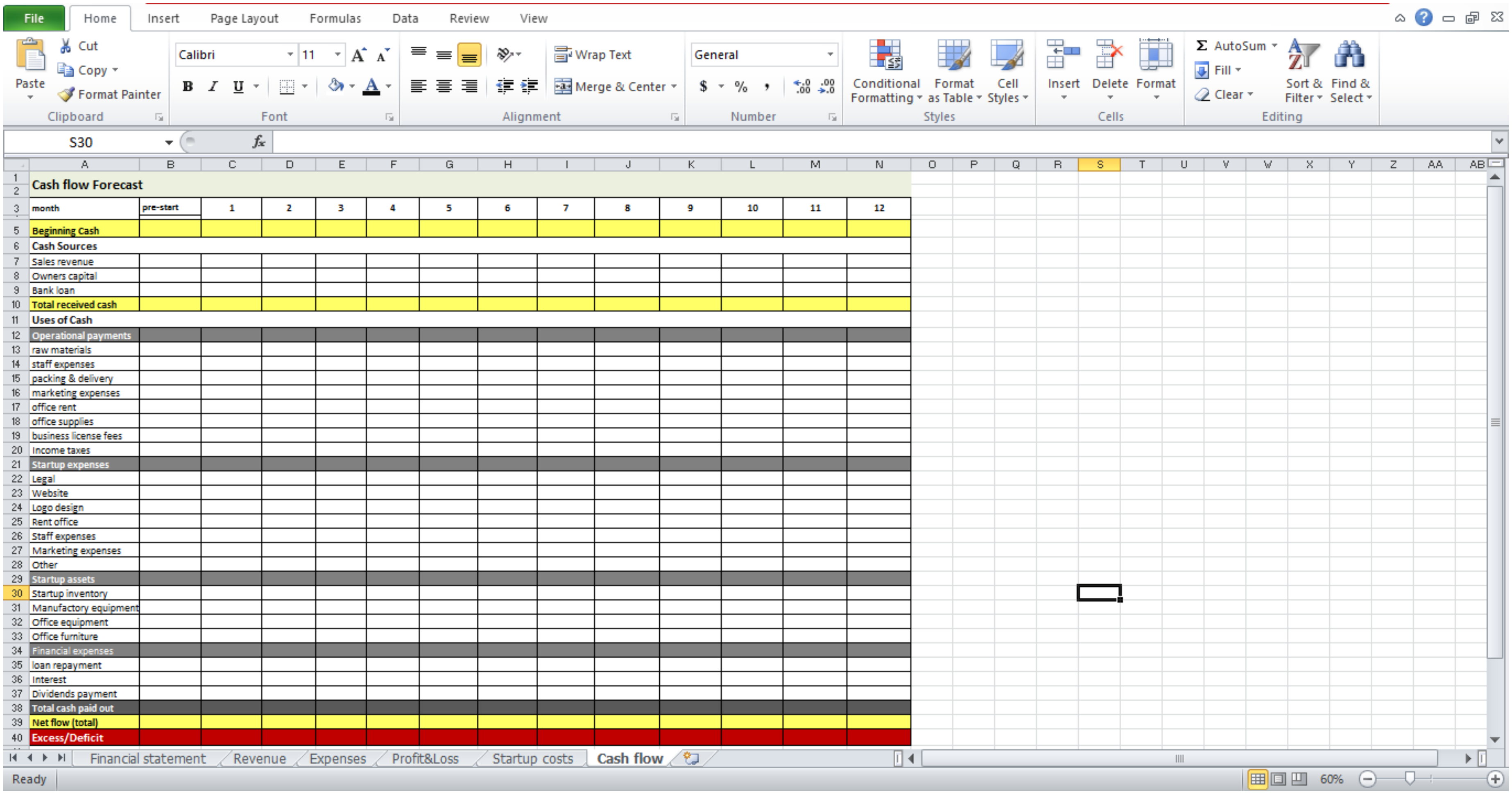


Startup costs

Startup expenses		
Legal		
Website		
Logo design		
Rent office		
Staff expenses		
Marketing expenses		
Other		
Total startup expenses		
Startup assets		
Startup inventory		
Current assets (16+17)		
Manufactory equipment		
Office equipment		
Office furniture		
Long term assets (19+20+21)		
Total startup assets		
Startup requirements		

Startup funding		
Liabilities		
Accounts payable (outstanding bills)		
Bank loan (long term)		
Total liabilities		
Capital		
Owners		
Investors		
Total capital		
Total startup funding		

Note: *Completing this table you must make sure that the data related to Startup requirements and Total startup funding are equal!*



Cash flow Forecast

month	pre-start	1	2	3	4	5	6	7	8	9	10	11	12
Beginning Cash													
Cash Sources													
Sales revenue													
Owners capital													
Bank loan													
Total received cash													
Uses of Cash													
Operational payments													
raw materials													
staff expenses													
packing & delivery													
marketing expenses													
office rent													
office supplies													
business license fees													
Income taxes													
Startup expenses													
Legal													
Website													
Logo design													
Rent office													
Staff expenses													
Marketing expenses													
Other													
Startup assets													
Startup inventory													
Manufactory equipment													
Office equipment													
Office furniture													
Financial expenses													
loan repayment													
Interest													
Dividends payment													
Total cash paid out													
Net flow (total)													
Excess/Deficit													

Note: *In this table the data must correspond to the time interval in which the money will enter or leave the company. It is not enough to simply copy the figures from the previous tables.*

Appendix 2

The list of startup accelerators, categorized by country:

Y Combinator	US	http://www.ycombinator.com/
Techstars	Several countries	http://www.techstars.com/
Startupbootcamp	EU, US	https://www.startupbootcamp.org/
Seedcamp	UK	http://seedcamp.com/
Pro7	Germany	https://www.p7s1accelerator.com/
Wayra	UK	https://wayra.co.uk/
500 Startups	60+ countries	https://500.co/
Plug & Play	Several countries	http://plugandplaytechcenter.com/
SMART Caffes	Several countries	https://www.smartcaffe.eu/
Launchpad LA	US	http://launchpad.la/
Ignite	UK	https://www.ignite.io/
AngelPad	US	https://angelpad.com/
Startup Reykjavik	Iceland	https://startupreykjavik.is/
Metavallon	Greece	https://metavallon.vc/
ProSiebenSat.1 Accelerator	Germany	https://www.p7s1accelerator.com/
Startup Wise Guys	Estonia	https://startupwiseguys.com/
Buildit Accelerator	Latvia	https://www.buildit.lv/
StartupYard	Czech Republic	https://startupyard.com/
Chinaccelerator	China	https://chinaccelerator.com/
HAX	China	https://hax.co/
Highline Beta	Canada	http://www.highline.vc/
FounderFuel	Canada	https://founderfuel.com/
LAUNCHub	Bulgaria	https://launchub.com/
Eleven Startup Accelerator	Bulgaria	https://www.11.me/
Incubate	Australia	https://incubate.org.au/
Melbourne Accelerator Program	Australia	https://www.themap.co/
Nxtp.labs	Argentina	https://www.nxtplabs.com/

Note: *In this table you can find the list of startup accelerators from all over the world and to join their specialized programs that can help you extend your runway.*