

If you attended last week and have not filled out the survey yet, please do so now.



<https://forms.gle/RnRHQ4rWZEXVCfb7>





90 Second Ice Breaker Challenge

LIST AS MANY OF THE THINGS YOU BUY FOR SCHOOL. FEEL FREE TO BRAINSTORM/SHARE WITH PEOPLE AROUND YOU. HOLD ONTO THIS LIST FOR DISCUSSION LATER IN CLASS.

A decorative horizontal bar at the bottom of the slide, consisting of a thin green line on top and a thicker blue bar below it.



Practical Entrepreneurship

...and \$10,000
competition

CLASS 3: MONEY MATTERS





Goal of today's class

Understand capital expenses and operating expenses. Determine if your company can reach profitability and how to raise the capital needed to get you there.

Today's Plan



Upfront Capital

Profitability (and some accounting)

Payback period

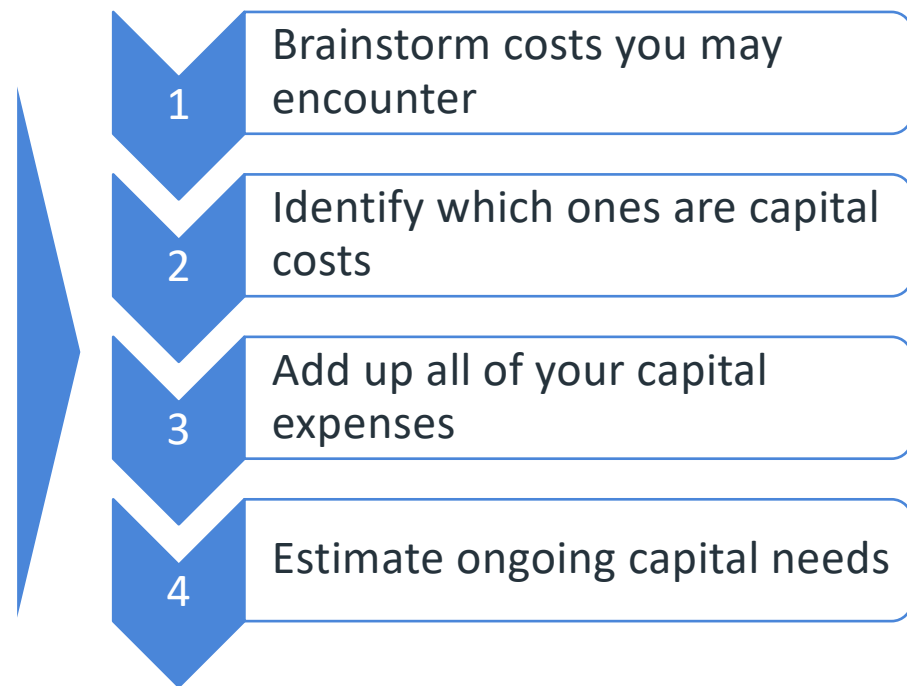


Capital and how to calculate it

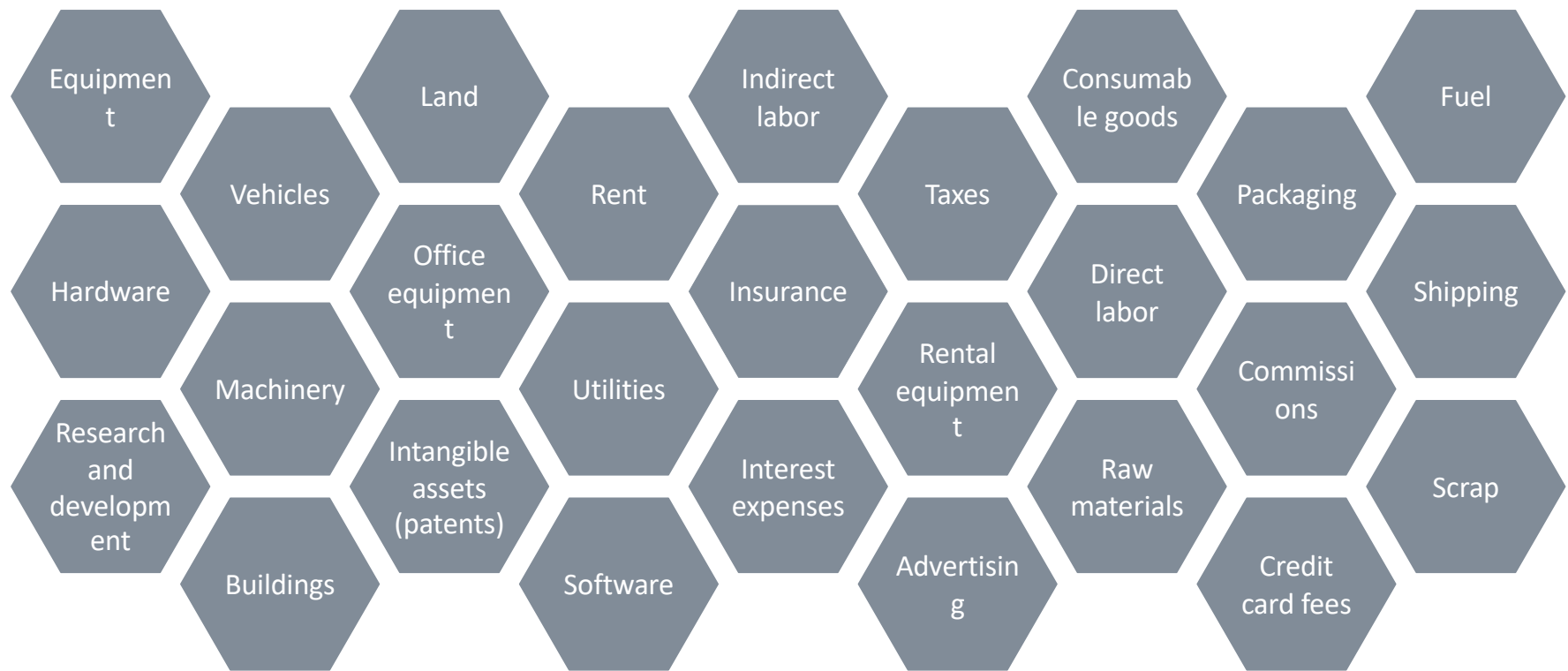
It takes money to make money

These upfront costs are called **capital expenses**

We can estimate them in 4 steps

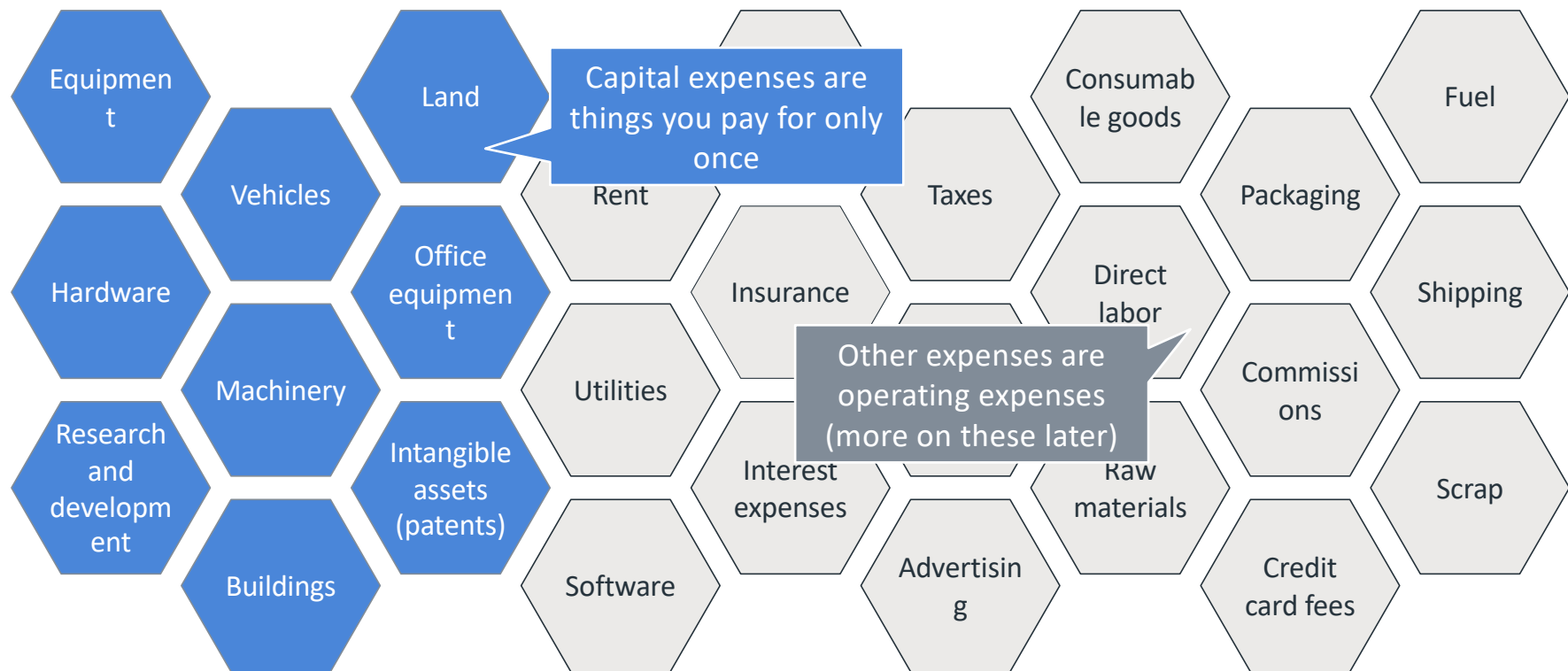


1. Brainstorm all types of costs you may encounter at your initial size





2. Categorize your expenses





3. Add up all the capital you'll need to get started

Example: Lemonade stand

Cost category	Amount
Folding table	\$50.00
Printed signs	\$25.00
Cooler	\$30.00
Juicer	\$35.00
Serving pitcher	\$10.00
Total	\$150.00

Example: Landscaping business

Cost category	Amount
Truck and trailer	\$100,000
Equipment	\$50,000
Initial marketing materials	\$10,000
Phone, computer, etc.	\$2,000
Business registration costs	\$500
Total	\$162,500



4. Include capital that will need to be regularly invested

Upfront capital

Ongoing capital needs



Initial capital costs
(calculated previously)

- Equipment
- Vehicles
- Buildings
- R&D



Capital needed to maintain

- Marketing
- Signing bonuses
- Replacement equipment, vehicles, etc.



Capital needed for growth

- Additional R&D
- Additional Equipment, Vehicles, Buildings, etc.

Examples



30 Second Table Talk

CONSIDER ALL THE WAYS YOU ACQUIRED MONEY IN THE PAST 24 MONTHS. DON'T SHARE THE AMOUNTS, BUT SHARE THE VARIOUS WAYS THAT MONEY CAME TO YOU.





So how do you raise capital?



Friends and family



Bank loan

(with co-signer over 18 with good credit)



Professional investors



Scholarships / Competitions

Like this one

Today's Plan

Upfront Capital

Profitability (and some accounting)

Payback period



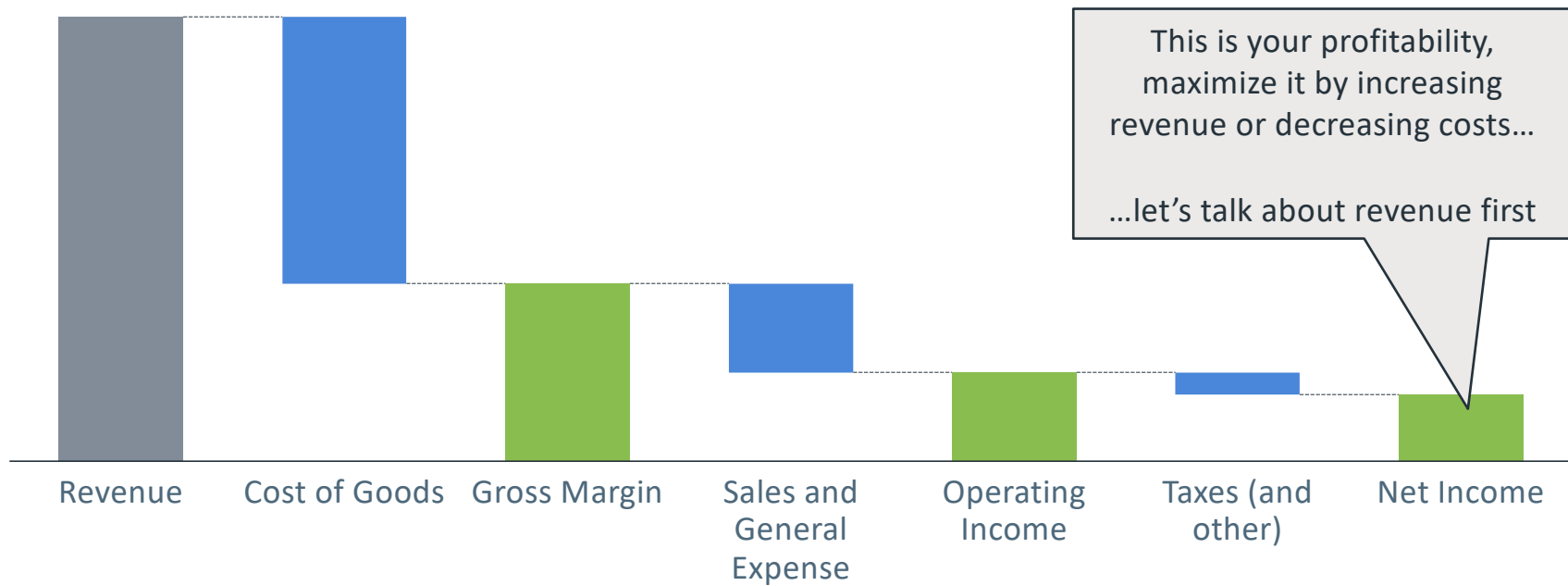


Scenario:

You are going into your senior year. You've had a job at a local business since you were 16 and your income/future earnings is rather easy to predict. Almost every weekend you love to go with friends to hike water-falls in North Georgia. On these excursions, you pay for the gas (about \$30). Going into your last year of school you want to celebrate the end by going on a cruise with your pals. How would you approach this challenge?



First some accounting: a P&L



Revenue: we need a business model to make money. Here are a few examples



One-time upfront charge plus maintenance	Cost plus	Hourly rates	Subscription or leasing
Licensing	Consumables	Upsell with high-margin products	Advertising
Transaction fees	Microtransactions	Operating and maintenance	...and plenty more



How many colleges/trade schools did/will you apply to?

... STORY TIME (BEFORE COMMON APP EXISTED)

(X) + (Y) = CONFIRMATION EMAIL THAT THE ADMISSIONS OFFICE RECEIVED YOUR APPLICATION



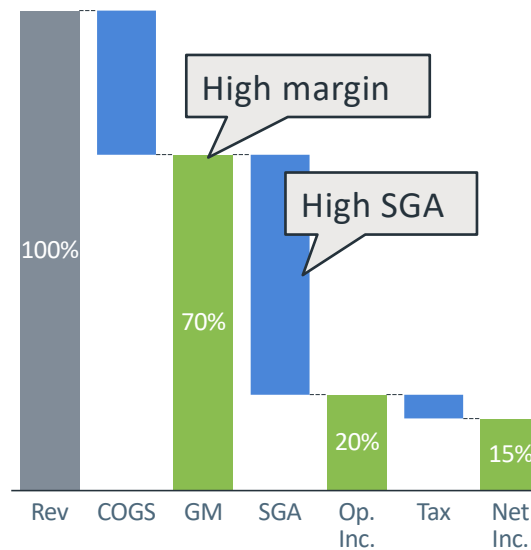


Now the cost side, let's talk unit economics...

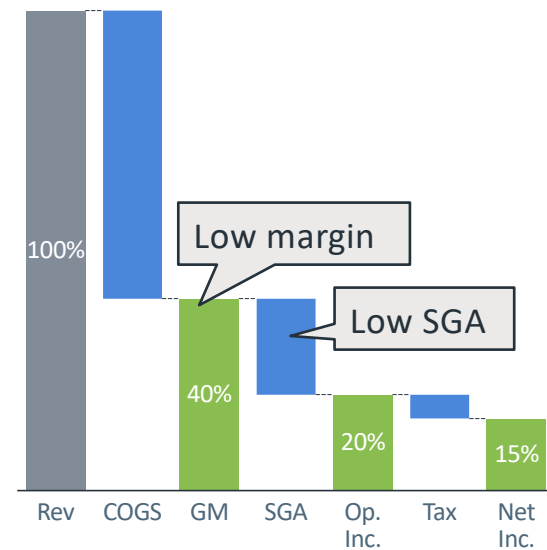
Unit economics (profitability/revenue) are important here...

We want growth or support staff (SGA) to be a small percentage of gross margin

Option 1: high margin and high back-office (SGA) costs



Option 2: low back-office costs, but low margins



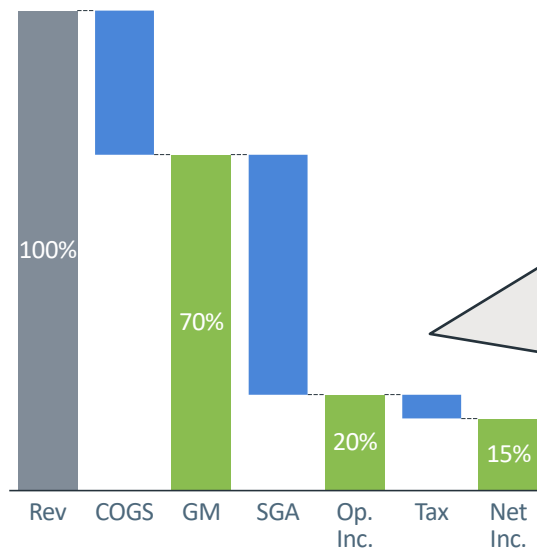


Now the cost side, let's talk unit economics...

Unit economics (profitability/revenue) are important here...

We want growth or support staff (SGA) to be a small percentage of gross margin

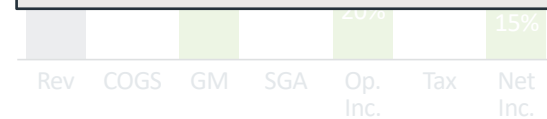
Option 1: high margin and high back-office (SGA) costs



Option 2: low back-office costs, high margin

Example

Building an app needs computer science engineers, user experience teams, marketing, etc. All of these things are expensive, but they are about the same price whether you have 100 users or 1 million





Now the cost side, let's talk unit economics...

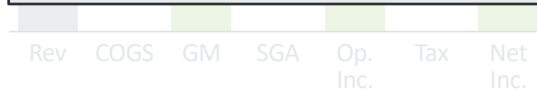
Unit economics (profitability/revenue) are important here...

We want growth or support staff (SGA) to be a small percentage of gross margin

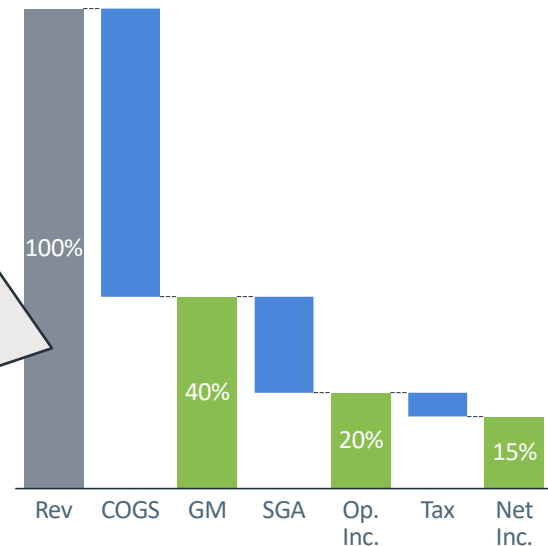
Option 1: high margin and high

Example

A lawn care business can grow quite far with one or a few members of back-office staff to handling invoicing, receive calls, schedule, etc. But, these jobs are labor intensive and need more landscapers as more jobs are completed



Option 2: low back-office costs, but low margins



Today's Plan

Upfront Capital

Profitability (and some accounting)

Payback period





Combining the two, we get pay back period, the lower the better

$$\begin{array}{ccc} \text{Upfront Capital} & / & \text{Net income} & = & \text{Payback period} \\ (\$) & & (\$/\text{yr}) & & (\text{yr}) \end{array}$$

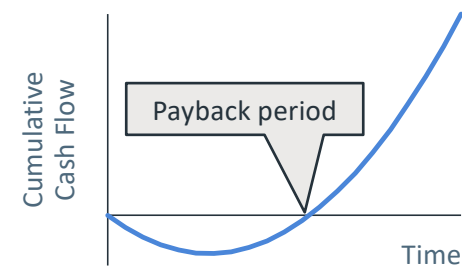
We calculated this in the 1st section

The higher the capital costs, the longer it will take to pay back initial sources of capital

We calculated this in the 2nd section

The more profitable your business, the faster you are able to pay back capital costs

The lower the payback period the better





Last class...

Coming up next class

TACTICS AND STRATEGY:

The nuts and bolts of starting a venture and nuggets of wisdom to keep in mind on your journey



Don't forget to
fill out our quick
survey



<https://forms.gle/RnRHQ4rWZEXVCfb7>

