

FINANCE FOR FOUNDERS: PART 1

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Office of Innovation
& Entrepreneurship

Agenda

- Introduction
- Context: Financial Statements
- Topics for These Sessions
 - Pricing and Revenue
 - Unit Economics
 - Contribution Margin & Presentation
- Session 1: Pricing and Revenue
 - What is the business?
 - What are the sources of income?
 - How to price them?
 - What is the math?
 - What is the timing?



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Who am I, and why should you listen to me?

Andy Levinson

20 years of finance and accounting experience in the DC VC/PE community



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FOCUS HERE: THE INCOME STATEMENT (P&L)

Income Statement (P&L)

Revenue

Cost of Goods Sold

Gross Profit

Operating Expenses

Sales & Marketing

Research & Development

General & Administrative

Total Operating Expenses

Operating Income

Interest Expense

Taxes

Net Income

+ Interest Expense

+ Depreciation & Amortization

+ Stock Compensation

EBITDA

SESSION 1 (TODAY):

Pricing and Revenue

Breakdown Sources of Revenue

Determine Methods of Pricing

Apply Pricing to Units

Determine When to Recognize

ARR, MRR, and Other Fun Acronyms



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SESSION 2 (2/7):

Unit Economics

Gross Profit

Contribution Margin

Allocations



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SESSION 3 (2/15):

Numbers for VCs:
Contribution Margin
Customer Acquisition Cost
"The Magic Number"
The Rule of 40



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Pricing and Revenue

- What is Our Example?
- Revenue: What Are Our Sources of Income?
- Pricing: What's the Right Amount to Charge?
- Application of Pricing to Revenue
- What is Revenue?
- What Is the Math?
- What Is the Timing?



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Example: A Youth Soccer Team

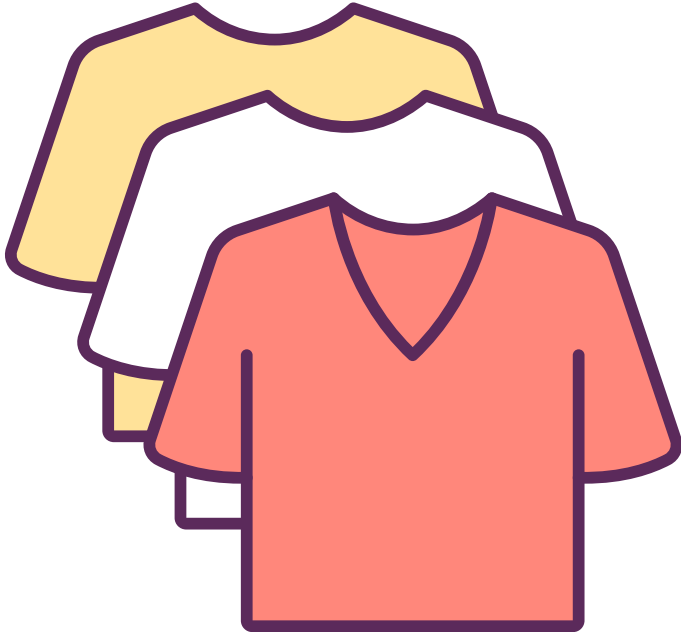
- 20 Players
- 10 Month "Season"
- 2 Seasonal "Leagues," 2 Seasonal Tournaments
- 1 Field
- Owner + 1 PT Coach + 1 PT Staff



Revenue: Sources of Income



Team Dues



Logo Gear
(SWAG)



Uniforms



Lessons



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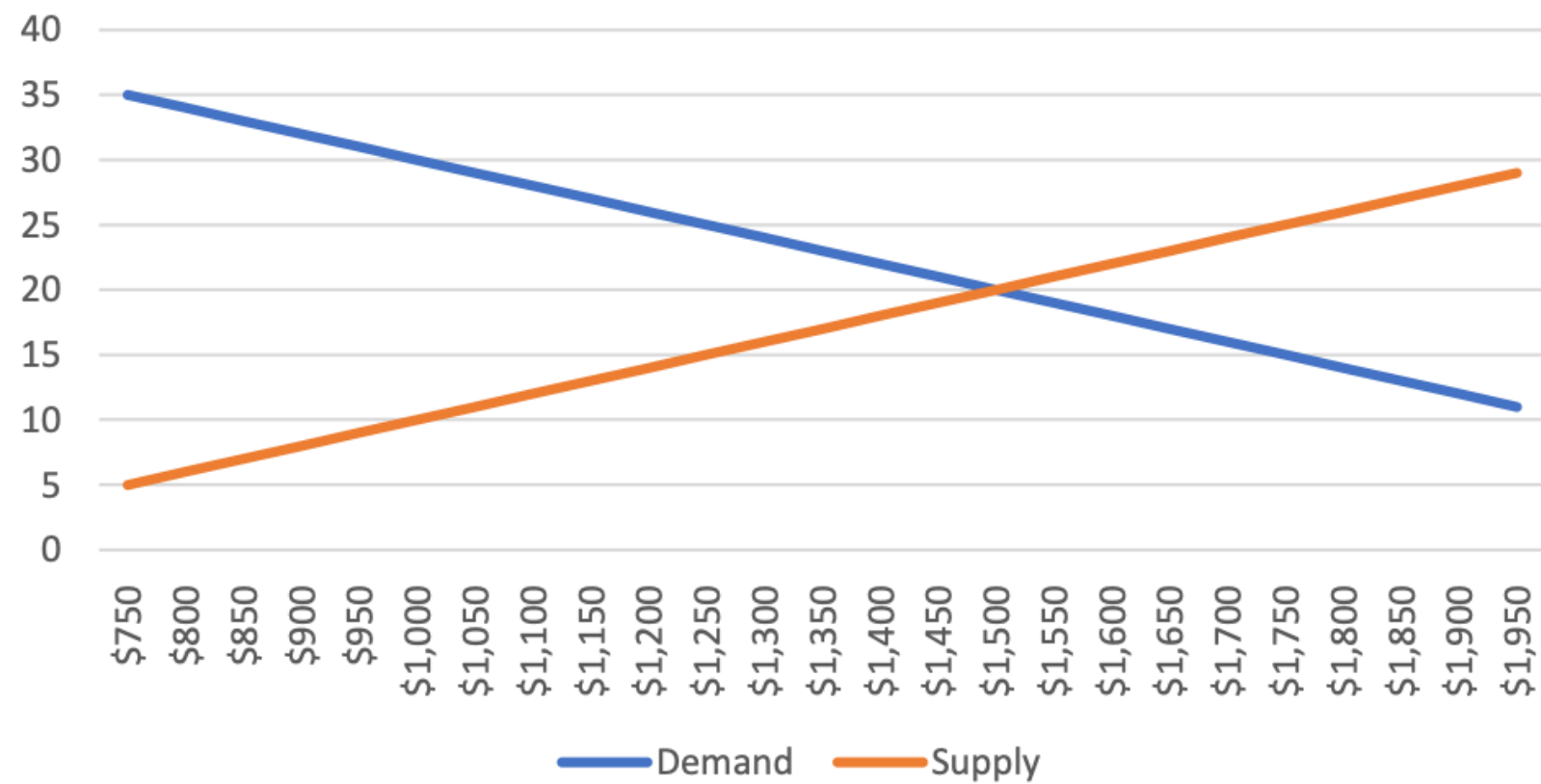
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Revenue: Pricing



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Pricing: Supply and Demand



Economics: The Market Determines the Price

What are our Methods

- Comparable
- Cost-Plus (a Retail Model)
- Value Creation (an ROI Model)



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Revenue: Pricing

Source of Income	Pricing Method	Price
Team Dues	Comparable	\$1,500
Uniforms	Cost-Plus	\$50
Logo Gear	Cost-Plus	\$75
Lessons	Comparable? ROI?	\$50/hour

Revenue: Algebra



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Revenue Elements Attributed To All “Customers”

Team Dues	
Players	20
Dues	\$ 1,500
Dues Per Team	30,000
Teams	1
Annual Total Team Dues	30,000
Uniforms	
Players	20
Price per Uniform	\$ 50
Uniforms per Team	\$ 1,000
Teams	1
Total Uniforms	\$ 1,000

Revenue Elements with Take Rates

Logo Gear	
Players	20
Teams	1
Total Players	20
Take Rate	40%
Parents Buying Logo Gear	8
Price per Logo Gear	\$ 75
Total Logo Gear	\$ 600

Lessons	
Players	20
Teams	1
Total Players	20
Take Rate	15%
Players Taking Lessons	3
Lessons/Player/Month	4
Lessons Per Month	12
Hourly Rate	\$ 50
Monthly Total for Lessons	\$ 600



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Revenue: What is Revenue

Revenue is what you earn when you deliver something to a customer for which you expect to get paid.

If you sell something, it occurs when they get the thing.

If you provide a service, it occurs throughout the service.

Revenue \neq Invoicing

Revenue \neq Cash Receipt

Revenue \neq Contract Signing (Bookings)



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Revenue: When to Recognize Revenue

Item Sold	Type of Item	Nature of Revenue	Timing	Revenue
Club Membership	Service	Over-time	Ratably, Sep-June	\$30,000
Uniform	Apparel Item	Point-in-Time	Time of Delivery (Sep)	\$1,000
Logo Gear	Apparel Item	Point-in-Time	Time of Delivery (Oct)	\$600
Lessons	Service	Point-in-Time	As Delivered	\$600/mo



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Revenue Math (Part 2): When to Recognize

Income Statement (P&L)	2022 AUG	2022 SEP	2022 OCT	2022 NOV	2022 DEC	2023 JAN	2023 FEB	2023 MAR	2023 APR	2023 MAY	2023 JUN	2023 JUL	2022 FY	2023 FY	Total
Revenue															
Uniforms	1,000	-	1,000	-	-	-	-	-	-	-	-	-	1,000	-	1,000
Logo Gear	600	-	-	600	-	-	-	-	-	-	-	-	600	-	600
Team Dues	30,000	-	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	-	12,000	18,000	30,000
Lessons	600	-	600	600	600	600	600	600	600	600	600	-	2,400	3,600	6,000
Total Revenue	-	4,600	4,200	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600	-	16,000	21,600	37,600



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Summary:

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