As coaches for The New Enterprise Forum, we usually see Financials as an important part of a start-up's presentation to investors. Too frequently, these Financials are a single-layered spreadsheet based upon assumptions, with forecasts, simply derived from percentages of totals or year-on-year percentages. And when investors ask questions about the Financials, the discussion becomes one of supporting these percentages rather than talking about the business basis for the numbers. As a result, the investor's confidence in the numbers and, more importantly, the founders' understanding of their business are dashed.

The solution to this problem is to ensure that Financials are based upon the supporting plans that drive the business. The most critical of these supporting plans are: 1) Revenue, 2) Hiring & Payroll (the largest component of G&A), 3) Product Development (and R&D), 4) Sales & Marketing, and 5) The Milestones that bring plans together. Let's take a look at how these supporting plans look and how they are used to 'add up' to the Financial Plan.

**THE REVENUE PLAN:**

A Revenue Plan should look something like this:

Note that this Sales & Revenue Plan has its own assumptions and generates annual totals that are carried forward into the Financial Plan. Like other supporting plans, this Plan may/should be developed on a monthly basis for the first 2-3 years and needs to be reconciled with other supporting plans and business/investor milestones. Other characteristics of the Sales & Revenue Plan:

- The Plan is based upon unit sales expanded into revenue based upon both growth and pricing assumptions. In some industries, it is also important to include potential ‘churn’ – e.g., the number of subscription customers who let their subscription lapse.
- The Plan is separated into strategic and tactical market segments that are consistent with go-to-market plans.
- If possible, COGS should also be separated by market segments so that product line analysis can be performed.

**THE HIRING & PAYROLL PLAN:**

A Hiring & Payroll Plan should look something like this:
Note that this Hiring & Payroll Plan has its own assumptions and generates annual totals that are carried forward into the Financial Plan. Like other supporting plans, this Hiring & Payroll Plan may/should be developed on a monthly basis for the first 2-3 years and needs to be reconciled with other supporting plans and business/investor milestones. Other characteristics of the Hiring and Payroll Plan:

- The Hiring Plan is based upon hiring needed to perform both administration and other activities essential to delivering the results shown in other Plans.
- The Hiring Plan shows if/when people are expected to be paid less than their total salary of record. This takes into account both part time management and the intention to replace salaries with equity participation.
- The Hiring Plan shows all expected members of the organization and when they are expected to be needed. This timing needs to be consistent with other Plans, major investor milestones, and funding requirements.

THE PRODUCT DEVELOPMENT (AND R&D) PLAN:

A Product Plan should look something like this:

Note that this Product Development Plan has its own assumptions and generates annual totals that are carried forward into the Financial Plan. Like other supporting plans, this Product Development Plan may/should be developed on a monthly basis for the first 2-3 years and needs to be reconciled with other supporting plans and business/investor milestones. Other characteristics of the Product Development Plan include:

- Dollars are based upon the activities that generate the costs.
- The timing of activities must be consistent with the timeframes associated with Sales & Marketing activities, product announcements/availability to customers, and investor milestones/funding.
- Total dollars includes all Payroll related to Product Development – from the Hiring Plan.
- If possible, costs should be broken down further by specific product lines so that additional product line profitability analysis can be done as actual costs are collected.

THE SALES & MARKETING PLAN:

A Sales & Marketing Plan should look something like this:

Note that this Sales & Marketing Plan has its own assumptions and generates annual totals that are carried forward into the Financial Plan. Like other supporting plans, this Sales & Marketing Plan may/should be developed on a monthly basis for the first 2-3 years and needs to be reconciled with other supporting plans and business/investor milestones. Other characteristics of the Sales & Marketing Plan include:

- Dollars are based upon the activities that generate the costs.
- The timing of activities must be consistent with the timeframes associated with Product Development activities, product announcements/availability to customers, and investor milestones/funding.
- Total dollars includes all Payroll related to Sales & Marketing, other than sales commissions paid, which are part of Cost of Goods Sold.
- If possible, costs should be broken down further by specific product lines so that additional product line profitability analysis can be done as actual costs are collected.
COORDINATING THE PLANS WITH THE ‘ASK’: MILESTONES

Since these supporting plans need to come together into a single, coordinated, and consolidated plan, it is frequently useful, for presentation purposes, to graphically show the relationship of the supporting plans to major funding milestones. The process that coordinates the various Plans with investor/valuation milestones is a critical process for the start-up to address as the basis for presenting to investors. As you get going on fundraising, the key milestones should be the places where you will receive an increased valuation for the business. The milestones will typically be based upon customer counts and revenue goals.

An example of how this can look is:

![Milestone Diagram]

THE RESULTING FINANCIAL PLAN:

The resulting Financial Plan, with totals carried forward from the supporting plans, should look something like this:

<table>
<thead>
<tr>
<th>Financial Projections ($000)</th>
<th>YR1</th>
<th>YR2</th>
<th>YR3</th>
<th>YR4</th>
<th>YR5</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Units - Market Segment 1</td>
<td>0</td>
<td>From Revenue Plan</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of Units - Market Segment 2</td>
<td>0</td>
<td>From Revenue Plan</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>$0</td>
<td>From Revenue Plan</td>
<td>$0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>$0</td>
<td>From Revenue Plan</td>
<td>$0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales &amp; Marketing</td>
<td>$0</td>
<td>From Sales &amp; Marketing Plan</td>
<td>$0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product Development</td>
<td>$0</td>
<td>From Product Development Plan</td>
<td>$0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Margin</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>General &amp; Administration</td>
<td>$0</td>
<td>From Normal G&amp;A Planning</td>
<td>$0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>

[Note: Some industries (e.g., Manufacturing) will expect to also see a row for Gross Margin.]
[Note: ‘Normal G&A Planning’ includes non-Product Development and non-Sales & Marketing payroll expenses.]

RESULT: AN IMPROVED DISCUSSION WITH INVESTORS:

As a result of having supporting plans feed the Financial Plan, the conversation with Investor’s changes dramatically. Instead of attempting to address weakly-based assumptions within the Financial Plan itself, questions related to each line item turns to a business discussion of the Plans that are a basis for the Financials. This boosts Investor confidence in both the plans and the founders. This creates a level of understanding and credibility that is the basis for getting funded.