8 points to bullet proof your financial model

Strategy secrets for early stage startup founders

Created in collaboration with leading investors, founders and financial advisors

Don't do it alone (1)

The value lies in the process, discussion and reflections you do.

These can be much easier to achieve working through it with a co-founder, advisor or investor.

Don't outsource the whole task as you'll lose some understanding of your model.

What are you trying to achieve? (2)

You need to understand what your goal and timeline is.

The goals can be related to revenue, # of customers, market launches, specific technology milestones etc.

If you're modeling for fundraising you should usually look ahead for the next 12-24 months.

Understand your expenses (3)

Which costs will you incur to reach the goals you've set?

Make sure your team have what they need to execute such as a Marketing Manager might need marketing budget for ads.

General costs such as office rent, travel, legal fees are important too.

Understand your revenue (4)

How you generate revenue is naturally one of the most important elements of the model.

Start simple - every model is some version of 'price x customers'.

Then add granularity if you have several revenue streams or products. Understand what your monthly growth (and churn) rate is.

Also, prepare considerations of how this changes in the future. How will your pricing change? Can you expand the market or extend LTV?

What does the team look like? (5)

Consider who you need to hire to reach your goal within the timeline.

What do they cost? Use salary factor to include taxes, pension and other employee benefits.

Might some of the tasks be solved by short term contractors?

How does your hiring plan look over the next couple of years?

How much do you need to raise? (6)

You need to cover costs to reach your goal.

If your revenue is still uncertain you want to be able to cover costs even without revenue.

What are your important KPIs? (7)

Understand what important KPIs you should be tracking and investors might be looking at for your type of business and the stage you're at.

Choose at most 2-3 and focus on them.

What are you worth? (8)

You have to have a good idea of why you're pitching for a specific valuation.

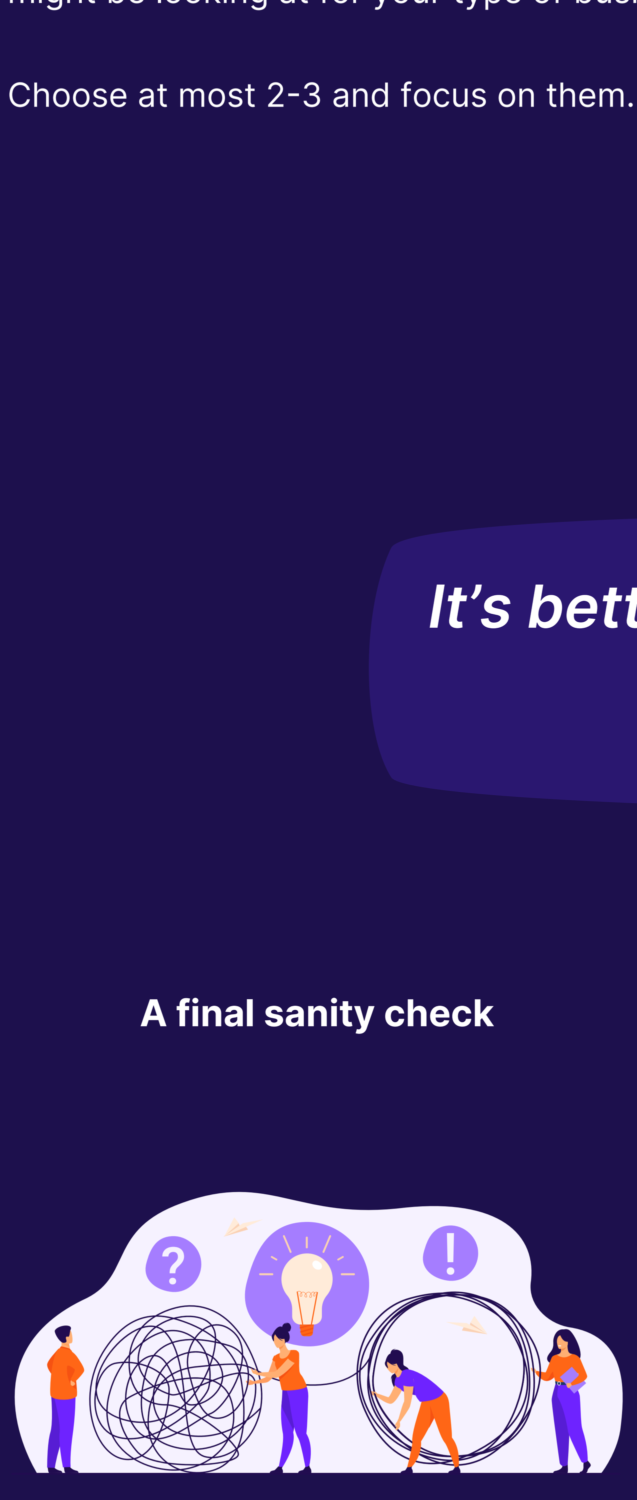
Early stage startups can look at 4xTs - Team, Traction, TAM (total addressable market) and Technology.

You will most likely give up 15-25% of the company in each round.

It's better to be approximately right than precisely wrong.

Warren Buffet via John Maynard Keynes

A final sanity check



Check the model is built up logically over time

Check your unit economics hold up (for scalable businesses)

Add a 10-20% contingency to cover for all the things you can't foresee

Do all your formulas work? If you use Canaree, no worries about this step.

Tweak and update your model as you change your assumptions. This should be a live document!

Typical questions investors will ask

What's your pricing strategy?

When do you break even?

What is your MRR/ARR?

What are your key milestones?

What is your burn rate?

How much are you raising?

When are you raising?

Glossary

ARPU - Average Revenue Per Unit

MRR - Monthly Recurring Revenue

ARR - Annual Recurring Revenue

LTV - Lifetime Value

CAC - Customer Acquisition Cost

Churn - Customers leaving

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