

# Building Your Path to Profitability



— ARIZONA —  
**SMALL BUSINESS**  
BOOT CAMP

**August 2023**



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What's your biggest profit worry?  
What would make today a big win?

Housekeeping:

Using the Q&A function

Put your questions in as they come up  
We'll tackle them at the end of each section



## Why listen to me?



Demystifying finance so entrepreneurs can build economic stories that make dollars...and sense

- ✓ Capital strategist & startup advisor
- ✓ Founder of Finance-Ability
- ✓ Over \$5B of investment banking transactions
- ✓ Helped raise over \$30M of early-stage funding
- ✓ 2<sup>nd</sup> generation & 2x startup entrepreneur
- ✓ Speaker, judge, author, podcast host

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# Today's Agenda

## WHAT'S YOUR PATH TO PROFITABILITY?

### Helpful frameworks

**What the numbers tell you**  
**Your economic story**  
**Where the numbers come from**

01

### Why do numbers matter?

What they are, who they're for and why you should care

02

### What story are they telling?

Understanding what others are looking for in your financials

03

### Where do I get the numbers?

Consistent, reliable data is what you need to take action



# How to think about financials

Frameworks to make the numbers make sense



# The Accounting View of Your Business

**Cash Flow**  
Where did cash enter  
and leave your  
business this period?

Operations  
Investing  
Financing



## Profit & Loss

Did your revenues  
exceed your expenses  
this period?

Gross Margin  
EBITDA  
Net Profit



## Balance Sheet

Did all of your activity  
increase the value of  
the company?

Assets  
Liabilities  
Owner's Equity

# What are financials?

KPIs & Unit Economics  
How you measure success & navigate day to day decisions



The  
“metrics”

“Financials” can mean all or just a part of this

Projections  
Your best guess of what will happen



The  
“model”

The  
“actuals”



Accounting  
Officially reporting what happened (tax / legal)

# Writing your economic story



# Why the numbers matter to you

Do you have a path to profitability?

# You need the numbers

*Data vs. emotions*

*Way to measure progress*

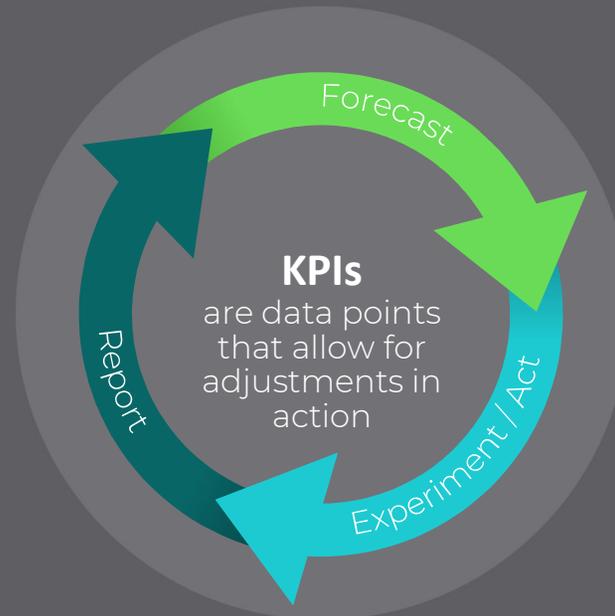
*Good decisions*

# The Numbers, All the Numbers, Nothing But the Numbers

## Accounting

refers to tracking & reporting business activity after the fact (i.e. “accounting” for where money was spent).

This data arrives after the fact & in formats that isn’t always founder-friendly.



## Projections

are the best guess of what will happen.

They generally include a easy to measure goal like # of users, etc.

They should be founder-centric.

## Report

Track & share the financial results of your experiments

## Experiment / Act

Test hypotheses to determine the best approach (for now)

## Forecast

Document what you think will happen & build hypotheses

# Numbers only matter if you can change something

**Set Target Outcomes**  
What does success look like for this iteration / time period?

**ROI of this activity**  
Is this activity working? What is the value / cost per success?

**See the big picture**  
What does this mean to top & bottom lines?

**Gather data**  
What data do I need to determine success? Can I collect it easily & often?

**Allocate resources**  
Where should I be investing to move my business forward?

**Run experiments**  
What's the smallest change I can test and see its impact?



# Start with Unit Economics



# When will you turn a profit?

## TODAY

Avg Order Value	\$225
<u>COGS</u>	<u>-180</u> (incl shipping)
Gross Margin	\$ 45

Sales / Mktg	\$ 50
Cust Service	\$ 20 (disct + CSR)
Prod Dev	\$ 25 (custom)
<u>Gen / Admin</u>	<u>\$ 0</u>
Other Costs	\$ 95

**Net LOSS** (\$ 50)

## IN 18 MONTHS

Avg Order Value	\$225
<u>COGS</u>	<u>-150</u> (incl shipping)
Gross Margin	\$ 75

Sales / Mktg	\$ 30
Cust Service	\$ 10 (disct + CSR)
Prod Dev	\$ 15 (custom)
<u>Gen / Admin</u>	<u>\$ 10</u>
Other Costs	\$ 65

**Net Profit** \$ 10

# QUESTIONS?

# Your economic story

Are you a good investor in your own business?

# What does success look like?

Scalable, profitable business model  
+  
Reasonable plan for building it  
+  
Tracking methods for progress vs. plan

# Be Your Own Best Investor

So you can maximize the resources you've got

01

## Everything is an investment

Time, energy and money, as well as leveraging your reputation and network are ALL investments. Be aware of what you're investing!



## What's your return?

You need to demonstrate that you know how to get a good return on the investments you're making BEFORE you can convince investors to fund you!

02



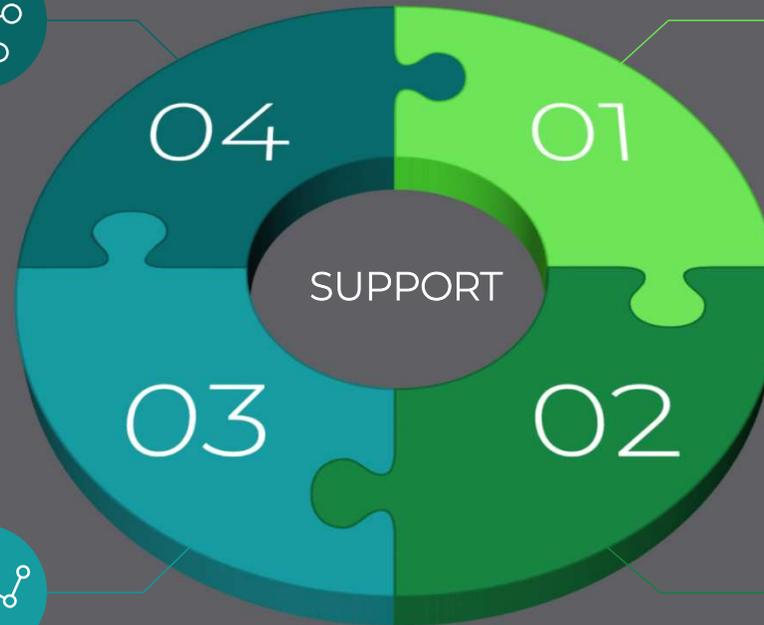
# What Am I Investing In?

Every business does 5 things:

Build New Offers  
Product Development / R&D  
Payback Period



Attract Buyers  
Marketing & Sales  
Customer Acquisition Costs



Delight Clients  
Customer Service /  
Operations  
Churn



Deliver Solution  
Cost of Goods Sold / Sales  
Gross Margin



# Unit Evolution / Recurring Revenue Models

## TODAY

*1,000 Subscriptions*

Monthly Sub	\$ 100
<u>Deliver (COGS)</u>	<u>- 10</u>
Gross Margin	\$ 90

Attract (CAC)	\$ 250
Delight (Churn)	\$ 50
Build	\$ 50 (v 1.5)
<u>Support</u>	<u>\$ 25</u>
Other Costs	\$375

**Net LOSS** (\$285)

## In 18 months

*5,000 Customers (12 month lifetime)*

Annual Sub	\$1,200
<u>Deliver (COGS)</u>	<u>-120</u>
Gross Margin	\$1,080

Attract (CAC)	\$ 150	(8:1 CAC/LTV)
Delight (Churn)	\$ 50	
Build	\$ 500	(v 2.0)
<u>Support</u>	<u>\$ 300</u>	
Other Costs	\$ 1,000	

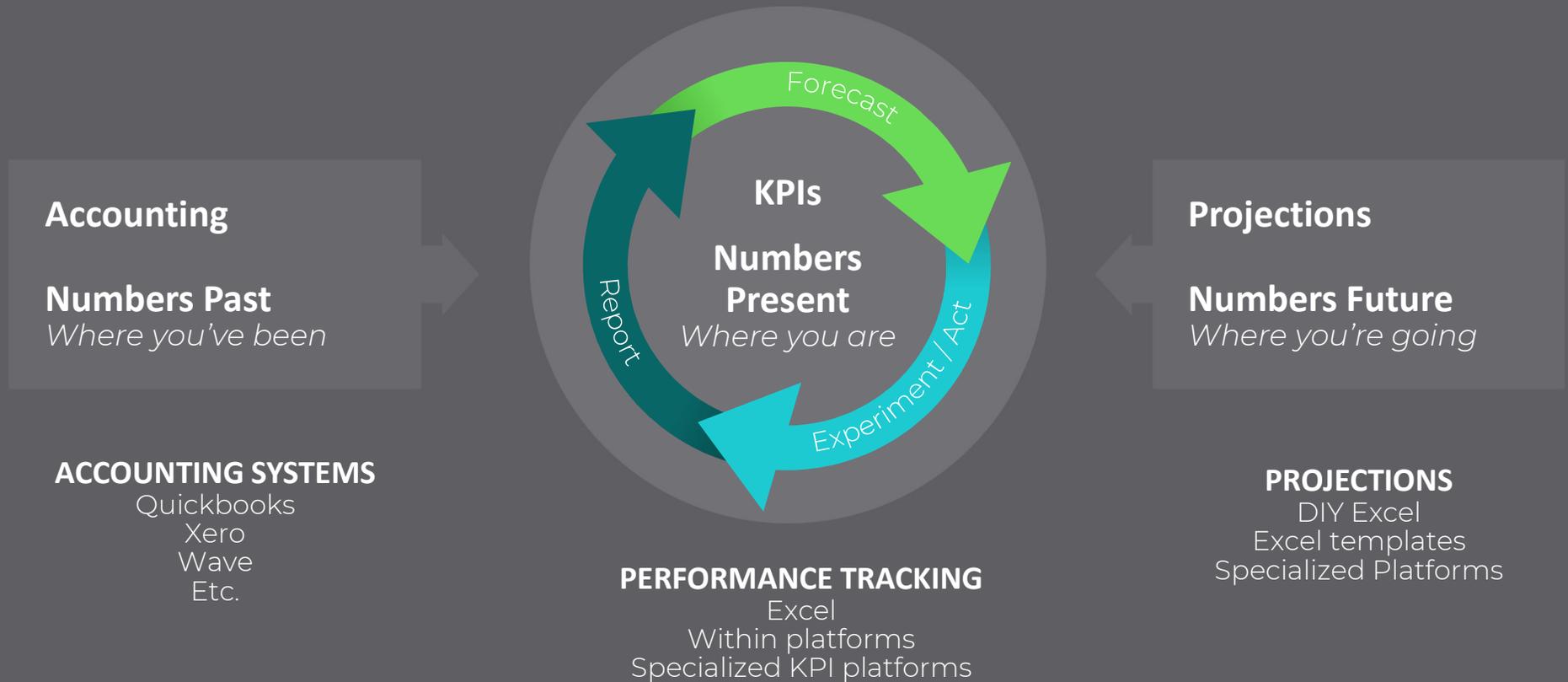
**Net Profit** \$ 80

# QUESTIONS?

# Where to get the numbers

Do I just need to pull them out of thin air?

# Where the numbers live

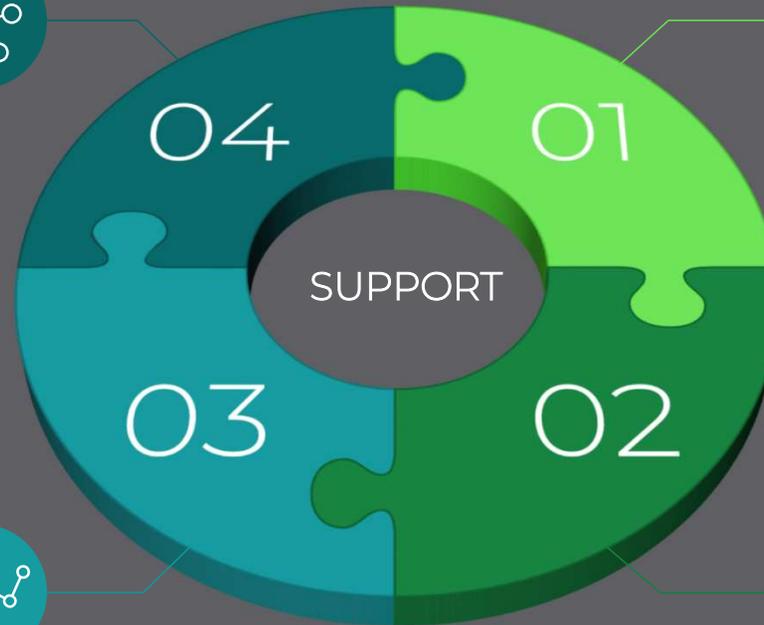


# How do I...

Build New Offers?  
Product Development / R&D  
Payback Period



Attract Buyers?  
Marketing & Sales  
Customer Acquisition Costs



Delight Clients?  
Customer Service /  
Operations  
Churn

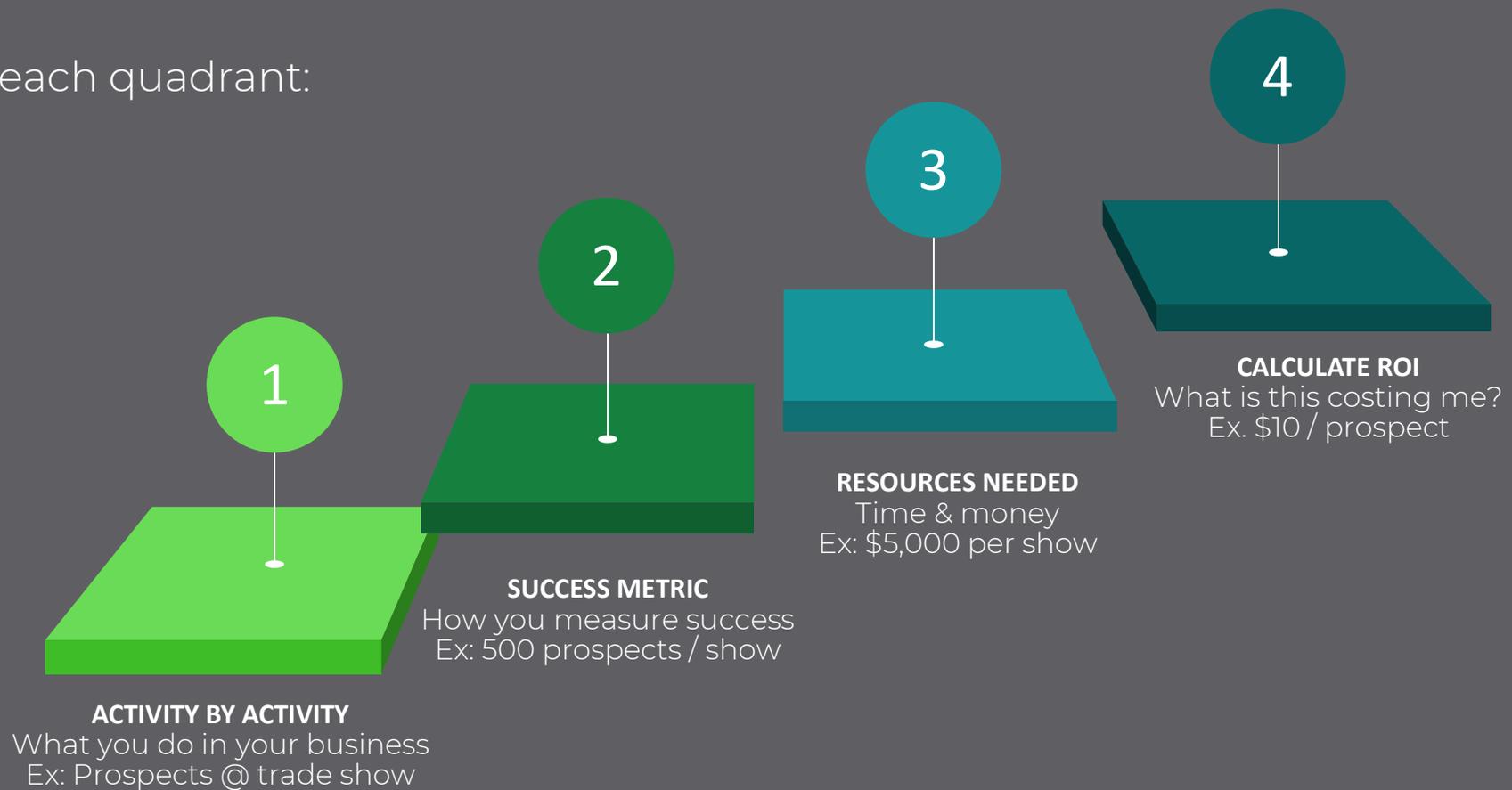


Deliver Solution?  
Cost of Goods Sold / Sales  
Gross Margin



# Develop Your Own Finsight

For each quadrant:



## Starting point for non-accountants

- 1) Get a list of all of your bank transactions for the past month
- 2) Label “must have”, “nice to have”, “why do I have”
- 3) Investigate “whys” / eliminate any fuzzy “whys”
- 4) Choose a success metric for all “musts” and “nice to haves”

# QUESTIONS?