

DTU Course 42435

Knowledge based Entrepreneurship

BUDGETS in Business Formation

The Cash Flow Budget

Video 09 A

John Heebøll

DTU Management Engineering
Technology and Innovation Management

AGENDA

- **The Rationales of Budgets**
- **Creating a Cash Flow Budget**

The Rationales

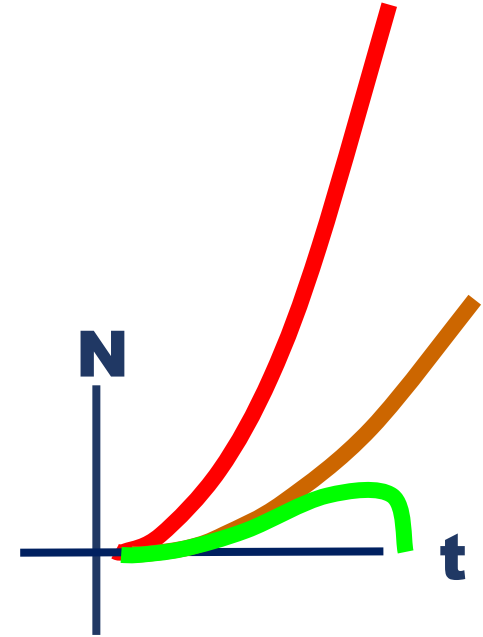
- **Quantify scenarios** *Get an overview of economics*
- **Quantify perspectives** *Get people involved*
- **Determine cash requirements** *Get your venture funded -*
- **Economical management
by budget supervision** *- and managed.*
- **Tuning the investment strategy** *- by balancing perspectives
against financing models*

BUDGETING PROCEDURE

Precondition for budgeting:

Market analysis and business model finalized

1. Market penetration scenario established ->
2. Estimate company operations as a function of 1)
3. Establish budgets on transactions¹ in sales and company operations



¹Transaction = money being moved into or out of the company's bank account

CASHFLOW BUDGET

- **Input:**

ALL estimated in- and outgoing payments (transactions) in a time domain

- **Output:**

The total amount of cash flowing in and out in the time domain =>

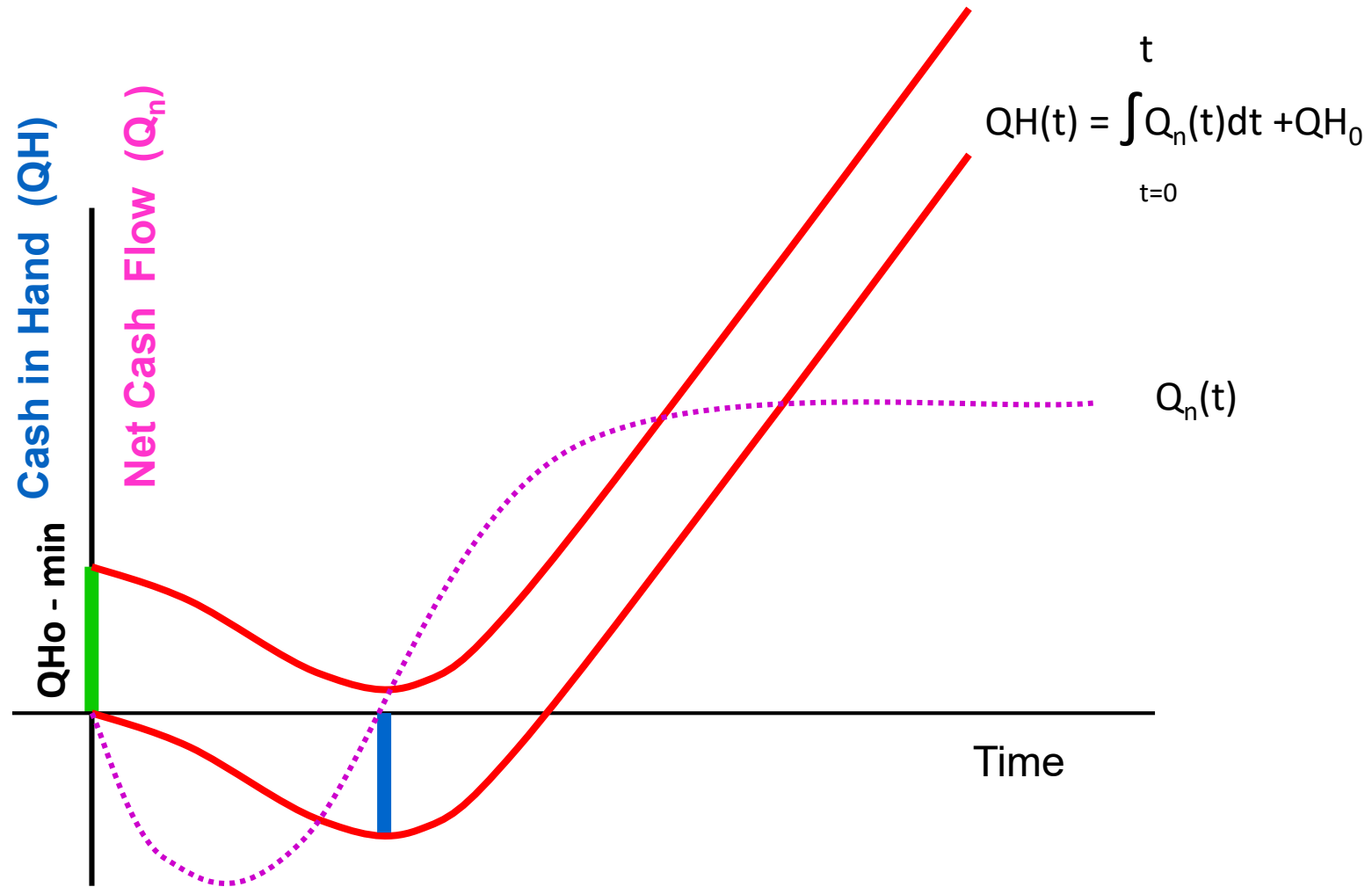
The net amount of cash flowing in/out

Accumulated net cash flow = Cash in Hand as a function of time

*Cash in Hand **NEVER** negative: that defines your capital requirements!*

Inject capital (e.g. from investors) until this condition is met at any given time

Cash Flow Budgeting



Cash Flow Budgeting



SALES and PRODUCTION

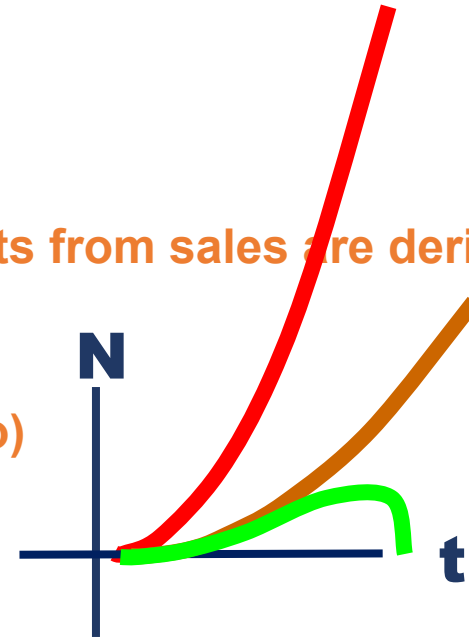
Outgoing payments to cover production and incoming payments from sales are derived from:

- Unit costs
- Sales price
- Market penetration in the time domain (market entry scenario)

MARKETING and OPERATIONS

Outgoing payments to run the company are derived from

- Sales & Marketing expenditures
- Rent, running costs, salaries
- IPR , R&D expenditures
- Capital expenditures



Add all outgoing (+) and incoming (-) payments determine cash flow (Q [DKK/month]) and cash-in-hand ($QH = \sum Q$ [DKK]).

Adjust with appropriate cash injections (*loan, equity capital*) to create a positive cash-in-hand throughout the project



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