

BMC: COSTS

BALANCING INCOME AND EXPENSES



[source](#)

At some point every startup team is forced to ask: “What does all this cost?”

The question is important because the business has to generate enough money to pay its expenses--or the founders will suffer a loss.

Startup costs include money spent before the business launches: team salaries, rent, office supplies, Web development, marketing, legal services, taxes and more. Of course, these expenses vary from business to business.

You may have already started to estimate expenses for building and testing an MVP, producing a product, marketing campaigns and more. These are only part of the total cost of doing business. As a

simulated accelerator team, your actual expenses will never be known. Much remains to be learned.

WHAT YOU'LL BE DOING

Playing a game to stimulate thinking about production costs.

Create a spreadsheet that itemizes the estimated costs of running your startup.

COSTS OF DOING BUSINESS

Think of the types of costs that combine to make it possible to sell a product or service to a customer. Write these on the white board.

These all add up to the cost of doing business.

It may be unrealistic to think that sales will cover all these expenses, at least to start with. This is why a business pursues investments or loans or taps into savings or credit cards.

GAME: SURVIVOR ISLAND

To start thinking about the costs of running your business, play [Survivor Island](#), a board and building game in which players compete as rival businesses trying to be the first to complete a product in a deserted South Seas island chain.

For the product your team has been developing, you may already know some of the associated costs. But there are bound to be other costs of production.

DEBRIEFING SURVIVOR ISLAND

1. What lessons can be learned from this game?
2. What was your financial strategy for playing the game?
3. What costs didn't you anticipate?

4. What could take longer than expected in producing your team's product?
5. How can you anticipate costs for everything you need so your company can survive production?
6. In general, how much money you should have in reserve to pay for unexpected expenses?

DEMO: EASYSWITCH

The fictitious company *EasySwitch* serves as an example of estimating total costs. See the [EasySwitch accounting spreadsheet](#).

A Facilitator will lead a presentation that shows how elements posted on a BMC translate into costs.

A helpful accounting analysis is to categorize expenses to reveal where money is being spent. The sample spreadsheet details where on the BMC expenses originate--most are key activities and how much of the total comes from each category. In YEAR 1, the biggest expense is the team, which includes the Builder, an Innovator and an Opportunist plus a Specialist who will concentrate on sales.

EasySwitch's Opportunist raises a second question that affects production costs, the next biggest expense: "why don't we make more units in Year One since our market projections indicate we could sell over 8 times this many switches?" The Builder looks at the question this way: "How many units can we afford to produce if we don't sell them all?" Unless *EasySwitch* has a lot of cash, making 80,000 switches would require an investor. (Making 10,000 switches could require an investor as well.)

For *EasySwitch* team, looking at their total costs could lead to a discussion about cheaper options, especially for the bigger expenses:

- How many units can we afford to make the first year?

- Can team members live on less personal income for a year? Are team members willing to take a cut in pay or not be paid at all? (E.g., making up for lost compensation in subsequent years or getting equity shares in the company).
- Can we get the production cost per item lower if we make more units? Can we find a source of raw materials that is costs less?
- Is there a less expensive distribution model?
- Should going to CEC be included in the marketing strategy?
- Do we need an office?
- Have we accounted for any taxes we will owe?

And so on....

TEAM MEETING

If there is time, meet to compile your own spreadsheet using the [Expense/Income Template](#). Otherwise, this may be completed as homework.

Enter expense information only in the gray cells. Notes from your team's BMC should be used to tally up costs. Team members could divide up the tasks, each taking different sectors of the BMC to estimate. Are all the categories needed? Do other categories need to be added? Rows may be added or deleted from the spreadsheet. Formulas are embedded in several columns: Total Annual Cost, Percent and By Category--so these numbers will autocomplete. The *EasySwitch* spreadsheet provides examples of types of information to be added.

There probably isn't time to consider where costs may be reduced. The immediate objective is to determine if a fair market price for your team's product is enough for your team to make money.

ASSIGNMENT FOR NEXT SESSION

As a team, collaborate to complete as much of the [Expense/Income Template](#) as possible. If this deliverable cannot be completed in one session, continue to work on it.

While estimating and totalling costs, prepare answers for the following questions:

- Product Price:
 - What do our competitors charge for a similar product?
 - Should we try to offer a cheaper version?
 - Can we cut our expenses?
 - What do our customers expect to pay?
 - If we have to charge more, how do we convince them our product is worth it?
- Starting with our known production costs, how many units can we afford to make?
 - How many units do we have to make to get our price down?
 - How much money will we need to borrow (or get investors) in order to make our business model work?
- Is the total estimated cost of production, divided by the number of units being made (or services sold), equal or exceed the price we hope to charge? If it does, we will lose money.