



Art Life Entrepreneurship 1

Aalto
Ventures
Program

Fall 2023

Session 3 Risks & Constraints

What can be controlled? How to manage risks?

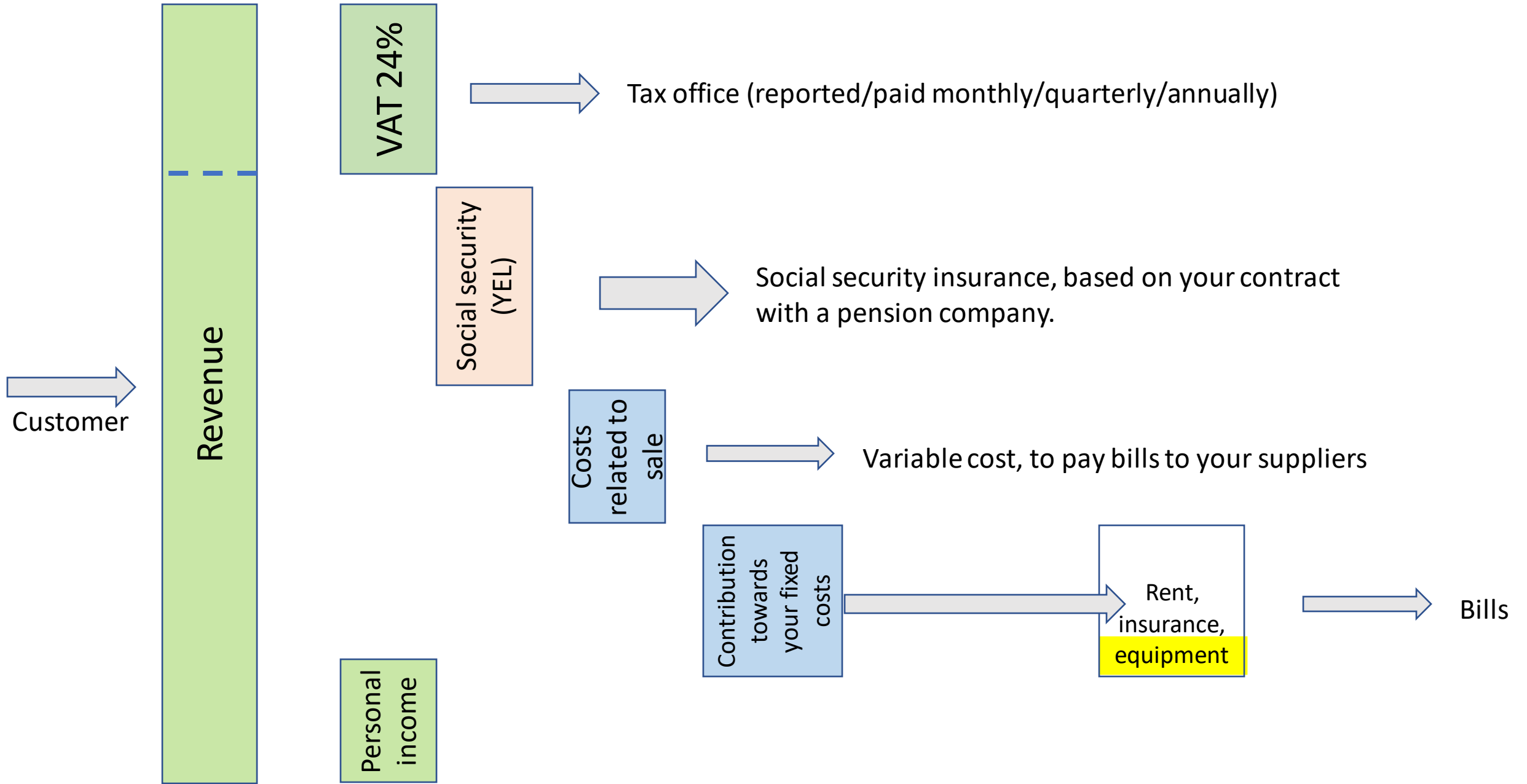


Finance

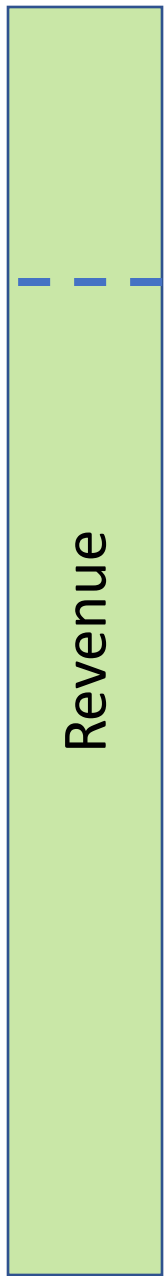
Money flow

Sole proprietor case, Finland
(toiminimi)





Customer



VAT 24%



Tax office (reported/paid monthly/quarterly/annually)

Social security (YEL)



Social security insurance, based on your contract with a pension company.

Costs related to sale



Variable cost, to pay bills to your suppliers

Contribution towards your fixed costs



Rent, insurance, equipment



Bills

Personal income

Revenue
is the money
your company makes

Revenue model

What are your sources for revenue

Revenue

How much money you actually got

Pricing model

How you set the price (dynamically)

Price

How much a specific customer pays

How to determine your minimum price: Cost-based pricing

- Starting point: What are your costs
- $\text{Price} = \text{costs} + \text{profit}$
- The worst pricing model
- Lower bound for all prices (long term)

Customer centric: Value-based pricing

- Starting point: How valuable is our service for our customer?
- Price \sim value
- Challenge: How to understand what customer values?
- Holy grail of pricing

Cost basics

Cost structure

- Fixed cost
 - Same regardless of how much produced
- Variable cost
 - Costs related to production
- Total Cost
 - Fixed costs + (production * variable cost)

Unit of “production”

- One painting
- One cup
- One design project
- One article
- One photo shoot
- ..

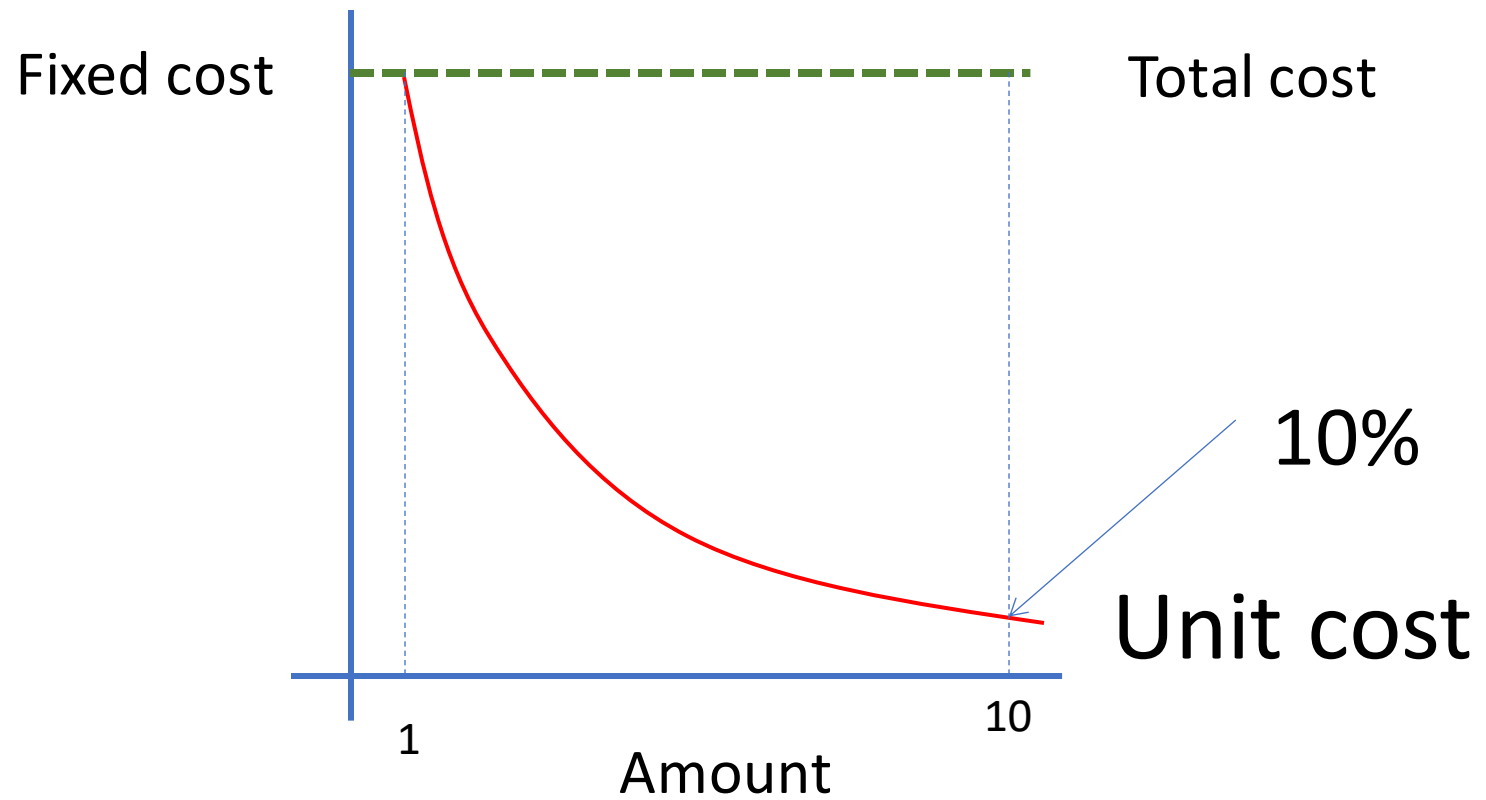
Typical fixed costs

- Salaries
- Rent
- Equipment (computer, camera)

Typical variable costs

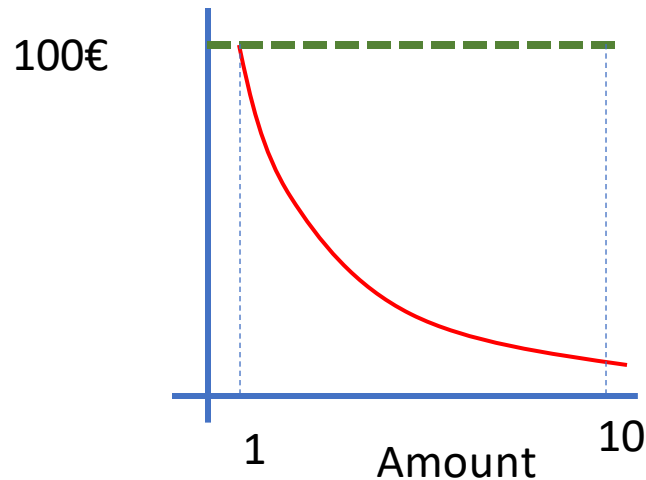
- Consumables (paint, canvas, ..)
- Shipping
- Packaging

Fixed cost vs unit costs



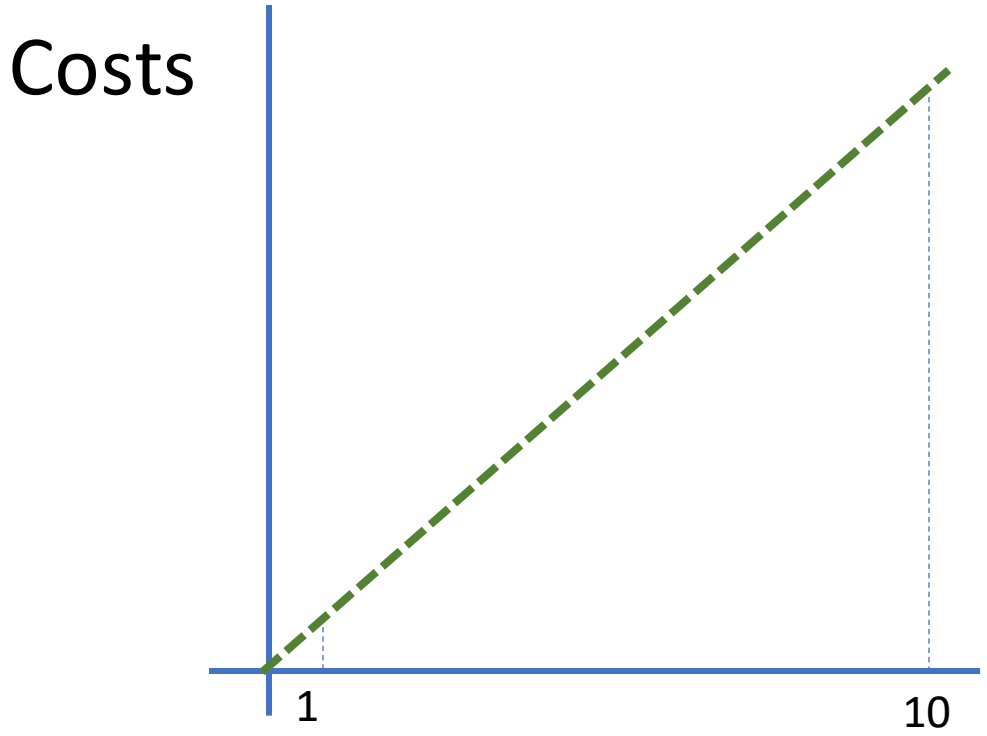
Fixed costs in practice

- Unit cost go down as nr of units go up -> economies of scale
- Fixed costs are based on planned production volume
- If production/sales goals are not met, income targets are not met



1 unit sold: cost contribution of unit +100€
10 units sold: cost contribution of unit +10
Plan for 10 units, sell 1: -90€ loss

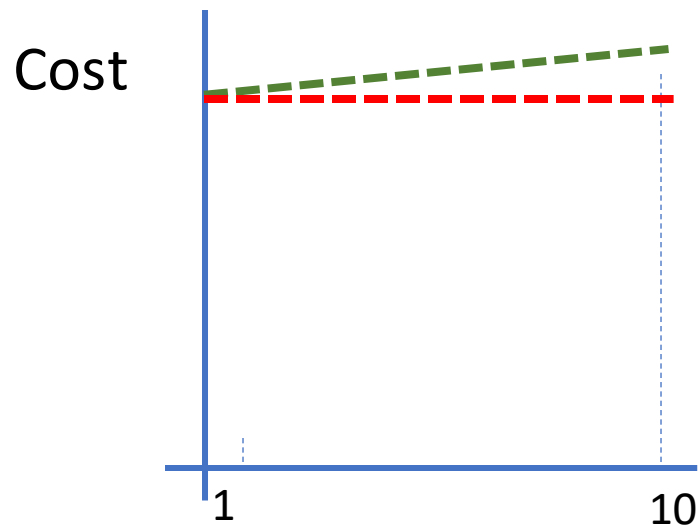
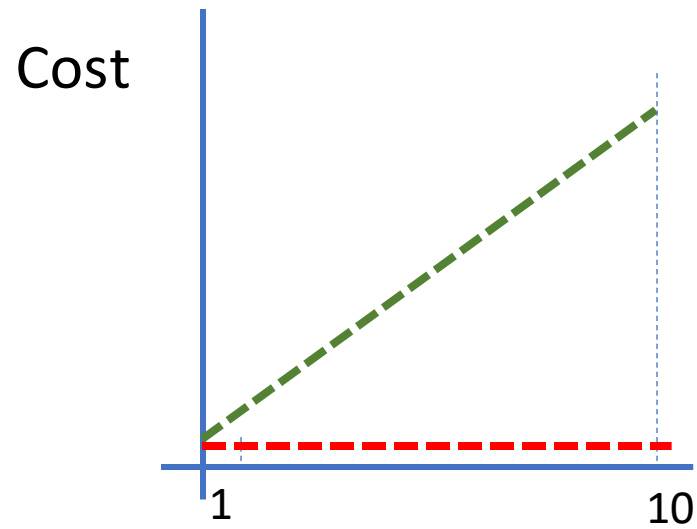
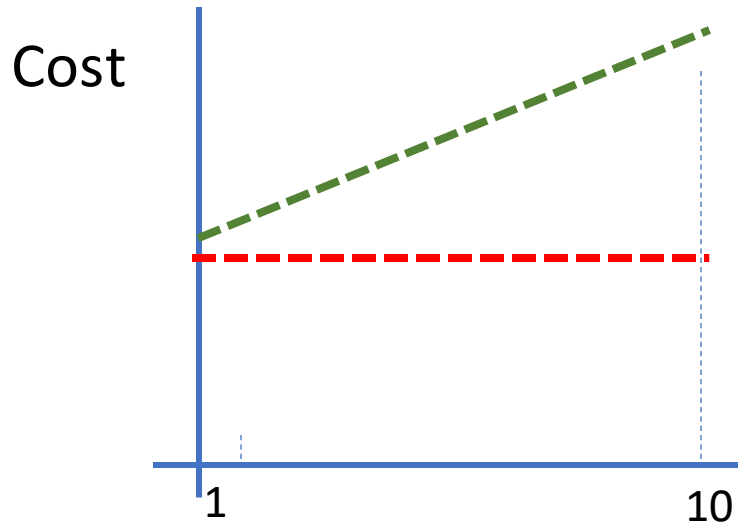
Variable costs



In practice

- Variable costs increase as a function of production
- Unit costs can vary depending on volume
 - Volume discounts (-)
 - Overtime (+)
- Rarely big stepwise increase

Risk?



Total cost including variable cost

Fixed cost

Pricing?

Let's put the theory into practice!

	Case 1	Case 2
Company level		
PROFIT	0 €	0 €
FIXED COSTS + SALARY	0 €	0 €
Services	0 €	0 €
Rent	0 €	0 €
Depreciation	0 €	0 €
Entrepreneur		
Salary/month	0 €	0 €
Salary sides costs	0 €	0 €
Months of work	0	0
Single project or product level		
Price (vat = 0%)	0 €	0 €
Price including vat (24%)	0 €	0 €
Variable cost for one project/product		
Materials	0 €	0 €
Travel	0 €	0 €
Hours of work	0,0	0,0
SALES MARGIN	0 €	0 €



Download excel file for your own use

- <https://www.dropbox.com/s/yxwwsnvel9d5gc1/Reverse%20Income%20statement%20-%20download.xlsx?dl=0>

Credits:

Based on original idea and Excel sheet:

Immonen, H. (2021). *Käänteisen tuloslaskelman kevytversio – hyödyt, virheet ja laatimisohteet*. Available at

<https://www.draftprogram.com/2021/01/08/kaanteisen-tuloslaskelman-kevytversio-hyodyt-virheet-ja-laatimisohteet/>

What you must know/plan about your own business

- Your (typical) deliverable
 - Cost of materials, services etc
 - Your workhours to complete
- Your fixed costs
 - Rent, insurances, purchases, etc
 - Payment schedules for these
- To know, you must measure
 - You need to measure your work and performance
 - Keep track of the data

Team exercise – artist known as X

Cost factor	
Services/year	800 €
Rent/month	400 €
Monthly overhead hours	30 h
Materials	150 €
Hours of work	20 h

Plan a business for artist X

- Take one niche from your team
- Assume the numbers given in the table OR if you have good reason to change them use more realistic numbers
- Otherwise, feel free to set salary, profit, price etc targets
- 2 columns gives you easy “what if” comparisons

The main take-aways

- Price yourself correctly
 - Fixed price vs hourly rate
- When starting out, try to use variable cost products and services rather than incurring fixed costs!
- Cash is king, always know how much cash you have vs liabilities (invoices)

Break 10 mins





Business model

Let's start with a small experiment

Think of a project that..

..you have done for someone else

..is not a school or work project for an employer

Preferably something you liked to do.

Answer 9 questions about the project

1. Who did you do the project for? What did the recipient need?
 - **A couple that needed music entertainment for their wedding**
2. What did the recipient get from you?
 - **2 hours of dancing music for the party**
3. How did you find each other and agree on what you would do?
 - **The bride saw a music video on IG and contacted me with a DM**
4. Will you do something together in the future?
 - **Yes, will be playing at an event put on at the grooms company**
5. What specifically did you do to complete the project?
 - **Asked about music taste, planned a playlist, set up gear, played, cleaned up**
6. Did you co-operate with someone to get the project done?
 - **Yes, I borrowed some sound gear from a friend**
7. Did you need equipment or some other stuff to complete the project?
 - **Yes, sound gear and notes to a couple of songs that were not familiar to me**
8. How much of your own time and money did you spend on the project?
 - **About 2 hours preparing and 5 hours at the wedding**
9. Did you benefit some way from the project?
 - **Yes, I got a nice meal at the reception and 200€ to cover out-of-pocket costs**

Download this excel sheet

- <https://www.dropbox.com/s/7ds6u5rgkmqkejo/My%20project.xlsx?dl=0>



My project

<p>Did you co-operate with someone to get the project done</p>	<p>What specifically did you do to complete the project?</p> <p>5</p>	<p>What did the recipient get from you?</p> <p>2</p>	<p>Will you do something together in the future?</p> <p>4</p>	<p>Who did you do the project for? What did the recipient need (help with)?</p>
<p>6</p>	<p>Did you need equipment or some other stuff to complete the project?</p>		<p>How did you find each other and agree on what you would do?</p>	
	<p>7</p>	<p>3</p>		
<p>How much of your own time and money did you spend on the project?</p>		<p>Did you benefit in some way from the project (money or otherwise)?</p>		
<p>8</p>		<p>9</p>		

EXERCISE 1 – describe your project

Take one of the Excel sheets and answer
the 9 questions!

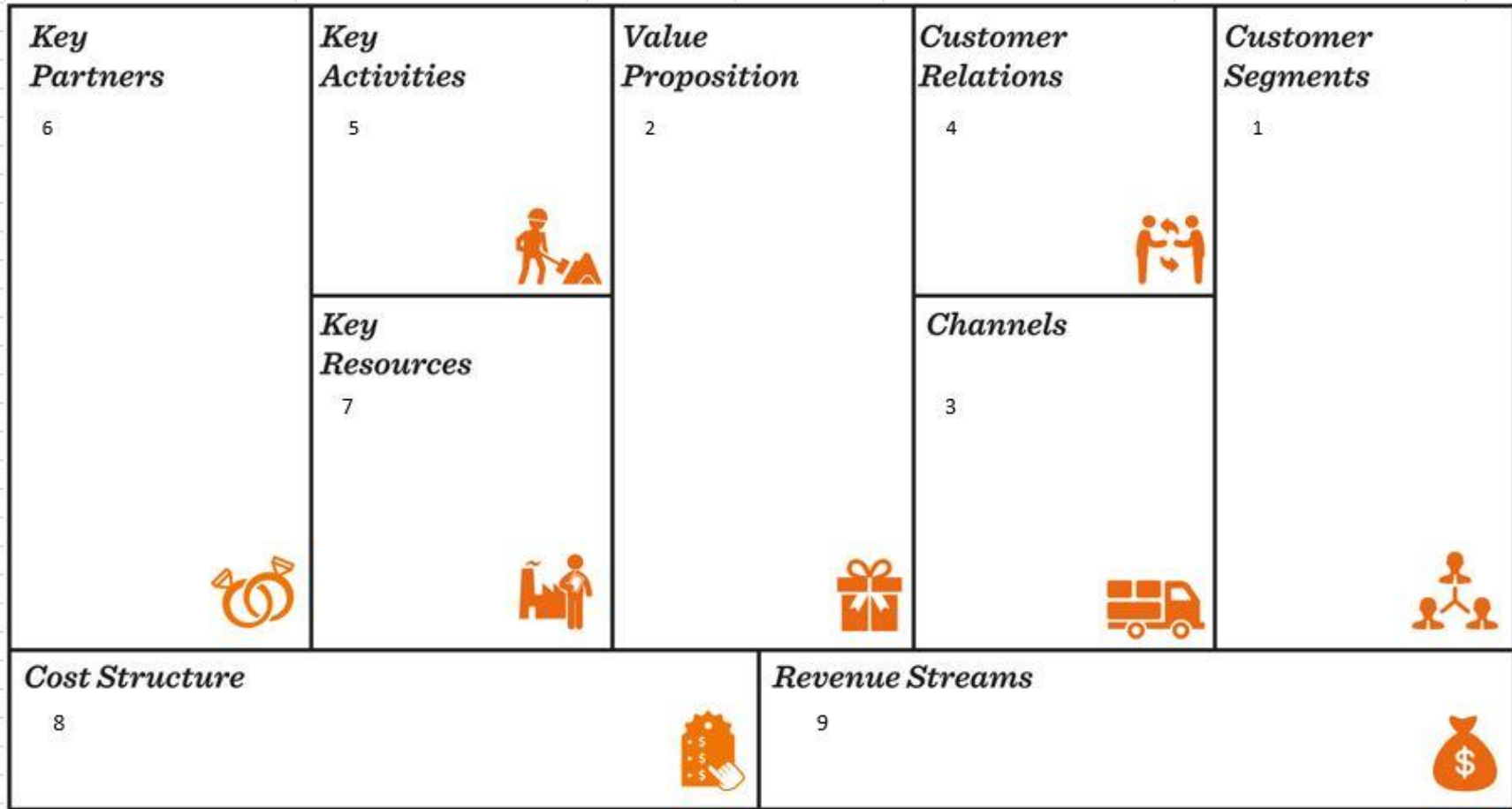
Personal exercise, let's see if
10 minutes is enough
(don't do rocket science)



1. Who did you do the project for? What did the recipient need?
2. What did the recipient get from you?
3. How did you find each other and agree on what you would do?
4. Will you do something together in the future?
5. What specifically did you do to complete the project?
6. Did you co-operate with someone to get the project done?
7. Did you need equipment or some other stuff to complete the project?
8. How much of your own time and money did you spend on the project?
9. Did you benefit some way from the project?

Congratulations, you just created a

Business model



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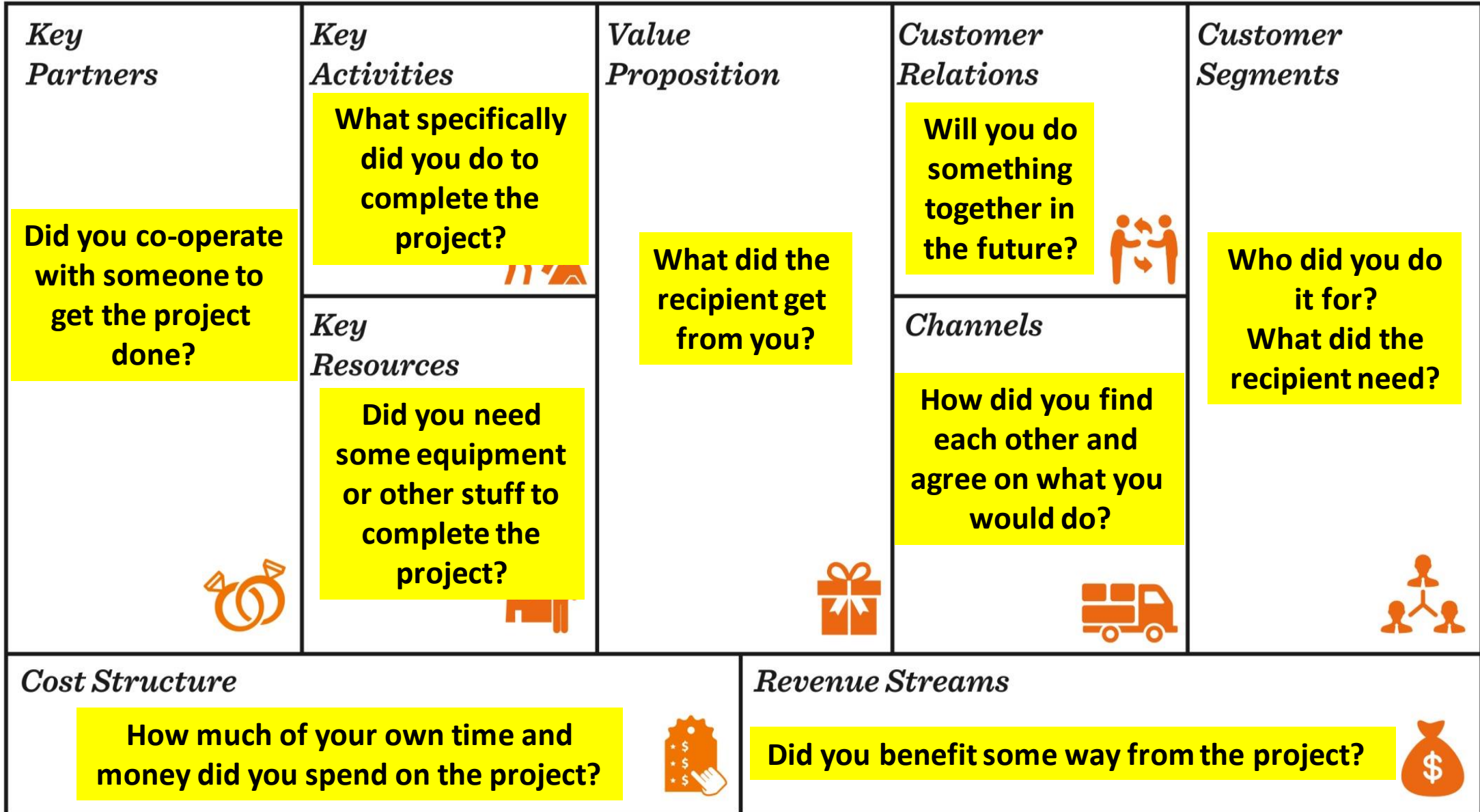


DESIGNED BY: Strategyzer AG

My project

BMC





Different types of business models

- Hobby (you are the customer)
- Volunteer work (you finance it yourself)
- Charity (you finance it for someone else)
- Entrepreneurial stuff ->

Entrepreneurial business model?

- 1) Being able to do the same kind of project repeatedly (indefinitely)
- 2) Goal of eventually getting enough financing (revenue) from customers to fulfil point 1)

Being an entrepreneur or entrepreneurial

=

Looking for projects with a business model
that fulfils criteria 1) and 2)

DISCUSSION about Interviews:

How did you book?

Was it scary?

How did it go?

What did you learn?

Fill the miro canvas with practical tips on how to book and run an interview

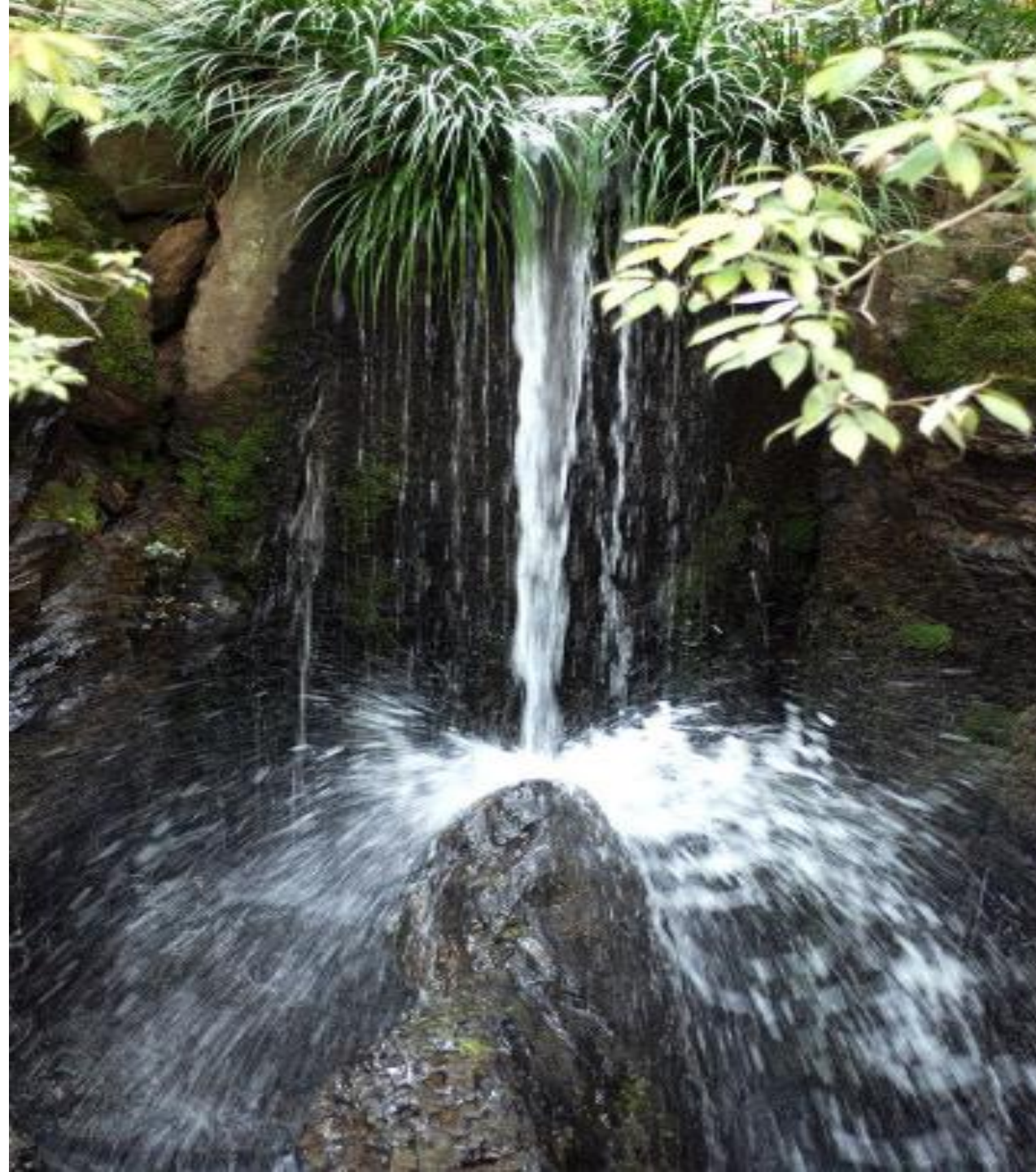
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Was there any findings common to all interviews?

Break 10 mins



Sustainable ways of working



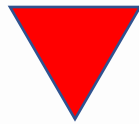
Maximum efficiency,
minimum effort

Focus your physical and mental
energy to where you get the best
results

Jigoro Kano



Commitment point
Becomes the main source of income
Income grows, responsibilities grow
Mistakes become more costly



Groupwork

**Critical decision
making moment
15 mins**

Miro Course Board

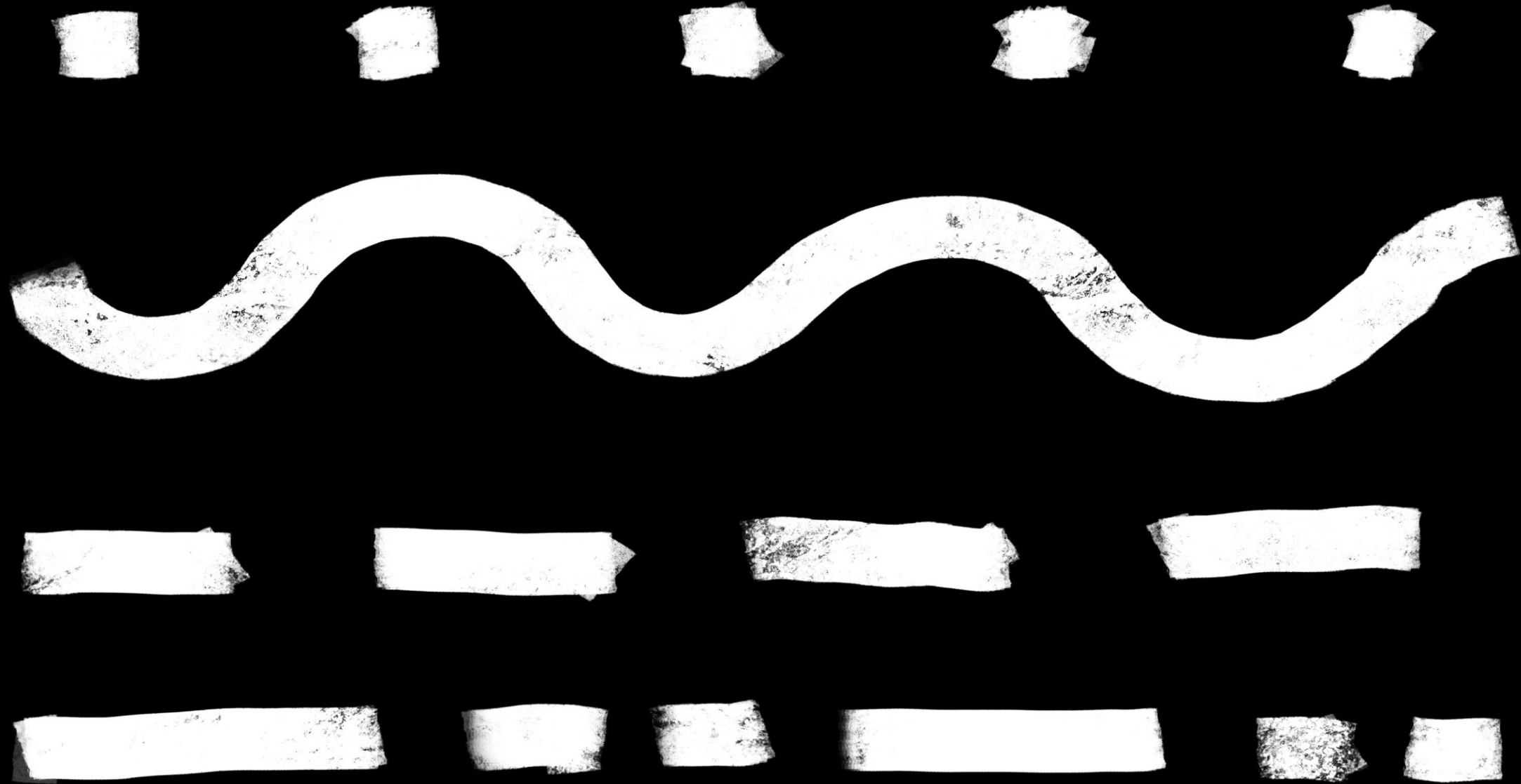
Discuss in groups and identify critical moments in entrepreneurs life when decisions about well being are being made. (consciously or unconsciously)

Come up with top 3 tips to prepare for each moment you have identified.

Recovery

Load



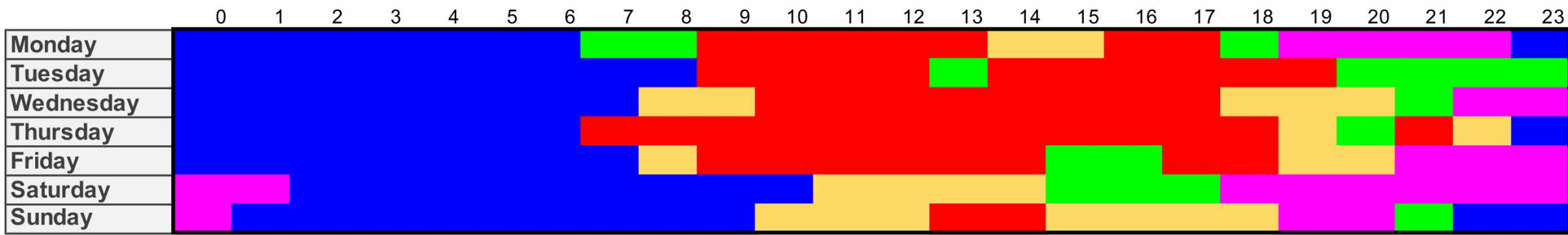


Where does my time go?

GOOD LIFE ENGINE

Where does my time go?

avp.aalto.fi



Legend:	
Sleep	1
Work	2
Exercise	3
Recovery/play	4
Social	5

Where does my time go?



Homework:

Finish up the where does my time go excel DL 14.11 at 13.00

Reminder:

Role model interview DL: 21.11 at 13.00

Ecosystem visit DL: 21.11 at 13.00