Session 3
Risks & Constraints
What can be controlled? How to manage risks?
Money flow

Sole proprietor case, Finland (toiminni)
Revenue

Customer

VAT 24%

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

Costs related to sale

Variable cost, to pay bills to your suppliers

Social security (YEL)

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

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
- Price = costs + 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 ~ 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 goes down as the number of units goes 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

Costs

[Graph showing a linear relationship between costs and quantity with a scale from 1 to 10]
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?

Pricing?

Cost

Fixed cost

Total cost including variable cost

Cost
Let’s put the theory into practice!

<table>
<thead>
<tr>
<th></th>
<th>Case 1</th>
<th>Case 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Company level</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PROFIT</td>
<td>0 €</td>
<td>0 €</td>
</tr>
<tr>
<td>FIXED COSTS + SALARY</td>
<td>0 €</td>
<td>0 €</td>
</tr>
<tr>
<td>Services</td>
<td>0 €</td>
<td>0 €</td>
</tr>
<tr>
<td>Rent</td>
<td>0 €</td>
<td>0 €</td>
</tr>
<tr>
<td>Depreciation</td>
<td>0 €</td>
<td>0 €</td>
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<tr>
<td><strong>Entrepreneur</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary/month</td>
<td>0 €</td>
<td>0 €</td>
</tr>
<tr>
<td>Salary side costs</td>
<td>0 €</td>
<td>0 €</td>
</tr>
<tr>
<td>Months of work</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Single project or product level</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price (vat = 0%)</td>
<td>0 €</td>
<td>0 €</td>
</tr>
<tr>
<td>Price including vat (24%)</td>
<td>0 €</td>
<td>0 €</td>
</tr>
<tr>
<td><strong>Variable cost for one project/product</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Materials</td>
<td>0 €</td>
<td>0 €</td>
</tr>
<tr>
<td>Travel</td>
<td>0 €</td>
<td>0 €</td>
</tr>
<tr>
<td>Hours of work</td>
<td>0,0</td>
<td>0,0</td>
</tr>
<tr>
<td><strong>SALES MARGIN</strong></td>
<td>0 €</td>
<td>0 €</td>
</tr>
</tbody>
</table>
Download excel file for your own use

• [https://www.dropbox.com/s/yxwwsnvel9d5gc1/Reverse%20income%20download.xlsx?dl=0](https://www.dropbox.com/s/yxwwsnvel9d5gc1/Reverse%20income%20download.xlsx?dl=0)

Credits:
Based on original idea and Excel sheet:
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

<table>
<thead>
<tr>
<th>Cost factor</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Services/year</td>
<td>800 €</td>
</tr>
<tr>
<td>Rent/month</td>
<td>400 €</td>
</tr>
<tr>
<td>Monthly overhead hours</td>
<td>30 h</td>
</tr>
<tr>
<td>Materials</td>
<td>150 €</td>
</tr>
<tr>
<td>Hours of work</td>
<td>20 h</td>
</tr>
</tbody>
</table>
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
<table>
<thead>
<tr>
<th>Section</th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Did you co-operate with someone to get the project done?</td>
<td><strong>6</strong> What specifically did you do to complete the project? <strong>5</strong> What did the recipient get from</td>
</tr>
<tr>
<td></td>
<td>you?</td>
</tr>
<tr>
<td></td>
<td><strong>4</strong> Will you do something together in the future?</td>
</tr>
<tr>
<td></td>
<td><strong>3</strong> How did you find each other and agree on what you would do?</td>
</tr>
<tr>
<td></td>
<td><strong>2</strong> Did you need equipment or some other stuff to complete the project?</td>
</tr>
<tr>
<td></td>
<td><strong>7</strong></td>
</tr>
<tr>
<td></td>
<td><strong>8</strong> How much of your own time and money did you spend on the project?</td>
</tr>
<tr>
<td></td>
<td><strong>9</strong> Did you benefit in some way from the project (money or otherwise)?</td>
</tr>
</tbody>
</table>

**My project**

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**Notes:**

- Did you need equipment or some other stuff to complete the project?
- How did you find each other and agree on what you would do?
- Did you benefit in some way from the project (money or otherwise)?
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, your just created a Business model
Who did you do it for?
What did the recipient need?
How did you find each other and agree on what you would do?
What did the recipient get from you?
Will you do something together in the future?
Who did you do it for? What did the recipient need?

Did you co-operate with someone to get the project done?
Did you need some equipment or other stuff to complete the project?
What specifically did you do to complete the project?

Cost Structure
Revenue Streams
How much of your own time and money did you spend on the project?
Did you benefit some way from the project?

Business Model Canvas
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

+ 

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

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

Load
Yrittäjyyden polttoaine

Radical

wellbeing
Where does my time go?
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