

## **IE – Business Economics Fundamentals – Lesson 7 – Funding basics 2 – Video**

One final way to raise money is franchising...it is a little downstream for a startup, but at least you should be aware of it. A franchisor needs a business template in place that works and can be replicated by others. Franchisees pay a fee for whatever your business provides them. It is often illegal to offer a franchise without having established certain minimum criteria. If a business uses this approach, the franchise fee can provide capital to expand.

The key is building a financial story that works well with your business plan and narrative. It paints the picture of business staging and sequencing of how you're going to move forward. The story addresses how it gets through various phases. The business strategy and the capital strategy are complementary pictures of the same story.

Final takeaway: building pro formas takes time. Especially at the outset, many assumptions will not be easy to be certain about. But as you make them, be prepared to explain why you believe that they are valid. Be aware of how confident you are in your assumptions.

- Wild guesses – you will take some wild guesses. They probably will be wrong, but you have to start somewhere.
- On the other extreme, there will be things you are very confident about. You either have expertise in it or access to good data. Be sure to capture your source of information, so you can reference it when talking to potential investors.
- In between – educated guesses. Built on some homework, some data, some expertise, but still a guess. A lot of your assumptions will be in this category at first.

### **Reflection Task:**

Completely customize your first pro forma to reflect your business – take that initial work you did earlier and detail it out to get to the milestone you set out. Don't worry if there are still gaps that you just don't know yet, but make an effort to reflect your best current thinking. Articulate your potential subsequent capital needs and consider how you will approach these.

Be aware of how confident you are in your assumptions:

- Wild guesses
- Things you're very solid about – reference good data, capture source
- In between – educated guesses. Some homework, some data

**Course Reflection Task:**

- How big a business do you hope to create? Is it meant to be a business that you sell for a big profit, or take public, or is it a business you believe should remain smaller or within more of your personal control? Why?
- Developing financial projections is a mix of guessing, doing homework and finding comparable scenarios, and thinking through many variables. It often creates pressure to generate a positive picture by changing assumptions. Answer these questions without taking into account the challenges of raising money: How much money do you guess you need initially? What will you accomplish with it? Will you need more capital after you reach this goal?