**Training Fiche Template**

| **Title** | Business literacy | |
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| **Keywords** | Revenues, costs | |
| **Provided by** | LWL / IHF | |
| **Language** | EN | |
| **Objectives** | * Learn the importance of financial and business literacy for your enterprise * Understand and manage your enterprise cash flow * Forecast cash flow for your enterprise * Understand piercing and pricing models | |
| **Learning outcomes** | * Understand the key importance of finance for entrepreneurship and their link; * Understand the concept of cash flow; * Manage your cash flow cycle; * Forecast your cash flow; * Understand pricing for your enterprise. | |
| **Training Area** | Digital skills |  |
| Pricing and marketing |  |
| Access to finance from the female perspective |  |
| Leadership and Communication Skills |  |
| **Content index** | **Modulo X: Business Literacy**  **Unit 1: From business idea to financial sustainability**  Section 1: Profit & Profitability  Section 2: Key concepts of revenues and costs  Section 3: Access to finance  **Unit 2: Cash flow**  Section 1: What is cash-flow?  Section 2: What is the Cash Flow Cycle?  Section 3: How to manage your cash flow  Section 4: Cash flow forecasting  Section 5: How do I do it?  **Unit 3: Pricing**  Section 1: Pricing  Section 2: Pricing strategy  Section 3: Types of pricing strategies  Section 4: Other topics | |
| **Content development** | **Unit 1: From business idea to financial sustainability**  *Section 1: Profit & Profitability*  Profitability is the basic and primary aim of all enterprises and entrepreneurs.  Without profitability, the business will not last long.  Profit and profit making are the preliminary concepts to best define what profitability is and why it matters.  Profit is simply defined as the surplus after deducting costs from revenues.  **PROFIT = TOTAL REVENUES – TOTAL COSTS**  To summarise, profit is an absolute measure of how profitable a business is  Profitability is the relative measure of profit – how much profit is made compared to total revenues.  This means that calculating profitability looks at profit, revenues and costs in percentage terms rather than the raw absolute amounts.    By doing so, this index allows comparing enterprises of different sizes or businesses by looking at their levels of profit side by side.  To summarise, profitability represents the percentage of profit generated per unit of currency spent.  *Section 2: Key concepts of revenues and costs*  **REVENUES**  Revenues are money income from business’ activities. They are generated by delivering services or selling products in a certain quantity at a given price.    A certain quantity of the commodity is sold over a certain time period  TR = Total Revenue  P = Price  Q = Quantity    **Average Revenue (AR)** is the total revenue per unit output sold. AR is also equal to the price 🡪 **AR = TR / Q = P x Q / Q = P**  **Marginal Revenue (MR)** is the change in total revenue resulting from one unit increase in quantity sold  🡪 **MR = Change in Revenues / Change in Quantity 🡪 MR = ΔTR / ΔQ**  **Example of MR:**  €1500 from the sale of 500 earrings 🡪 Revenue for earring until 500 earrings = €3  €1700 from the sale of 600 earrings  MR = (€1700 - €1500) / (600 - 500) = €2  **MR = €2** 🡪 Revenue for earing after 500 earrings = €2  **COSTS**  Costs represent the expenditure incurred for resources to produce a good or service during the production process of business’ activities.  There are 4 types of costs:  **Fixed cost (FC)** – the expenditure on the fixed factors/inputs of activities, (e.g., production: flour for bread)  **Variable cost (VC)** – the expenditure on variable factors (e.g., labour: the amount of the wage depends on the number of workers employed)  **Explicit cost** – the money spent by the producer on both fixed and variable components of business’ activities  **Implicit cost** – the price of self-supplied factors The value of such a cost must be calculated using market value    **Average Cost (AC)** is the cost per unit of output  **🡪 AC = Total Cost / Total Output**  **Marginal Cost (MC)** is the extra cost incurred to produce another unit of output  **🡪 MC = Change in costs / Change in Quantity 🡪 MC = ΔTC / ΔQ**  **Example of MC:**  €500 to produce 500 earrings 🡪 Cost for earring until 500 earrings = €1  €580 to produce 600 earrings  MC = (€580 - €500) / (600 - 500) = €0.80  **MC = 0.80** 🡪 Cost for earring after 500 earrings = €0.80  The **Break-even Point (BEP)** is the level of activities at which the costs of production/implementation equal the revenues for a product/service.  🡪 **BEP = Fixed costs / Revenue per unit (P) – Variable Cost per unit**  *Section 3: Access to finance*  Whether it is to set up a new enterprise or to implement new business’ activities developing an existing enterprise, profitability is crucial.  It influences whether a enterprise can:     * Obtain funding (for example, from a bank or traditional institutions) * Attract investors or business angels (alternative financing) to fund its operations * Grow its business in general   It represents the best source of access to finance.  The main tool to raise capital for a business idea or secure lending in general is the business plan (BP). It is a document presenting, among other things, the enterprise’s economic and financial views, including profitability. The latter suggests the possibility of returns on investments.  **Unit 2: Cash flow**  *Section 1: What is cash-flow?*  Cash flow is the movement of money in and out of your business.   * + Cash received = **inflows** e.g. sales or an investment   + Cash spent = **outflows** e.g. wages, rent, paying suppliers   The **purpose** of cash flow is to establish a picture of what has happened to the cash in your business during a specific period (**accounting period)**  There are three main **cash flow activities**:   * + Operating activities e.g. cash receipts from sales of goods or services or cash payments such as wages   + Financing activities e.g. cash receipts from bank loans or repayments of loans   + Investment activities e.g. cash receipts from sale of property or payments for purchase of property or equipment   *Section 2: What is the Cash Flow Cycle?*   * The **cash flow cycle** is the way in which cash moves through your business as products/services are manufactured/delivered and sold and payment is received. * The cycle starts from the time you pay your suppliers/bills to the time you receive payment for your goods/service * The shorter the cycle, the more cash your business makes! This is also known as **Cash Conversion Cycle (CCC)** – this means that the less time your business has cash tied up in inventory the shorter your CCC. * **How can I shorten my cash cycle?**   1. Encourage earlier payments   2. Ensure you have an easy method for customers to pay   3. Keep invoices simple and clear   4. Consider small % discounts for early payment   *Section 3: How to manage your cash flow*   * Managing your **cash flow** means that you are managing your **working capital** which ensures your business runs from day to day. * **Cash flow management** means that you are tracking the cash coming in to your business and monitoring it in relation to your outgoings e.g. wages, utility bills etc. * If you have a good management system, you can see a overall picture of income versus costs and ensure you have enough cash to pay your bills, yet still ensure you make a profit.   *Section 4: Cash flow forecasting*  **What is cash flow forecasting?**   * A **cash flow forecast** is an estimate for the amount of cash coming in and out of your business in a specific period (generally one year). When planning your forecast, it is important to be aware of timings so that you can plan for busier and quieter periods.     **Why is it important?**   * A cash flow forecast is an essential part of your business planning because it can help to demonstrate the viability of your business which is very important if you are looking for investment.   **Do I need to update my forecast throughout the year?**   * Yes – if your business performs differently to what was expected, it is very important that you update your cash flow – if it is not up to date, it is of no use to you.   *Section 5: How do I do it?*  **Follow these simple steps to write the cash flow forecast for your business:**   1. You need an excel/Google sheet with 12 columns (one for each month). Use the rows to show the cash coming in and going out; 2. Assign a separate row for each type of income or expenditure; 3. Your **Cash inflows** rows will show your incomes from your sales, any investments/financing. Your **cash outflows** rows will show your expenses e.g. wages, rent, utility bills etc. 4. You will include a row of totals which calculates the cash in and out for each month. You can use the SUM function for this and the total at the end of each month is your **monthly closing cash balance;** 5. You will also need other information to complete your forecast:    * Your pricing strategy    * Sales forecasts    * Costs forecasts    * Profit and loss forecast   **Unit 3: Pricing**  *Section 1: Pricing*  Why is pricing important?   * + Pricing is very important for your business as it shows the value of your product;   + You may think that the cheaper your product, the more you will sell but this is not always the case!   + **Remember your customers will decide whether or not to invest in your product.**   An example:   * A business is selling a car seat for a baby for €20 – would you buy it for your baby or would you be more likely to spend €100? * Selling cheaply does not necessarily mean more sales.   *Section 2: Pricing strategy*  What is pricing strategy?   * + **Pricing** is the amount you charge for your product or service   + **Pricing strategy** looks at how you might calculate this amount. It takes a number of factors into account   Including:   * + - The current market     - Competitor actions     - Your costs     - Your profit margins (the amount by which your income from sales exceeds your business costs)     - The likely consumer spend   *Section 3: Types of pricing strategies*    *Section 4: Other topics*  TBC  **Summing up**  **Pricing**   * Revenues * Costs * Profit * Profitability * Business Plan * Entrepreneurship   **Cash flow**   * Cash Flow Cycle * Cash Flow Management * Cash Flow Forecasting   **Pricing**   * What is pricing? * Pricing Strategy | |
| **Glossary** | **Cash Flow** is the movement of money in and out of your business  **Cash Flow Cycle** is the way in which cash moves through your business as products/services are manufactured/delivered and sold and payment is received  **Cash Flow Forecast** is the estimate for the amount of cash coming in and out of your business in a specific period  **Pricing** is the amount you charge for your product or service  **Pricing Strategy** looks at how you might calculate this amount. | |
| **Self-evaluation (multiple choice queries and answers)** | 1. The percentage of profit generated per unit of currency spent is represented by  **a) the profitability**  b) the profit  c) total revenues - total costs  2. What is the Marginal Cost (MC)?  a) the cost per unit of output  b) the expenditure on variable factors/inputs of activities  **c) the extra cost incurred to produce another unit of output**  3. What is Cash Flow?  a) The amount of cash your business owes  **b) The movement of money in and out of your business**  c) The amount of money you receive in sales  4. What is Cash Flow forecasting  **a) An estimate of the amount of cash coming in and out of your business in a specific period**  b) An estimate of how much you will spend in one year  c) An estimate of the amount of sales you will achieve in one year  5. What is cost-based pricing?  a) it is based on the market value of your goods/service  b) It is based on the value of your product based on the perspective of the customer  **c) It is based on the cost of your goods/service plus a margin** | |
| **Bibliography** | <https://www.extension.iastate.edu/agdm/wholefarm/html/c3-24.html>  <https://site.financialmodelingprep.com/education/financial-ratios/profitability-ratios/what-is-profitability-and-why-is-it-more-important-than-profit>  [Break-Even Point: Definition, Examples, and How to Calculate (investopedia.com)](https://www.investopedia.com/terms/b/breakevenpoint.asp)  [Break-Even Point: Definition, Examples, and How to Calculate (investopedia.com)](https://www.investopedia.com/terms/b/breakevenpoint.asp)  <https://www.bdc.ca/en/articles-tools/marketing-sales-export/marketing/pricing-5-common-strategies#> | |
| **Resources (videos, reference link)** | **How to create a cash flow forecast:** https://youtu.be/XVWV1hIsiUs | |