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KEY INCLUSIVE DEVELOPMENT STRATEGIES FOR LIFELONG LEARNING

Entrepreneurship Competence

Financial Aspects of Entrepreneurship

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Contents

This short guide contains all the essentials for understanding the financial aspects of running a business.

It covers the issues of:

1. Direct Costs vs Indirect Costs
2. Fixed and Variable Costs
3. Minimum Costs vs Maximizing Value

Building up your budget

How to achieve profits

All successful businesses are selling their products or services in higher prices than their costs. This leads to **profits.**

Profits are the money that is left when you take out of the revenues (number of items sold * price) the costs for operating your business.

But to really know whether you will be achieving profits you need to be very careful with what will be the costs of your operations.

Typically costs can be divided into **Direct and Indirect Costs**.

Different Types of Costs

Typical costs of business operations include some of the following:

Rent of space
Utility Bills
Personnel Costs
Material needs to produce your product or service
Marketing Costs
Distribution Costs
etc.

A type of cost that is much neglected is the time you spend to organize and run your business – always make an estimation of this, too!

Direct vs Indirect Costs

Some costs are directly connected to the production of the service or product. Others are not so strongly connected but they are important for the function of the business.

For example, in a company that produces computer games, the costs of the personnel related to programmers/people working on coding consist of direct costs. On the other hand, the costs of the administrative personnel, rent, utilities are categorized under indirect costs.

Fixed vs Variable Costs

Fixed costs are the costs that do not change according to the number of items produced. In the previous example, the rent, that will not change based on how many games are produced, is categorized as a fixed cost.

Variable costs are the costs that are altered according to the number of items produced. In the previous example, the marketing costs for disseminating the production of the games produced will change as the number of games increase.

One interesting issue with Fixed Costs is that when a company can increase its production then these decrease which means that it can offer better prices for their products.

Minimum Costs vs Maximum Value

It is important to stress that not all business models focus on achieving **low prices** and therefor put emphasis on decreased costs. A minimum costs strategy means that you are aiming at decreasing costs as much as possible so that the product/service is offered at the least price possible. Supermarkets like **Lidl** try to have limited costs so that it offers good prices.

Another strategy is to focus on **maximum value** which means that the company does not strategically focus on decreasing costs but to offer products/services on top value. Apple products for example are notorious of their quality and value they give to their owners, hence the company is able to sell them in high prices.

Of course a business can find a balance between a minimum costs and a maximum value strategy. It is a matter of choice and of good mapping of market gaps and competition.

The issue of costs

One of the most known quote in business is the “you need to spend money to make money”. So costs are part of the process – tracking them, trying to keep those not so important ones to your business to a certain level, understanding how they can decrease as your volume of business grows – are all necessary processes that need to be tackled by the leadership.

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Thank you!