MODULE 5

Empower Lab

MONEY & FINANCIAL FOUNDATIONS

EMPOWER 40K · GGFG

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MONEY & FINANCIAL FOUNDATIONS

Understanding the money behind a business

Before You Begin

You can have a great idea.

You can find a real problem.

You can understand your customer.

You can even build something people want.

But if you do not understand the money behind your business, it can become difficult to keep it alive.

Many businesses do not fail because the owner had no good idea.

Sometimes they fail because the owner did not understand their costs, priced their product incorrectly, spent too much, mixed personal and business money, or ran out of cash.

This is why understanding money is not only for accountants.

Every entrepreneur needs to understand the basic numbers of their business.

You do not need to be a financial expert to begin.

You need to understand where your money comes from, where it goes, what you keep, and what you need to continue operating.

In this module, we will explore the financial foundations every entrepreneur should understand.

Learning Outcomes

By the end of this module, you should be able to:

1. Explain the difference between revenue, costs, and profit.
2. Understand the importance of cash flow in a business.
3. Identify the main costs involved in running a business.
4. Explain how pricing affects a business.
5. Create a simple budget for a business idea.
6. Understand why personal and business money should be separated.
7. Identify different ways an entrepreneur can fund a business.
8. Explain what investors look for before investing in a business.
9. Make more informed financial decisions as an entrepreneur.

Where Does the Money Come From?

Let's start with the simplest question:

How does a business make money?

A business makes money by providing something people are willing to pay for.

You might sell a product.

You might provide a service.

You might charge a subscription.

You might receive a commission.

There are many different business models.

But whatever the model, you need to understand how money enters your business.

The money a business receives from selling its products or services is called **revenue**.

For example, imagine you sell handmade bags.

You sell 10 bags for $20 each.

Your revenue is:

10 × $20 = $200

That $200 is your revenue.

But it is not your profit.

That distinction is extremely important.

Revenue Is Not Profit

One of the first financial lessons every entrepreneur should learn is:

Revenue is not profit.

Imagine your business makes $1,000 in sales this month.

That sounds good.

But suppose you spent:

- $400 on materials
- $150 on transportation
- $100 on packaging
- $50 on marketing

Your total costs are $700.

Your profit is:

$1,000 – $700 = $300

So:

Revenue = $1,000

Costs = $700

Profit = $300

Remember:

Revenue tells you what came in.

Costs tell you what went out.

Profit tells you what is left after your costs.

Understanding Your Costs

Every business has costs.

Some costs change depending on how much you sell.

Others may stay relatively similar even when your sales change.

For example, if you make food to sell, your ingredients may increase as you produce more.

Other costs, such as rent, may remain the same each month.

You do not need to memorize complicated accounting terms at this stage.

Start by asking:

What does it cost me to operate this business?

Think about:

- Materials
- Equipment
- Transportation
- Packaging

- Rent
- Internet
- Staff
- Marketing
- Technology
- Licenses
- Utilities

Some costs will be obvious.

Others may be easy to forget.

Small costs can become large when they happen repeatedly.

Cash Flow

Here is another important idea:

A profitable business can still run out of cash.

This may seem confusing.

Imagine a business sells $10,000 worth of products.

The customers are supposed to pay in 60 days.

But the business needs $5,000 today to pay suppliers and workers.

On paper, the business has made sales.

But the money has not arrived yet.

The business can have revenue and even expect a profit while still struggling to pay its bills.

This is why entrepreneurs need to understand **cash flow**.

Cash flow is the movement of money into and out of a business.

Ask:

How much cash is coming in?

How much cash is going out?

When is it coming in?

When does it need to go out?

Cash flow helps you understand whether your business can meet its financial responsibilities when they are due.

A simple rule:

Profit matters.

Cash matters too.

Pricing Your Product or Service

Pricing is not simply choosing a number that sounds good.

Your price needs to make sense for both your customer and your business.

Suppose it costs you $8 to produce something.

If you sell it for $8, you are not making a profit.

If you sell it for $9, your profit may be too small to cover your other business costs.

If you sell it for $50, customers may decide the price is too high.

So you need to think about several things:

What does it cost to provide this?

What are customers willing to pay?

What are similar businesses charging?

What value does the customer receive?

Can this price help the business survive and grow?

Pricing is a balance between **value, cost, customer expectations, and sustainability.**

Your Simple Business Budget

A budget is simply a plan for how you expect to use your money.

Before starting a business, list what you think you will need.

For example:

Expense	Estimated Cost
Materials	$200
Equipment	$150

Transportation	$75
Marketing	$50
Packaging	$25
Other	$50
Total	**$550**

Your numbers will be different.

The important thing is to know what you expect to spend before the money starts leaving your hands.

Ask yourself:

What do I need immediately?

What can wait?

What can I do without?

What can I start with instead of buying?

A good entrepreneur does not simply ask:

“How much money do I have?”

They also ask:

“What is the smartest way to use it?”

Keep Your Money Separate

One of the simplest habits that can protect a small business is separating personal money from business money.

Imagine you make $500 from your business.

You use $100 to buy materials.

Then you use $200 to pay a personal bill.

Later, you spend $50 on food.

At the end of the month, you may not know how much your business actually made.

This makes it difficult to understand whether the business is healthy.

Even if you are starting very small, create a clear system for tracking business money.

You should be able to answer:

How much did the business make?

How much did the business spend?

How much money is available?

How much belongs to the business?

The sooner you develop this habit, the easier financial management becomes.

Where Can a Business Get Money?

Not every entrepreneur starts with a large amount of capital.

There are different ways to fund a business.

You might use:

Your own savings

Money you personally put into the business.

Revenue

Money generated from your first customers that you reinvest into the business.

Family or friends

People who believe in you and are willing to provide financial support.

Loans

Money borrowed that must usually be repaid, often with interest.

Grants

Funding provided by organizations for specific purposes that may not need to be repaid.

Investors

People or organizations that provide money because they believe the business has potential and expect something in return.

Each option has advantages and responsibilities.

The right choice depends on your business, your situation, and what you are trying to build.

Should You Look for Investors?

Investors can be helpful.

But you do not need an investor simply because you have a business idea.

An investor is usually looking for more than:

“I have a great idea.”

They want to understand:

What problem are you solving?

Who is the customer?

How big is the opportunity?

How does the business make money?

What evidence do you have that people want it?

What makes your business different?

How will their money help the business grow?

What could they potentially receive in return?

This is why the work you have been doing in Modules 1–4 matters.

Understanding your customer.

Testing your idea.

Finding an opportunity.

Creating value.

All of these things can make a business more credible when you eventually approach investors.

Remember:

Investors are not simply funding ideas.

They are investing in businesses, people, opportunities, and potential returns.

How Do You Get Investors?

Getting an investor usually begins long before you ask someone for money.

Start by building something worth investing in.

Test your idea.

Talk to customers.

Make your first sales if possible.

Track your numbers.

Learn what works.

Build evidence.

Then, when you approach potential investors, you can show them more than a dream.

You can show them what you have learned.

You may eventually create a **pitch deck** that explains:

- The problem
- The opportunity
- Your solution
- Your customer
- Your business model
- Your progress
- Your financials
- How much funding you need
- What the funding will be used for

But remember:

You do not need to wait for an investor to begin.

Sometimes the best way to become investable is to start small and prove that people want what you are building.

Start Small

There is nothing wrong with starting small.

In fact, starting small can be an advantage.

You can learn without risking everything.

You can test your pricing.

You can find your first customers.

You can make mistakes while the stakes are still manageable.

You can reinvest your early revenue.

Then, as you learn and grow, you can decide whether you need additional funding.

Your first goal does not have to be:

“How do I raise $100,000?”

It might be:

“How do I make my first $100?”

Then:

“How do I make my first $1,000?”

Then:

“How do I build a business that can consistently generate revenue?”

Growth can happen one step at a time.

Your Business Numbers

Think about the business idea you have been developing.

Write down your estimates.

What will you sell?

What will you charge?

How many customers do you expect to serve?

What will your estimated revenue be?

What will your main costs be?

What do you estimate your profit could be?

What money would you need to start?

How could you fund the beginning?

These are estimates.

You are not expected to know the exact answers yet.

The goal is to start thinking about your business in numbers.

Empower Lab Challenge

BUILD A SIMPLE FINANCIAL PLAN

Take your business idea and create a simple one-month financial plan.

Write down:

Expected Revenue

How much money do you expect to receive?

Expected Costs

How much money do you expect to spend?

Expected Profit

What might be left after your costs?

Cash Needed

How much money do you need available to keep the business operating?

Then ask yourself:

“If my sales are lower than expected, can my business survive?”

If the answer is no, think about what you could change.

Could you reduce your costs?

Could you start smaller?

Could you change your price?

Could you find another way to generate revenue?

Could you delay some expenses?

This is what financial thinking looks like.

Reflection

Think about what you have learned.

- ☐ **What financial concept was new to you?**
- ☐ **What cost did you not think about before?**
- ☐ **How could you better manage money in your business?**
- ☐ **Would you need outside funding to start? Why or why not?**
- ☐ **If you wanted an investor, what evidence would you need to show them?**

A Thought to Carry With You

Money is not the purpose of entrepreneurship.

But understanding money is part of building a sustainable business.

Know what comes in.

Know what goes out.

Know what you keep.

Know what you need.

Do not spend money simply because you have it.

Do not chase investors simply because you think successful entrepreneurs have them.

Build something people value.

Understand your numbers.

Start where you can.

And when the time comes to seek funding, let your evidence speak alongside your vision.

A strong entrepreneur does not just dream about the numbers. They learn to understand them.