SAFA Entrepreneurial Lesson

Financially sustainability

What does it mean to be financially sustainable?

Being financially sustainable is a simple concept, but can be complex if you dive deep into all the little parts that determine your company's financial sustainability.

Essentially, financial stability boils down to your company's ability to generate enough profits to not only surpass the amount you pay on expenses, but also to make enough money to be worth your time.

Financial stability is the most important part of a company, and needs to be taken seriously. Afterall, who wants to be an entrepreneur of a company that causes you to lose money, or barely make any money to even be worth it?

Aspects of financial sustainability

Being financially sustainable, also requires you to be financially stable. Financial sustainability is what forces some companies to go out of business, but if you are financially sustainable your company can grow significantly. This is what makes or breaks your business.

Financial stability have two main parts, which branch off into significantly more parts as you dive into this concept. The two parts are your expenses and your profit. The first part is your yearly income generated from profits, and the second part is any kind of yearly expenses. These combined form your yearly net income.

The formula for this goes as follows:

(Yearly income) - (Yearly Expense) = Yearly Net Income

Yearly income

As an entrepreneur, this is what you worked so hard to get! Yearly income is how much money you generate from selling your product. Everything we have talked about before was a lead up to increasing your yearly income.

Having a large yearly income is a common characteristic of successful companies. Having a large amount of capital for your company allows you to branch off, develop new products, hire employees, improve advertisement campaigns, manufacturing your own product lineup, and so much more.

A common saying applies well in this scenario: “You need money to make money”

Activity Time

Pretend we have this scenario:

An entrepreneur has lead a company who developed their own product into retail stores and is now taking off! Their yearly income is much larger than other companies in their country, but it is actually losing the entrepreneur money to run.

In your entrepreneur journal, write a quick explanation on how this is possible.

Hint: Think back to the equation for financial sustainability.

Expenses

The answer to the previous question was because the company's yearly expenses exceeded the amount of generated profits they make. Expenses are just as important as profits, even when profits are extremely high!

As an entrepreneur, it is important you manage your expenses, or hire someone to manage the company's expenses such as a CFO. Here are some examples of expenses that company's pay.

1. Tax (This can't be avoided)
2. Manufacturing (This is the price that you pay to buy your product from the manufacturer)
3. Wages (As your company grows, you need to hire people to help you)
4. Advertisements (These aren't free! You need to make sure that advertisements will ultimately make more money for you then they will cost)
5. Many, many more expenses. There will always be some kind of expenses when running your company.

Making sure to track your expenses, and do your best to keep them low is a crucial skill for an entrepreneur. This all comes back to organization (Remember this from our previous lesson?)

Not enough for your profits to equal expenses

In some cases, your profits will be very close to your expenses. This means your company is technically financially sustainable as you don't lose any money, but it also means that it is not worth running the business. The point of running a company is to make profits.

Think of it like this: You are running a company and you aren't losing anything but you aren't gaining anything. You are still losing your effort and time in running a company which doesn't have any ROI (remember Return on Investment).