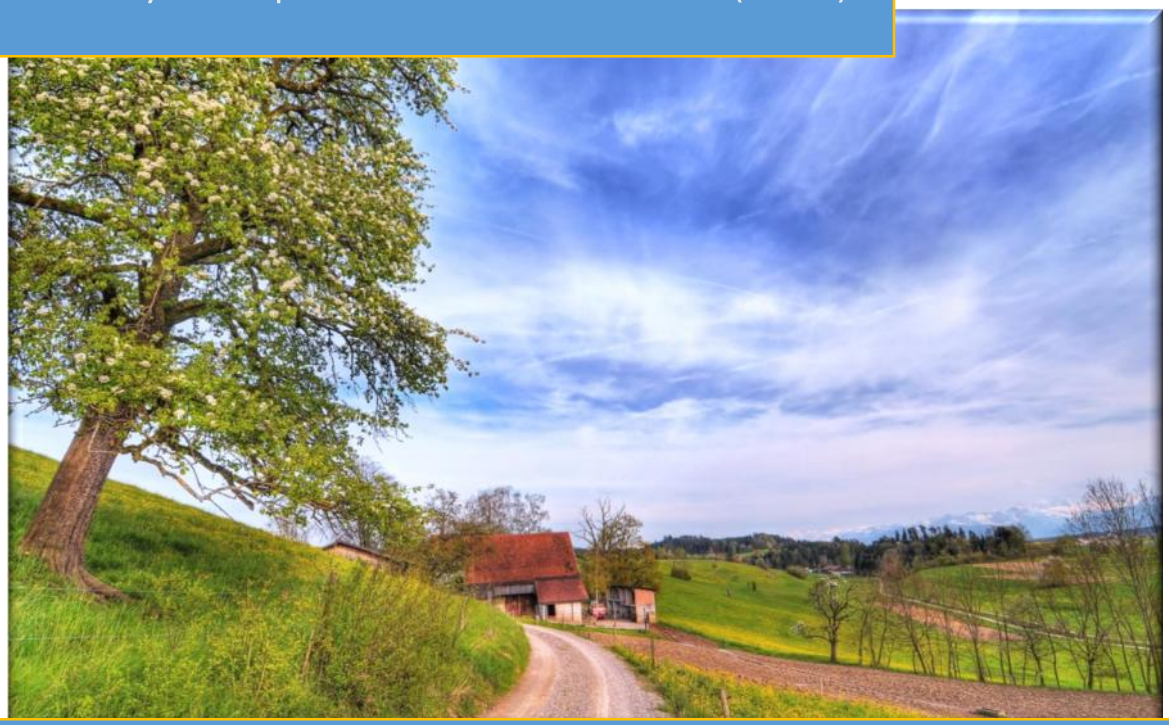
Rural Community Cooperative Facilitator (CCF)



Training Course – Module 6 – Effective Financial Management

http://www.entcom.eu

ENTCOM – Entrepreneurship and Community Cooperatives

Project Number: 2014-1-IT02-KA204-003631

6: Effective Financial Management

Skill Topic Area: Producing and using spreadsheets and accounting software, fundraising skills e.g. crowdfunding - use of social media, creating business plan.

In the recent past a lot of local development projects was financed by local authorities and governement. In the last years, the public authorities, at different levels, but first of all at local level, lost part of they financial resourses and reduced their ability to impress significantly on local development, financing innovative projects.

At the same time, they reduced their ability to provide services of public interest.

We told in the previous modules that a community who become "entrepreneur" and self-organize to offer services to citizens can be an interesting way to solve the problem.

In an "**entrepreneurial community**", people who participate and the entire citizenship may be the beneficiaries of the services, and so they can solve problems, find an answer to their social needs, actively participate to the development of their rural or remote area.

To become and "entrepreneurial community" means, first of all, to be able **to manage the enterprise and to ensure sustainability in a long time**.

As all the enterprises, cooperatives, to survive and grow, have **to be able to source capital**.

When a group is in the startup phase of a new enterprise project, they should take care of **building the necessary financial management capacity in cooperatives** so that they can be effective and **sustainable recipients of financial resources, and they can operate for a long, long time for their members and community advantages.**

This means that knowledge and expertise about and effective financial management and income-generation strategies are absolutely necessary. In order to succed, you should pay attention to management and aeconomic and financial aspects.

In a cooperative enterprise, members are owners and governance, they take strategic decisions.
To build the capacity of cooperative members (that often coincide with workers) to understand financial management at the same time means to improve governance competences, and ensure better self-management decisions.

So, we can say that **every cooperative has improve and maintain the capacity to educate its worker-owners about financial management and income generation.**

This is even more critical if you are in a startup phase of your entrepreneurial project, and if you, as a group of promoters, have the "responsability" for the entire community and not also for yourselves as members, and this happens in the case of a community cooperative.

In this module, you can find sub-modules.

Each of these contains text, pictures, videos, tools and reading material to study in depth. Sub-modules are:

1. Working on the business model
2. The business plan
3. Financial management
4. A new way for financing: crowdfunding

1: Working on the business model

The business model is the set of organizational and strategic solutions through which an enterprise acquires a competitive advantage. In other words, it is the way in which the company organizes itself and its offer to create the maximum of possible value. The business model describes the logic with which an organization is able to create, han out and catch the value (cit. A. Osterwalder).

When a company create value for its customers?

- When it helps them to carry a task that is important for them;
- when it solve a problem for them

The success or failure of a business depends on the ability to create this value.

In our case, the "customers" of a community cooperative are citizens, that are often members, and their interest is to create value for themselves and their community, answering to their needs.

The first activity to be carried out to create a start up is to determine precisely what to do, how it must be done, and for what precise customers the company wants to create value.

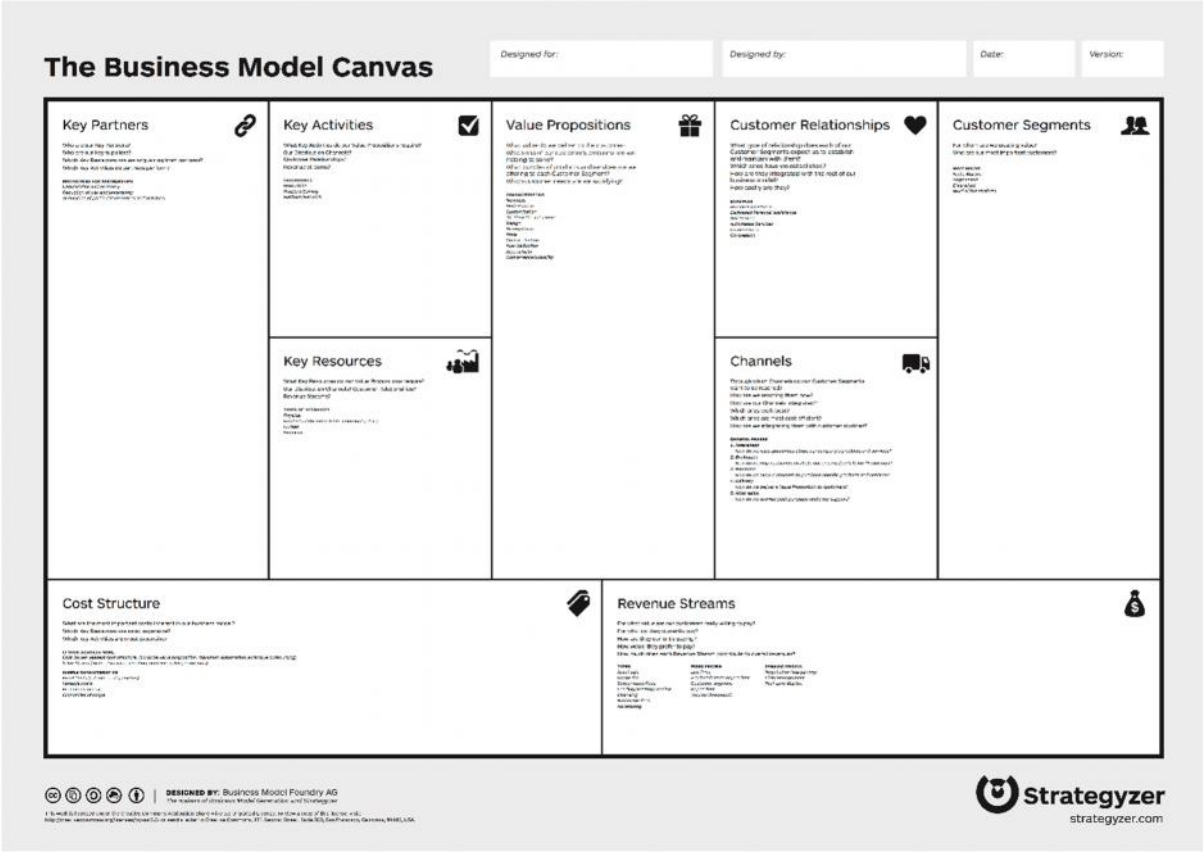
To set up the company business plan before discussing on the business model is often a mistake, because the business plan indicates what, how long and how much money is necessary to develop the business model, that is the real first step.

As regards a cooperative, in designing a business model is therefore essential to use a people-oriented approach, paying attention to solutions that offer the most value to people (or members, and community) perspectives. Maintain a standard of high quality and practice at the same time a final price accessible is, for example, one of the best ways to enhance the perceived value. Or creating a service that was no accessible to the largest part of people, in rural or remote areas because of logistic aspects or costs.

A simple tool to design business model is the business model canvas. It is based on the idea that a business model can be raprensented on a "canvas", as it is represented in the pictures, and it can be described through nine basic building blocks that show the logic of how a company intends to make money.

The blocks cover the main areas of a business:

- customers
- offer
- infrastructure
- financial viability



The canvas is represented like this: (Picture 1 – Business Model Canvas)

You can start reading it to the block **value proposition**, trough which the organization solves customer problems and satisfy customer needs. **Customers** can be divided into segments, and the value proposition should take into consideration the different segments.

Products and services are delivered to customers through communication, distribution, and sales channels. **Customer relationships** are established and maintained with each segment.

Revenue streams result from value propositions successfully offered to customers.

To offer and deliver the value, **key resourses** are required, and it is necessary to perform certain **key activities**. Some of them are outsourced and some are acquired outside the enterprise, and it rapresent a cost.

The **cost structure** is the summary of all the costs that are necessary to product the value.

Watch the video:

- ✓ **Getting From Business Idea to Business Model**

  https://www.youtube.com/watch?v=wwShFsSFb-Y

- The block of **Customer** Segments defines the different groups of people or organizations that the enterprise aims to reach. Even thought the social aims and interest for community, as other kinds of enterprise, without profitable customers, no cooperative can survive for long. An enterprise can group his customers into distinct segments with common needs, common interest and behaviors, etc. Members and management can decide to serve segments, and to ignore others. We can note as an effective customer needs analysis is strategic.
- The block of **Value Propositions** decribes all the product and/or services that create value for customers, as they choose you company instead of others, and as they look for you. The value solves a solves a customer problem or satisfies a customer need. It can be possible that customers cannot find the same product or service by un other provider. In this case, the value would be innovative for that area. In other cases the value offered can be similar to others, but with added features and attributes.
- The block of **channels** describes how the organization reaches its customers segment and communicates to deliver the value. It is the company's interface with customers. Channels are customer touch points that play an important role in the customer experience. Channels serve several functions, including:
  - Raising awareness among customers about services
  - Allowing customers to ask for specific products and services
  - Helping customers evaluate anche choose what is better for them
  - Delivering a value proposition to customers
  - Providing customer support
- The block of **Customer Relationships** decribes the relationships an enterprise decise to establish with different customers segments. Relationships can be useful for acquiring or retening customers, and are important to obtain a good quality customer experience.
- The block of **Key partnerships** represents the network of suppliers and partners that make the business model work. Alliances can enforce the project, because it can optimize the offering and improve quality, reduce risk, or acquire resources.
- The **Key resourses** describes the most important resourse to make the model work. Resources can be physical, financial, intellectual, or human.
- The **Key activities** describes the most important activities to make the model work, and to create the value proposition. They are actions, depending on business model type, using key resources.

Then, there are, below the “canvas”, the two blocks about economic and financial aspects:

- The block of **Revenue Streams:** the cash a company generates Earnings are obtained sbtracting costs from revenues. From each customer segment, there will be one or more revenue streams.
- The block of **Cost Structure** describes all costs incurred to operate. Creating and delivering value, maintaining relationships, and generating revenue all incur costs. After defining Key Resources, Key Activities, and Key Partnerships, you can calculate the costs. You can ask yourselves: what are the most important costs in your business model?

To optimize the business model, costs should be minimized. The business model can be:

- ***cost-driven***, when aims to create and mantain low cost for customers, trying to minimizing costs wherever possible;
- ***value-driven***, when the focus is on value, and costs can be higher than others, if the value is higher.

Cost Structures is constituted by:

- **Fixed costs** - that remain the same despite the volume of goods or services produced (i.e. human resourses work, facilities)
- **Variable costs** – that change when change the quantity of products or servises.

Watch the videos:

✓ **Business Model Canvas**

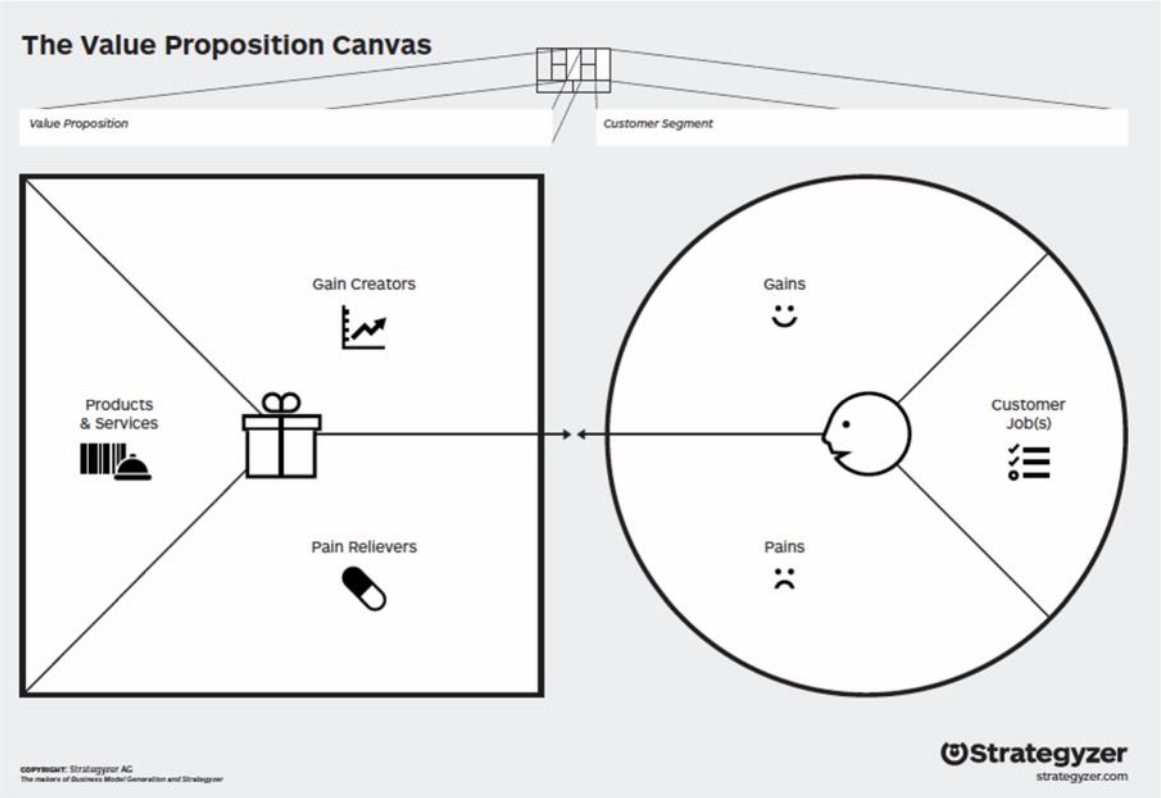
https://www.youtube.com/watch?v=QoAOzMTLP5s

✓ **Visualizing your Business Model**

https://www.youtube.com/watch?v=wlKP-BaC0jA

You can download here the tool and the instructions:
http://www.businessmodelgeneration.com/downloads/business_model_canvas_poster.pdf

The **Value Proposition Canvas** is an other tool by A. Osterwalder, very useful to explore the value that the new cooperative is going to create, and how this value (products and services) can be "**gain creators**" or "**pain relievers**".



Picture 2 – Value Proposition Canvas)

Watch the video:

- ✓ **Value Proposition Canvas Explained:**

  https://www.youtube.com/watch?v=aN36EcTE54Q

You can download here the tool and the instructions:
http://www.businessmodelgeneration.com/downloads/value_proposition_canvas.pdf

2: The Business Plan

The business plan is a document to support the decision to start a new "enterprise". So, it is used for the start-up of new companies, or to develop existing entrepreneurial project (developing a new product, innovating a service, etc.)

It is used to evaluate the strengths and weaknesses of an entrepreneurial project.

The aim is **to evaluate the profitability of a business project**, and if this is convenient if you compare it to other investment opportunities.

It helps to look at a multi-year perspective and **to reduce the margins of uncertainty** in the business decisions of investments. If the new enterprise is trying to accede to public or private grants, it is an indispensable proof of sustainability of your project, to obtain (public or private) investors' money.

The structure generally is formed by:

- A descriptive part (description of the idea and of the project);
- Market analysis (description of the market, marketing strategy);
- Technical feasibility;
- Economical and financial data;
- Possible Risks.

Let's concentrate on economical and financial feasibility.

In the business plan, this part covers the areas of investment and balance sheet analysis, with information on profit and loss, a financial plan and cash flow.

It is useful to determine if the project is able to achieve the fundamental balances of:

- Durability Sheet: the balance between sources and uses;
- Financial solvency: the company's ability to meet at any time to cash outflows;
- Economic profitability: the ability to generate incomes at a rate that allows to repay investments in a convenient way.

Watch the video:

- ✓ **How to write a Business Plan**

  https://www.youtube.com/watch?v=PDWvcsTloJo

There are a lot of possible template for your business plan. Start with a basic sheet. You can adapt it to your needs, using new sheets. On financial feasibility, read the following sub-module too and try the tool.

3: Financial Management

Financial management is the asset of decisions and actions with the aim of looking for capital and using it. The **capital** is defined as the money required for start-up and running costs of the cooperative or another company. This function of financial management is important for the ordinary management and it is linked to the research of financial resources available and to the plan of investments.

An **effective financial management** is constituted by **a strategic component** (long term plan of investments and the opportunity to cover them), **an operational component**, for guidance to management and decisions in a short and long term.

The **balance** depend on the cycle of reward and costs, and it produce consequences on capital needs and cash flow.

The **cash flow** can be defined as the funds available to run the cooperative, in its ordinary and daily activities. It is the actual money available to meet the operational needs of a co-operative on a daily basis.

(Picture 3 – Financial management purpose)

Costs and rewards that the company anticipates or postpone cause a difference between the economic point of view and the financial one.

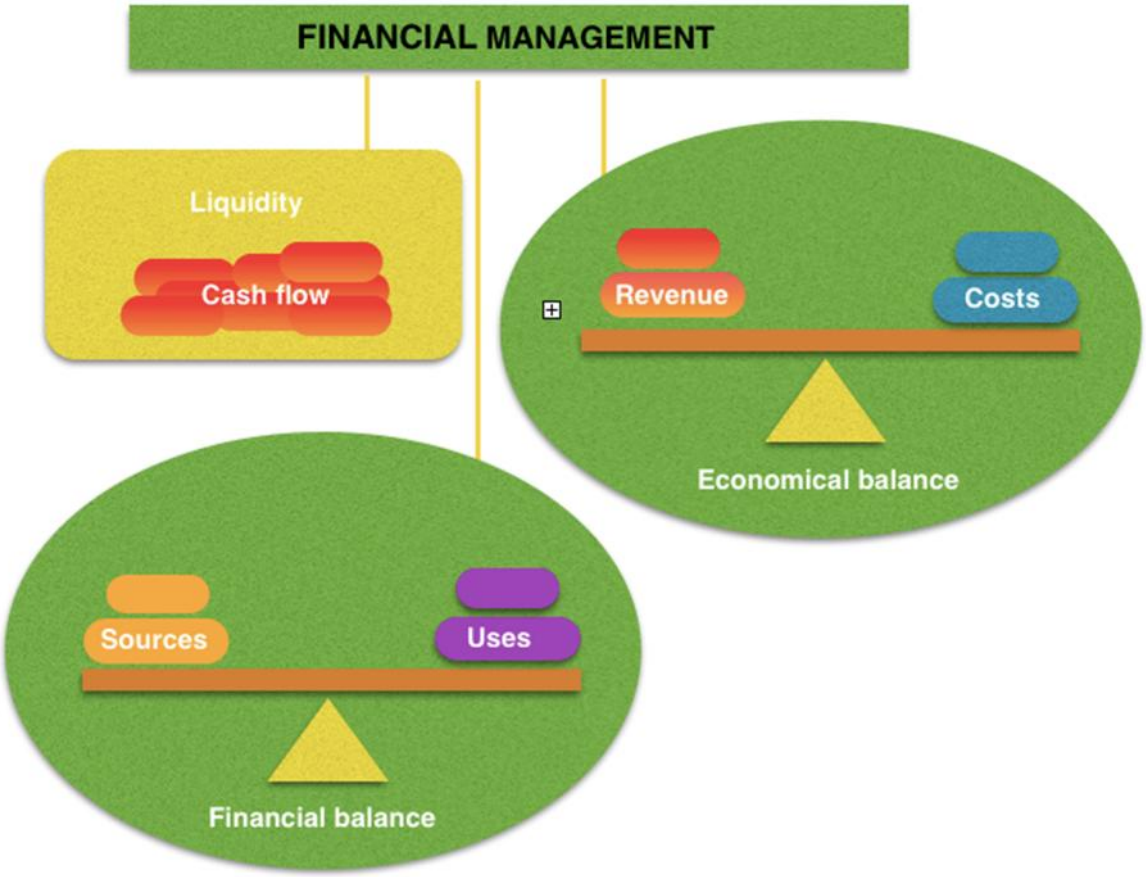
The relation between economical and financial aspects depends, for example, on time of the payments of suppliers, and time of payments of customers.

This is the monetary cycle of the enterprise.

If the company has a strong power of influence on the market, probably it will be easier to contract convenient conditions of payment. It is more difficult for company that are beginning their entrepreneurial projects.

A company should make a financial planning and an operational acting in financial management, and

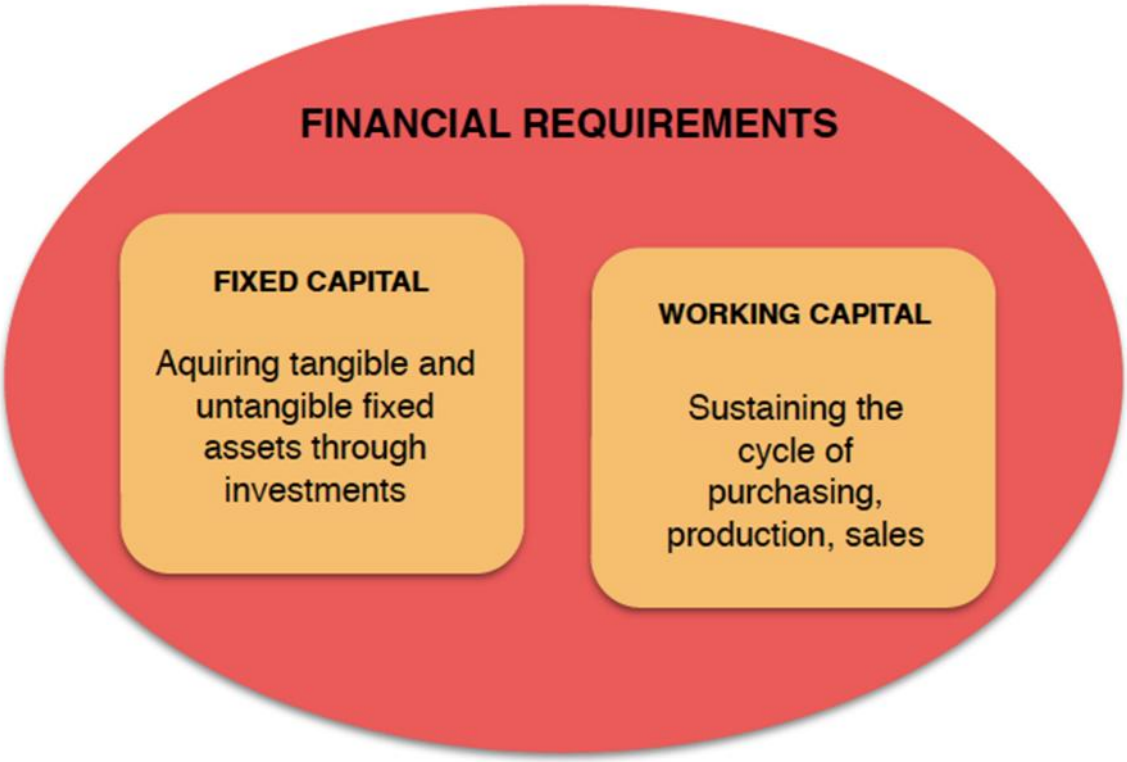
generally it is made by a Financial Direction.



(Picture 4 – Aspects of financial management)

The company needs capital to finance ordinary processes and management and also for investments. If the company is in a start-up phase, the need is related to the engagement in the creation of a new structure and the start-up costs (buying the equipment, paying consultancies, etc.

Generally, the need of capital is related to the need of major fixed assets to run operative processes (production, selling, administration, customer care, etc.). When the company grows, the need of fixed capital grows.



(Picture 5 – Financial requirements)

One of the most important financial decision a cooperative and, generally, a company should make is the asset investment decision.

The management should pay attention on what assets should the cooperative own, acquire or dispose of, to best support its business model and strategy.

For companies that have been over-invested in assets, especially in fixed assets, can be necessary to adapt the situation to the new requirement, to improve the risk management.

The estimated financial requirements (Current assets - current liabilities) must be derived from a study of financial movements, considering the economic effects of management. It should be used **the flow analysis of working capital and cash flow analysis** in order to preserve both the solvency (**financial stability**) of the company that its liquidity (**cash balance**).

An effective financial management aims to control needs and requirements and to look for solutions.

In financial management, it is necessary to work for a financial structure that is:

- **homogeneous**, When the company is choosing the funding sources, they should try to use capital comparable to those kind of needs to be covered. For example, if our company, operating in food and beverage, is buying a kitchen equipment they intended to use for 5-8 years, it would be better to use a financial resource to refund in a long period. Often enterprise do not use this criteria, because it is easier to obtain short term loans, even though their high costs.
- **flexible**, This characteristic let the financial structure able to modify and change itself as the

needs and requirements are changing (as regards amount and kind of resources). For example, a company can decide to improve the loans in order to reach a good economic advantage in the following months.

- **elastic**: a financial structure is elastic if it is possible to use a great variety of solutions (from the point of view of quantity and quality), and to choose the resources, optimizing it. If a cooperative has a good own capital, there will be better opportunities to access to other sources of funding (i.e. bank).
- **economic**, the access to capital, for a company, has not to be too expensive. Generally the possibility to choose between different kind of sources and capitals, is too expensive. An effective financial management has to consider the sustainability of the access to capital and financial resources. Asset must have an expected return on assets before interest and taxes.

The management has to reduce the expenses of the financial structure and the financial risk (the risk that the financial sources cannot be enough to pay the loans, or that they are not available when they occur).

A company should maintain a strong balance sheet that achieves the desirable liquidity, solvency and capital structure characteristics. It is necessary to pay attention to the risk that should be expected as possible and to the sustainability of the business and income generation.

HINTS & TIPS

Without an effective financial management, a cooperative would fail: there will be cash flow problems, inability to pay accounts and increasing of debts, loss of assets and resources.

Members of a cooperative must receive, during the annual general assembly, the financial statement of the cooperative. This is generally formed by:

- **profit and lost statement** and a report on it (information on the total sales, the surplus or the loss made);
- **cash flow statement** and a report on it (how much money the cooperative has);
- **bank statement** and a report on it.

In a start-up cooperative, which are the first steps?

- Moving from the business model of the cooperative, **identify activities for which the company receives money**. In this case, obviously, it and has to record these operations. At the same time, identify areas where it has to pay and these require recording too.
- **Clarify internal role and responsibilities about financial management**, i.e. the financial director, the financial committee. The board generally makes all the finance-related decisions in the cooperative, and needs all the information. Roles and internal financial policies must be communicated to the entire cooperative.

Financial information, and all the transactions need to be stored and reported. When payments are made to suppliers, invoices are received and cheques issued, the receipts and invoices have to be filed away. Similarly, when payment is made to the cooperative for goods or services, it is necessary to keep a cash register.

Generally, **a cooperative can take money from**:

- Sales of good and services;
- Member shares;
- Banks;
- Surplus that is reinvested in the cooperative.

A cooperative spends money for:

- Paying salaries;
- Purchasing raw material;
- Paying taxes;
- Buying fixed assets;
- Paying interests for loans;
- Other expenses to manage the activities;
- Education, training, benefits for members

There are a lot of software available to support the financial management. Start with a basic sheet.

4: A new way for financing: crowdfunding

Generally, who wants to fund a project or a business idea, asks to banks.

But often **the traditional channels of finance are not so inclusive**, and a lot of people (first of all young people, unemployed, or people without references), cannot realize their entrepreneurial idea asking money to the banks.

Crowdfunding represent a new and alternative way to finance project asking to people who are interested to support it. Generally, who is using crowdfunding uses **an open internet platform**. A project can succeed on a crowdfunding platform when the entrepreneur is **able to activate interest**, **to create and maintain a community** of interest. People who are financing want to see that their money goes to a good and value based entrepreneurial project, and that they can have a return (a product, simply the information of what will happen).

Generally using a web platform is possible to receive fund for a project by raising **many small amounts of money from a large number of people**.

Crowdfunding platforms are generally sustained by a percentage on funded projects, to cover management costs.

There are different kind of crowdfunding:

- **Donation-based crowdfunding**: people give money in the form of "donation", so there is no tangible and financial return to the people who are funding, even though there can be a symbolic reward.
- **Reward-based crowdfunding**: people fund the project giving money in exchange for a "reward", as the product or the service they are funding, when it will be developed.
- **Equity-based crowdfunding**: the return for funders are shares to the company they are funding.

An other interesting form for cooperatives and startups is **crowdsourcing**, for providing not money but skills, opinions, work to carry out the business idea or the project.

How can you use crowdfunding?

The entrepreneurs or startuppers applyes to the platform, illustrating their business idea. Some platform are generalist, others take care of specific secters of activities ad specific topics (i.e. music, arts, social, innovation and technology, etc.). Some of them as specific criteria to select the ideas, others publish everithing and let community decide what they want to finance. Generally the applicant has to identify a funding goal and a period of time in wich he aspects to reach it.

The project has a maximum of days to raise the funds. There are two different campaign:

- in "**all-or-nothing funding**" if a project does not reach its goal until the fixed deadline, the campaign is closed without money. In this case no money will be transfered from donneurs to entrepreneur;
- in "**keep it all**" model, the project can take the funds collected, even thoug it has not reached the goal.

It would be very difficult to fund a project if you do not use your personal and work relations, if you do not activate your referring community. The community provided by the crowdfunding platform you are using, probably would not be enough. Generally, in their own community, people can find someone who know their project and want to improve their ideas. So, social networks are a powerful instrument to access potential funders with a direct contact.

How can you make a successful crowdfunding campaign?

- Study your audience, stimulate emotional engagement and reach people interests;
- Use video, pictures and other materials with a strog emotional power to communicate your project;
- Learn from your and other's faults, and try to study what has not run well;
- Give clear information to the funders, about how do you use the money, what are your aims;
- Give different rewards asking different amounts, to interest different target of people and stimulate the audience;
- Create a positive releationship with funders, meking them participate, emotionally, to the success of your project;

Now, test your knowledge answering to the issues proposed about the following situational scenario.

You are in a group of people who is going to establish a cooperative to provide social service in a small community where there are no public service. To start your project, you need a car, to visit people in need condition and to accompany old or sick people to the supermarket, the post office, etc. The cooperative would be able to manage a public space in the small village, producing local food.

You are working on a crowdfunding campaign, and you are looking for a web crowdfunding platform that can be useful for your needs. Worldwide there are over 450 crowdfunding platforms.

Issue question: How can you start a successful campaign and chose the better platform, involving people?

Choose the best option a) or b):

a) The best platform is the one that is able to create a local community of interest, because it will be able to engage local people, to give tangible examples of what members are going to do with that money (for the common development too). People should be informed, should feel involved, and practically see the effect of their money.

[This is the best way to reach people. If you are able to create a community, probably you can convince them to invest money]

b) The best platform is an international platform, more popular than local ones, used by people all over the world.

[Probably you have to wonder…Why people all over the world can be interested? Or it would be easier to stimulate the interest of local people, with practical and direct interests in their local community?]

Further reading

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Links to relevant websites

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http://www.businessmodelgeneration.com/canvas/vpc
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