company shortcuts

financial top tips

1. Be conscious – even paranoid – about cash flow.

Fast growth is a common killer of companies. Business owners often celebrate the winning of new orders far too early, without knowing the impact that the purchase of raw or stock product to sell has in advance of profitable delivery. The cash-flow bind created by late stock coming in, slow launch planning and delayed approvals in a development process are always excuses, but the fact is that a finance function who are on top of the big-impact decisions must help control sales growth during these exciting times. Doomsayers about trading risks can be the saviours of a company.

Seasonality, new product launches, things like Chinese New Year: all sorts of external factors affect the availability of cash. Finance has to hold a buffer in the event of tougher times and slower sales. You can guarantee that when things are tight something will always go wrong, just to add insult to injury. Knowing where the cash is remains imperative and you must depend on being served this basic information more regularly than is usually required so that you can make quality strategic decisions.

2. Ensure your finance team understands your business and the intentions of the major shareholder.

When push comes to shove, the main shareholder ultimately makes the decision on the direction of the company driven by personal expectations. These may be varied – depending on intentions and needs – but, from family-owned companies to privately owned and everything in between, you must have an understood end-goal expectation.

3. Make sure that your finance team helps to drive the business forward.

Too many finance functions report colourlessly on standard sets of accounting documentation, without any significant or useful highlighting of trend patterns and changes in the business which could be significant for decision making and planning. Our Financial Controller was exceptional at helping me appreciate the core performance figures and he continually added value by using his skills to gain better banking terms, better costs from distribution and improved efficiencies in managing our money, and in minimising currency loss through unnecessary exchange losses.

One of the monthly reports I liked the most was one that presented actual versus budget, simply laid out and perfectly highlighted for odd variances. This was accompanied by a conversation to talk through the month-on-month trend against target and overall performance against the previous year.

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4. Scenario consideration of big growth impact.

When any of our sales people were bidding for a considerable piece of business in the later five years of our growth, our Financial Controller would construct a specific deal-related spreadsheet analysis of the cash-flow impact likely from the launch of the new contract, with all the nightmares of stock build and launch delays considered. Of course, such crystal ball gazing is only an estimate, but there are usually precedents in most industries to give trend guides. These analyses allowed us to be relatively accurate with our forecast expectations and allowed me to fix pricing according to likely product performance. The power of being able to demonstrate the profitability of a mixed group of product sales against actual costs kept us secure when bidding aggressively or inventively for major global contracts. A financial department must be included in any deals effecting growth potential – I would suggest those of perhaps 6 per cent or more of turnover.

Although our basic costing programmes were not traditionally run within the accounting function (as is the way in big corporates), I kept the basic costing of products within the sales group. This was in order to enable flexibility and intelligence around sales bids driven by the sales team within certain permissible margin-controlled barriers to entry. I suspect this methodology, with clear control features, enabled fast growth at high margin as sales were paid on profit, never on turnover vanity. Irrespective of this, finance kept a keen eye on the margin performance of each of the product ranges, a measure that was an important in setting expectations for bigger-deal evaluation.

5. Outgrowing your bank.

You will outgrow your relationship with your local bank, and you must always be well ahead of the game when you know you need support funding for future growth potential. Always ask for cash reserves at the time when you need it least. Those who are too distant, uncommunicative and who do not keep their funders aware of performance – monthly – deserve all they do not get. You will also buy better (borrow at lower rates) when the funding is prepared in advance of difficult times.

One point about your relationship with funders as a whole is to always have a back-up plan, again in advance of needing it. As with every other supplier, shop around to get the best bargain. Never settle for the first offer or for any single bank proposition; they should be made to work hard for your business just like every other supplier!