



Five Keys to Successful Financial Management for Growing Businesses

Introduction

Dynamic, fast-growing organizations must develop financial management solutions that can quickly adapt to their changing business needs while helping them reduce costs, make smarter decisions, and continuously innovate. Financial success for a business consists of maintaining a strong cash position, building a healthy balance sheet and sustaining profits. However, these things don't just happen. They come as a result of practicing financial discipline.

Making the best use of your finances should be a key element in business planning and assessing new opportunities. With limited resources, you may need to pass up promising opportunities if pursuing them would mean starving your core business of essential funding.

This paper provides an overview of Five Keys to Successful Financial Management for growing businesses.

1. Monitoring Key Financial Management Ratios

In and of themselves the raw numbers on your balance sheet, income statement and cash flow statement have limited value. Of far more value are ratios that can be extracted from these documents. The secret to effective financial management lies in knowing which ratios to track and what they tell you about the state of your business.

Too many companies look at gross sales and revenues and nothing else. If sales look good, they figure everything else must be in order. In reality, you can have healthy sales growth and still be headed for financial disaster. The only way to know that is to pay attention to the ratios that tell you what's really going on in the business.

The balance sheet gives the most accurate measure of a company's overall health. Unlike the profit and loss (income) statement, which is a historical view that never changes, the balance sheet is a living document that changes on a daily

basis. The three most important balance sheet ratios are:

- Current ratio (Current assets/current liabilities)
- Quick ratio ((Cash + receivables)/current liabilities)
- Debt-to-equity ratio (Net worth/total liabilities)

The current and quick ratios measure the company's ability to survive a short-term financial crisis. The debt-to-equity ratio measures the company's ability to survive over the long-term. Sales and revenues can continue to climb while these three measures show a decline. While this is a scenario that happens all the time in fast-growth companies, it indicates a real problem that needs to be addressed.

For more details on financial ratios, read Five Crucial Types of Financial Metrics and Ratios for Growing Businesses for an explanation of how financial metrics are used to determine the financial health of a company.

2. Other Key Indicators To Monitor

While it is critically important to monitor a core set of financial key indicators, there are a number of "non-financial" indicators that can have a significant impact on your company's financial performance.

For instance, from a marketing and sales perspective it is important to understand the characteristics of your market, your customers and your sales.

Customers

- Customer satisfaction
- Number of customers
- Number of new customers
- Ratio of new to existing customers
- Average sales per customer

Market

- Percentage market share
- How you are performing in different segments of the market (i.e; product line, customer segments, geographies)
- New product growth (percentage)

Sales

- Average sales dollars per transaction
- Where your sales come from (lead gen, referrals, discounting, etc.)
- Average sales /sales rep

3. Managing Cash Flow

We've all heard the saying "Cash is King" and for small and medium size businesses who are growing this is definitely the case. Cash flow is of vital importance to the health of a business. To keep tabs on your cash flow:

- Review the cash flow statement at least once a month. If cash flow is a problem for your company, you should review this information daily.
- Look at your receipts and disbursements on a daily basis.

- Know how much cash you have in hand and how long it would last if the money suddenly stopped coming in.
- Know how much working capital you will need for the next one, three and five years.

4. Forecasting

A small to medium size business must constantly adjust to a changing market. In order to do so, it needs to take a forward-looking approach when it comes to allocating financial resources. Relying on data that only shows past performance only gives you half the story.

The importance of forecasting can't be ignored in estimating the financial requirements of a business. No business can survive without adequate capital and sound forecasting is a key to making sure capital is available to meet needs. Forecasting helps determine future trends in sales performance, finances and customer behavior. At a minimum, forecasts should be updated on a quarterly basis, but some companies forecast on a monthly basis. It's important for business planning and ultimately business success.

While forecasting is not rocket science, it will take you some time to get your predictions right. What is important is to get your figures as accurate as possible. When you are working on your forecast you will need to have the right information at hand. Below are some ideas of the type of information you will require.

- List all your fixed costs (rent, phone, salaries, internet, hardware, software etc.)
- List all variable costs (raw materials, wages as

opposed to salaries, fuel etc.)

- Historical sales data from the last two to three years.
- External factors:
 - » New contracts/negotiations
 - » Terminating contracts
 - » Staff changes
 - » Industry trends and predictions for your market segment
 - » Competitor activity
 - » Political changes that may affect existing or new contracts

Due to uncertainty, some companies tend to shy away from longer-term planning in favor of shorter-term goals. Unfortunately, a failure to strategically plan at least 3-5 years into the future





can end up backfiring. Businesses must learn to balance the need for a more reactive, short-term focus with the need for informed, longer-term strategies.

5. The Right Tools

Efficient information analysis, reporting, and budgeting are critical to business success. Having the right tools to conduct and optimize business is a key to responsiveness, growth, and profitability. Making the right choices can propel your business to new levels.

ERP financial management software can replace slow and cumbersome manual processes and integrate with familiar applications such as Excel. This leads to faster access to critical information and drives efficient operations, intuitive business decisions, and potential for profitable growth. You should make sure your systems allow you to:

- **Monitor Performance** – The right software enables you to track activities and projects. You can drill down as needed as well as gain a big picture view of organizational performance.
- **Analyze Data** – Robust analytic tools are needed to gain insight on changes in direction whether positive or negative.
- **Plan for the Future** – Finally, monitoring and analysis lead to smart planning. The right software helps you compare budgets, forecasts, and plans to actual performance and make appropriate adjustments.

Conclusion

In today's market, it's tough to turn a profit even when you do things right. While there will always be financial challenges, it pays to stay in front of them with disciplined financial management.

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