

# FinancialDirector

## In Your Business Series: The growth stage

In the second of a series of articles looking at companies from every phase from start-up to exit/sale Gary Jesson looks at the growth stage

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**THE UK** may be officially out of the longest double-dip recession since the end of World War II, however times remain hard for many businesses. Costs and cash need careful managing while business confidence remains low. For growing businesses, opportunities still exist. However, caution is the watchword.

The harsh economic climate has had a profound effect on the revenue streams that fuel the small business sector. Pressures on cashflow, staff costs and evolving legislation now force SMEs to critically assess how to fulfil their business objectives without compromising the bottom line and bank balance. Hence a continuing challenge for SMEs trying to grow is to adapt to the economic climate by developing practices that enable them to reduce costs, **improve efficiency**, and still deliver good service through motivated employees.

Areas to watch out for and control as you grow include:

### **Business reorganisation**

Strategy, structures, roles, and functions should constantly be realigned with new objectives as a business evolves otherwise control is lost and employees end up working at cross-purposes. The planning phase of business **growth** should be thorough as the most common cause of business failure at this stage is growing too fast and running out

of cash, even if profitable. This arises because liabilities have to be paid before customers pay their debts.

Re-assess existing business plans and make changes to focus on profit-making areas and cash control areas. Review employment models for **efficiency** as there are now many alternative routes such as outsourcing, which can allow people to complete key tasks at a fraction of employment costs without having to spend a significant amount of time on non core tasks.

Interestingly, according to a survey conducted by the e-FM network earlier this year, permanent employees in financial management roles are spending about 55% of their working time on core responsibilities (the actual job they were employed to do). Is your employment model counterproductive, with staff paid not to work efficiently or in areas not relevant to their employment?

Monitor your financial performance daily, weekly and monthly, based on the nature of your business. Establish a set of **key performance indicators** against which to measure progress which may include cash, supplier liabilities, expenses and bank balance.

Successful growth is completely dependent upon flexibility aimed at transitioning to more efficient terms and practices in all areas of the business.

### **External funders and alternatives**

Cash remains king, especially in a growing business and many SMEs resort to the use of bank overdraft and loans but is this always the best option? Companies should aim to focus on generating as much cash as possible internally to remain in control - the key is ensuring customers pay very quickly. In our ['Start-up' article](#), we mentioned the key funding sources of private equity/venture capital funding as well as the non traditional alternatives such as 'peer to peer' lending, crowd funding and business angels. Invoice **finance** and factoring, if properly managed, can also be an extremely efficient way to help fund a growing business.

### **Financial and management reporting systems**

Accounting information plays a significant role in managing small organisations and is closely associated with performance. Unfortunately, a large number of SMEs perform financial reporting activities only to satisfy taxation/regulatory legislation. For growth and opportunity decisions, up-to-date and relevant business data and financial reporting will be required to evaluate the success of past decisions and analyse the current situation. This is a prerequisite to building a successful operation founded on fact and figures that are relevant and specific. What is the impact of strategic decisions on profitability? Where is value coming from?

### **Budgeting and forecasting**

This vital part of business management enables SMEs to 'build, track, and mend' trends. As a business grows, it is important to construct a model of how it might perform in certain situations and the budget serves as the control tool which helps to evaluate this

performance covering cash budgets, profit plans, and balance sheet forecasts. The most important part of budgeting of course is the comparison stage with actual results, which facilitates the analysis and correction of variances.

### **Performance analysis**

SMEs need to apply a systematic approach to this process in order to identify opportunities to leverage the best return for their business. Understanding the elements of profitability, liquidity and risk but keeping a close eye on cashflow is the key to growing a successful business. In terms of risks, what are the worst case scenarios? Invest in getting systems and data right and aim to outperform the market especially in these difficult times. Seek external help if you need to.

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