

The Seven Pillars - Finance

Finance is possibly the most interesting and complex of all the business pillars. The reason for this is that finance plays so many different roles within a business. It's needed to finance the business in start up and expansion phases, it's needed to fund day to day operations. It is the measure of success, and when successful, it is used to reward the owners and shareholders.

I'll be the first to say that I'm not going to give you all the answers to financing a business and managing cashflow in one page. What I can do is share with you a few observations on the subject that I have gathered over the years.

Working through the life cycle of a business, the first hurdle for most would be business owners is finding the start up capital. My experience is that most entrepreneurs underestimate the capital requirements and overestimate the willingness of financiers to fund their dreams and plans. The next trap for young players is the optimistic nature of the cash flow projections.

Sometimes, would be business owners believe they can make up for a lack of start-up capital and initial working capital by taking a DIY approach. While this may be okay to a point, if overplayed, it rarely ends well. I've never really understood why someone can think that without any training or experience they can act as an expert business planner, graphic artist, lawyer, builder and many other things.

The key measurement of business success is almost always bottom-line profit. Make sure you have an effective way of measuring this. The figures that are prepared by your accountant to calculate your tax liability are rarely of any use as management information. Make sure you have a sound financial reporting structure in your business.

As businesses grow and start to generate a real profit, business owners must decide on how these surplus funds are used. They can be set aside as a reserve for future growth and times of cash flow constraint or they can be distributed to owners. I'm sure I don't need to spend much time talking about the "for and against" for each of these options other than to share a recollection of a client from a few years ago. The company had three owners working in the business and between them they were taking out about 110% of the profits. And they wondered why they weren't able to grow the business!

More than one of my clients have taken the long game when it comes to receiving a financial reward from their business efforts. These are the ones that leave as much as they can in the business. They reinvest in good advice, pay their staff as well as they can, and hold cash reserved to reinvest in business expansion. I believe that not enough of my clients give sufficient thought on succession planning. That is, how they will exit the business and realise the value that they have created. I have written earlier on about creating and realising value in business. You may like to look at this article as it might provide some further insights into maximising the value of your business over its' life.

If I could leave you with a final thought on the matter it's this. Do not be overly optimistic about the financial needs and performance of your business. Be kind to your business and give it the capital it needs and if you can, work the long game for realising the value from your business.



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