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## FIVE COMMON SIGNS THAT YOU NEED EXPERT HELP

### Overview

This article is for owners of small and medium sized enterprises (SMEs) who want to grow and improve their profitability.

As your business evolves, the technical expertise and time required to successfully manage the finances will increase beyond your capacity. At some point you will need help and guidance – initially perhaps from an experienced part-time finance director (FD) – but when is the right time?

### Introduction

Bringing in your first finance director is a big decision for any business. Get this wrong and it could be a very costly mistake.

In my experience business owners are far more likely to make an appointment later than they should, rather than too early. They look at the cost to the business rather than focusing on the value that the role brings.

Below I have outlined five common scenarios which are all signals that you need help with financial management and strategy.

## Common problems in SME finance functions

In most small businesses the finance function is the poor relation. Nearly all business owners are experienced in the service side of their business and understand their customers' requirements. Most have good sales and marketing experience too, even if they have only learnt it as they go. But finance and accounting are not usually skills that entrepreneurs bring with them into their business.

Most SMEs employ a bookkeeper to manage the sales invoices and supplier invoices, chase clients for payments, pay suppliers and monitor the bank account. But the entrepreneur still needs to manage the bookkeeper and keep on top of cash flow, ensuring that there is enough money at the end of the month to make the payroll and supplier payments.

Management information is usually very basic. Often, there is just a set of annual accounts produced by the external accountant once a year. Worse still these reports can be more than six months out of date before management get to see them and they are produced in a format designed to comply with tax rules rather than help run a successful business.

Almost all the work done by SME finance staff relates to historical information. No one is looking ahead, forecasting future profits or cash flow and no analysis is being performed on profitability. It's a bit like driving a car while focusing on the rear-view mirror.

The solution is probably a part-time finance director.

## Signs that you need help



### 1. Lack of time

Starting out you expected to work hard; delivering the services that your customers required. You probably also realised that there would be a significant amount of sales and marketing work required to attract these customers. However, you probably did not dream of spending long hours dealing with the financial side of your business. It is often only when this work is consuming too much time that owners bite the bullet and get some outside help.

**If you could free up this time to use elsewhere in your business - where your skill set was a better match - how valuable would that time be?**



## 2. Out of your depth

As your business grows, the finance issues become more complex. In the absence of a professional FD you are likely to be acting as head of finance, making important financial decisions without the years of experience that a professional has attained. It's not your fault. You're trying to fill a round hole with a square peg and this is never going to be a successful long term solution.

**Do you regularly feel out of depth trying to forecast your cash flows, analyse the profitability of different parts of the business, monitor the results and deal with the stakeholders who require answers to financial questions?**



## 3. Poor profit growth

Not every business wants to grow exponentially. Some are happy to return consistent results every year. But if you do want to grow your business and despite all your hard work and effort profit is not growing fast enough, you need to get to the bottom of the problem. And quickly.

Often the issue is increased complexity as a business expands. If you provide just one service using one distribution channel at one price it will be fairly simple to understand the business model. But as companies grow they often extend the range of services, sales channels, distribution channels and even geographies. At the end of the year it's easy to measure the overall profitability, but without some analysis it can be impossible to understand where profits are being made and which activities are making a loss.

**Do you know which areas of your business are making good profits and which are not?**



## 4. Lack of planning

You probably wouldn't go on holiday without knowing where you were going to stay and how you were going to get there. But most small businesses do not spend enough time planning for the future. They may have produced a formal business plan in order to get a bank account or loan at some point, but according to the University of Kent only about 5% of SMEs are managing their businesses using a plan.

Initially when the business is relatively simple this may not be a problem. As it becomes more complex though, planning becomes more important to ensure that progress is made towards the desired goals, or to give an early warning that things are going wrong so that corrections can be made. A relatively simple plan can make a big difference.

Often when I talk to small business owners they know that the lack of a plan is holding them back, but they just don't have the in-house skills and experience to produce a coherent plan to use as a benchmark. Do you need a plan?



### 5. No sounding board

Managing a small business is usually a lonely occupation. Until it grows to a significant size there is not going to be a layer of senior management who can help share your problems. The MD is normally surrounded by employees who are not experienced in managing businesses and have a very different (employee) mindset. Larger businesses are managed by boards of directors where skills and perspectives are deliberately blended so that ideas can be bounced around and sense checked.

Would a second opinion from an experienced professional improve your business decision making?



## Numbers

There is no red line to cross in terms of turnover, or team size which indicates that a finance director is required. Some complex businesses will benefit when turnover is below £500,000, whereas others with less complex business models will not need an FD until turnover goes well into the £millions.

However, for many businesses the tipping point comes when turnover gets to around £1,000,000 or team size goes above ten. A good finance director can make sufficient difference to a business of this size to ensure that you get good value for money.

## Conclusion

If you recognise one or more of these signs in your business, consider engaging a part-time finance director. Initially this could be just one day per month, or even just a 90 minute phone call from a virtual FD. Every successful business that I know has benefitted from having a finance director. If you want to build a better business it's a just a question of when you engage one, not if.

### About me – **Andy Cristin**

**Andy Cristin** is the founder of Pareto Financial Direction Limited and designed The CASH Method <sup>TM</sup> to help business owners understand their numbers and build better businesses.

He is the author of the bestselling book The Profit Mindset: Know your numbers, plan ahead, grow your business, which was shortlisted for the Business Book Awards 2020 and co-authored Pivot & Grow: The essential guide to business success, which was also a bestseller

As co-founder and finance director, Andy started and exited two professional service businesses arranging trade sales with a listed French company. He now focusses on helping other business owners to improve their profitability and build more valuable businesses.





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