Practical Financial Management for Growing Businesses

Introduction

Most business owners didn't start a business because they wanted to spend their time looking at spreadsheets, financial statements, and forecasts.

They started because they had an idea they believed in.

As a business grows, understanding the financials of the business becomes increasingly important. Decisions around pricing, recruiting, investing, taxation and growth can all have a significant impact on success.

This guide is for both new and established business owners and covers some of the key financial areas that help businesses remain profitable, manage cash effectively, and plan for the future.

Cash Management

Profit is Important. Cash is Essential.

Profitable businesses can still run out of cash.

This can happen for a number of reasons, including customers taking too long to pay, and stock levels being too high.

Understanding how cash moves through your business helps identify potential pressures before they become problems.

Businesses may find cash tied up in:

- Debtors (Customers)
- Credit terms being too generous or not controlled.
- Stock and Work in Progress
  Holding too much stock or not invoicing services promptly after delivery.
- Creditors (Suppliers)
  Not having credit accounts with key suppliers or not utilising the full payment terms (when needed).

Note: It's important to pay your suppliers on time, and when this is not possible, it's always best to speak to them about it – this can help prevent a temporary issue from becoming a permanent problem.

Improving Cash Flow

Small improvements can often make a significant difference:

- Invoice promptly
- Monitor debtors and chase overdue accounts
- Review stock levels regularly

Don't Forget Seasonality

Many businesses experience seasonal highs and lows. Understanding when cash is at its lowest can help you plan ahead and avoid unnecessary pressure.

Pricing

When Did You Last Review Your Prices?

For many business owners, putting prices up can feel uncomfortable. There is often a concern that customers may be lost.

At the same time, business costs continue to rise – purchases, staff wages, overheads, etc.

If your prices stay the same, your profit margins will fall.

It's Okay to Charge a Fair Price

Not all customers choose a supplier based on price alone.

They also value your service, quality, reliability, experience, and reputation.

Review your prices regularly, and ensure that you are getting a fair price for your goods or services.

Don't Forget About Costs

Pricing is only one side of the equation.

It's also worth regularly reviewing supplier costs, software subscriptions and other overheads to make sure those prices remain fair and represent good value for money.

Growing Your Business

Most business owners want their business to grow. More customers, more work and increased profits are all positive signs.

Growth often requires investment before the rewards are seen. Taking on staff, buying equipment or increasing stock levels can all create additional costs long before the extra income starts coming in.

Working Capital

Working capital is the available money a business needs for day-to-day operations – a growing company needs more of it.

Before pursuing growth, it's worth considering how it will be funded. This could be through retained profits, bank borrowing, asset finance or other funding options. The right approach will vary depending on individual circumstances.

Planning for Growth

Before committing to a growth project, it's worth taking the time to prepare some financial forecasts. Understanding the profitability of the project and the cash needed to support it can help avoid nasty surprises later on.

Forecasting isn't about getting every number exactly right. It's about understanding the financial impact of decisions, identifying potential risks, and making sure the business has the resources it needs to support its plans.

Payroll

Taking on Staff

For many business owners, there comes a point where there simply aren't enough hours in the day. Taking on staff can help lighten the workload, improve your service offering, and create capacity for growth.

Employing people brings additional responsibilities, as you'll need to ensure staff are paid correctly, deductions for taxes and pension contributions are correct, and payroll submissions are made on time.

It's also worth remembering that an employee costs more than just their salary. Employer's National Insurance and pension contributions add to the cost, and training and other associated costs can quickly add up.

Other considerations

As well as ensuring payroll and pension obligations are met, employers will normally need appropriate insurance cover and written employment particulars, and should

consider suitable workplace policies and a staff handbook. Taking advice from a Human Resources professional can ensure the business is well prepared, and provide a solid foundation for future growth.

Before Taking on Your First Employee

- Understand the full financial cost.
- Plan for processing payroll and making submissions on time.
- Prepare for auto-enrolment pension obligations.
- Ensure you are compliant with employment laws and regulations.
- Prepare employment contracts and company policy documents.

Software & Management Information

Make Your Numbers Work for You

Most businesses now use accounting software to record income and expenditure, manage invoices and meet their compliance obligations.

The real benefit of using software comes from the information that software can provide about your financial performance.

Having access to timely and accurate information can help business owners understand how the business is performing and identify small issues before they become big problems.

Keep It Simple

Management information does not need to be complicated.

Investing time to design reports that directly answer your questions will keep the information relevant.

A simple monthly report showing the key numbers and trends is often more valuable than endless pages of less relevant information.

Taxation

Understanding Your Tax Obligations

Every business has tax obligations. The taxes that apply will vary from business to business, but may include:

- Corporation Tax
- VAT
- PAYE and National Insurance
- Income Tax

Understanding what taxes apply to your business, when they are due, and how they are calculated can help with budgeting and cash flow management.

Set Money Aside

A healthy bank balance does not always mean surplus cash is available to spend or withdraw. Some of those funds may be needed for future tax payments.

Taxes on profits are usually paid many months after the financial year end, and often businesses fail to budget adequately for future tax liabilities.

Is Your Business Structure Still Right?

As businesses grow and change, it may be worth reviewing whether the current business structure remains appropriate.

Sole traders, partnerships and limited companies all have different tax, legal and administrative implications. Whilst tax is an important consideration, it should not be the only factor when deciding your best legal structure.

Exit Planning

Thinking About the Future

Most business owners spend time thinking about how to start and grow a business, but fewer spend time considering how they will eventually step away from it.

This may be many years away, but the decisions made today can have an impact on the options available in the future.

Exit Routes

There are several ways a business owner may choose to exit a business, including:

- Selling the business
- Passing it on to family members
- A management buyout
- Employee Ownership Trusts
- Winding the business down

The most appropriate option will be different for each business.

Preparing for Exit

Regardless of the exit route, preparing for an exit is important and sometimes takes many years. Areas to focus on include:

- Accurate financial records and clear audit trail
- Reliable systems and processes
- Business resilience (reduced reliance on one customer, product or service)
- Management structure (limited reliance on one individual)

Further Information

Running a business can be challenging and there is often no single right answer. The information in this guide is intended to provide a starting point and highlight some of the areas business owners may wish to consider as their business develops.

Williams Denton

Williams Denton has been supporting businesses across North Wales for over 100 years. We provide a wide range of accountancy, tax, payroll, and business advisory services to businesses of all sizes.

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For further guidance, factsheets and business resources, visit https://www.williamsdenton.co.uk/

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