Abbott Moore

Our knowledge, your language

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Going for growth and success

For a business to grow successfully, it needs to know where it is now - and where it's capable of going in the future. And that means not just having the right financial information, but getting it to work for you.

Accurate financial information is critical to make the informed decisions necessary for your business to grow. Do you expand into new markets? Take on more staff? Invest in new equipment, or acquire a competitor? Whatever the question, you will get the best answer by being able to tap into the financial information your business can provide. And presenting that information cogently is also key to persuading others to back you.

In this Briefing, we look at:

- common barriers to success
- getting your business to provide timely and accurate financial information
- sources of finance for business growth.

Common barriers to success

Not every business survives. Recent statistics show that of UK businesses starting up in 2011, fewer than half were still active five years later. And businesses can hit problems for a variety of reasons. Commonly cited are:

- competition from larger businesses
- lack of sales
- cash flow problems
- failing to monitor performance and results
- looking to turnover rather than profit
- taking too much out of the business, such as drawings, salary, bonus, or dividends.

The best strategy to surmount these is to use the financial information your business can provide.

Information from your business

Your business can provide crucial real-time information to help you manage and expand. End of year accounts alone are not enough for management purposes: they are usually prepared six months or so after the year end, and lack the detail to make meaningful comparisons.

Ongoing review

Monitoring the figures on an ongoing basis through the year puts you in charge of what is happening. You can then compare actual and expected performance, actual results and historic results. You can minimise risk and identify opportunities. Should the business need to make changes, you are in a position to make earlier, targeted interventions. If there is a downturn in cash flow, for instance, your response can be the more rapid. As part of your ongoing monitoring, you could include:

- daily or weekly sales – how do they compare with last year and with predicted levels?
- bank balances
- monies owed to the business
- monies owed by the business
- projection showing expected receipts and payments over a short period – say the next month.

What to record

At the very least, you will probably want to monitor business performance on a monthly basis. But it's your decision how up to date you need your financial information to be. Do you want your cash position and cash flow forecast updated on a daily basis? Or a weekly basis?

Detailed analysis will also help. Tailoring analysis to your individual business can help you identify opportunities for improvement. Do you want to go deeper than just looking at overall profitability, to product by product profitability? Would analysing your sales data and margins, benchmarking these against your competitors' prices, help you see where changes in pricing could increase profitability? Do you want information on customer payment patterns to identify which customers may be potential bad debts?

Business plan

Your management information can be used to put together an annual business plan. This is something many businesses think of in terms of raising finance (see below). In fact, quite apart from its role in demonstrating viability to a potential funder, a business plan provides an invaluable management tool.

A forecast profit and loss account will help you quantify all potential costs. A common business mistake is to set sales prices based only on the direct costs of a product, forgetting to factor in business overheads, such as rent as rates. The profit and loss account forecast in your business plan can then help you set sales prices at a viable level, reflecting what you need to survive and expand.

Cash flow

The trick to managing cash flow is to start with the real time financial management data from your business. With that data you can make better decisions about what your business should be doing. Cash flow forecasts work alongside budgeting and planning, helping you know what your business can afford.

Has the business enough working capital to meet day to day cash flow requirements? You can improve day to day cash flow by making sure the business is not carrying too much stock, particularly old or slow-moving stock. Do you need more disciplined credit control procedures to chase up overdue debts? Should you be making credit checks on new customers before offering credit facilities? What will you do if sales are 5% lower than projected? If a key customer fails or a supplier increases prices? Managing cash flow means you can anticipate the future cash position more confidently, putting additional finance in place if needed.

Turnover vs profits

It's a common mistake to focus on sales growth, concentrating on turnover - rather than profit. And it's also all too easy to be over optimistic about projected turnover. A business plan can provide you with solid facts for turnover figures, as well as helping you control costs and increase profits.

Sources of finance

Getting the right finance for your business can be difficult. Recent statistics suggest more than 10% of entrepreneurs across Europe give up because of financing problems. In the search for finance, your business plan and financial management information will play a key role, helping convince a third party that it's worth investing in your business.

Sources of finance are varied. Traditional sources include:

- bank loans and overdrafts
- recourse to savings and friends
- issue of shares
- venture capital.

There are specific methods of finance available to acquire assets or release cash from debtors. Each has its own advantages and disadvantages, including implications for tax purposes. Options include:

- leasing or hire purchase of assets
- debt factoring
- invoice discounting.

Debt factoring is a method of raising finance against invoices which customers have not yet paid. Typically, a business receives up to 85% of invoice value immediately, with the balance, less costs, when the customer pays. Factoring usually involves an invoice financier managing your business's sales ledger, and your customers will be aware of this.

Invoice discounting is another means of using unpaid invoices to raise finance. Here the financier doesn't manage your sales ledger and collect your debts: instead they lend you money against your unpaid invoices.

Alternative sources of finance

Where a bank is unable to provide funds, a business can appeal against the decision. It also has a right of referral, within 30 days, to a government designated platform, which will try to match it with a lender.

The British Business Bank, which is government owned, but independently managed, is a good source of information on small business finance generally **www.british-business-bank.co.uk**.

There are a growing number of alternative sources of finance. Private individuals known as 'business angels', for example, now put some £1.5 billion into UK business activities each year, making them the UK's largest source of investment for start ups and early-stage businesses. Business angels often have a successful background in business, and may also be able to provide relevant expertise or mentoring. Their investment can vary, individuals typically investing between £10,000 and £50,000. Angel syndicates can provide investment at significantly higher levels than this. Further information can be found at **www.ukbaa.org.uk/**.

Alternative sources of finance include:

- crowdfunding, such as reward crowdfunding and equity crowdfunding
- peer to peer lending (P2P).

Crowdfunding is typically equity finance, whereas P2P is normally debt financing. Using internet platforms to match borrowers and lenders, P2P business lending is an alternative to a bank loan. Funding Circle is an example of a P2P platform focusing on the provision of debt finance to small and medium sized businesses. It has provided finance to over 56,000 small businesses to date. The benefits of these newer sources can be their flexibility and ability to respond to applications rapidly. On the down-side, interest rates on P2P lending can be higher than in the traditional banking sector. Any funding comes with its own risks, and we would be happy to advise further in any of these areas.

The tax factor

The importance of tax should never be overlooked. Having a business plan puts you in a much better position for any forward planning – and that includes arranging your affairs to take optimum advantage of the tax reliefs available to your business. This in turn will have a positive effect on cash flow.

Tax to benefit your business

Research and Development (R&D) tax reliefs will benefit certain businesses. They exist to support companies working at the innovative edges of science and technology. Different types of R&D relief are available depending on the size of company involved, and other factors. Please do contact us for further details.

Tax to attract investment

There are three key government schemes designed to help relatively new companies expand by providing external investors with generous tax relief. These are the Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCTs). In all cases, not just the company, but the investor and proposed investment must meet scheme criteria, and it is important that careful attention is paid to the relevant detail. We would be delighted to advise or assist with any aspect of an application.

The maximum which can be raised via SEIS is £150,000. For EIS and VCTs, the limit is £12 million. With EIS and VCTs, higher limits may apply where a company is involved in research, development or innovation, and it meets certain other conditions. A company can qualify for SEIS if it is less than two years old. To qualify in the case of EIS and VCTs, it must usually be less than seven years since the company first started trading commercially.

How we can help

When dealing with the day to day running of an expanding business, harvesting and analysing financial data can get pushed down the priority rankings. But good financial management is critical to your business success.

We can provide financial management services, producing regular management accounts on your behalf. Alternatively, we can help you set up your own management systems. We would be happy to advise further on any aspect of managing, growing or financing your business. Please do not hesitate to contact us.