

Know your numbers to grow your business

Why you need meaningful
management information



Do you know what you need to know?

How well would you say you really understand the numbers in your business? Most SME owners have a reasonable idea of how their business is performing at a generic level from one month to the next, but they often don't have any deeper insight into what's working well – and what isn't.

It's only when their eyes are opened to the power of meaningful management information that they realise the extent to which those key reports can make life so much easier...

Because being data-led enables you to use your numbers to save money – and make *more* money.

Essential information that makes life easier

In this guide, we'll explain how getting to grips with your finances and forecasts enables you to make decisions that give you even better outcomes – for positive impacts on both your personal and your business life.

Having essential management information to hand makes everything so much easier when it comes to running your business. Because with the right numbers in front of you, you can clearly see the bigger picture – and *that* tells you where you need to dig into the detail.

A friendly finance expert will help you understand why you need so much more than simply an end-of-year performance report, how knowing your numbers can help you get better results and more profit from what you already have – and how to unlock the level of support that *your* business needs.

One thing's for sure: to properly understand how the business is *really* performing, you need to look beyond what the bank balance is telling you each month.



Start by looking at the data...

If you're like many other SME business owners, you probably feel 'frustrated', at best, about the level of financial intelligence you can access about your business. It's probably one of those jobs you want to get around to but it too often sits on the "too hard" shelf. If that's the case, then you're not alone in needing the help of an expert to sort this for you.

Using the figures you currently have to hand, can you see how your business finances are faring – and how the future is shaping up for you and your team?

Do you know whether you need to do more marketing to generate more leads or if your focus should be on streamlining and cutting costs, for example? Do you feel you could make informed decisions about recruitment levels, plans to move to bigger premises, or the launch of a new product? Can you see if there are certain aspects of your business that are letting the side down and need to be tightened up – perhaps with relatively simple tweaks that also enhance profits?

Meaningful management information will give you that information – at a glance.



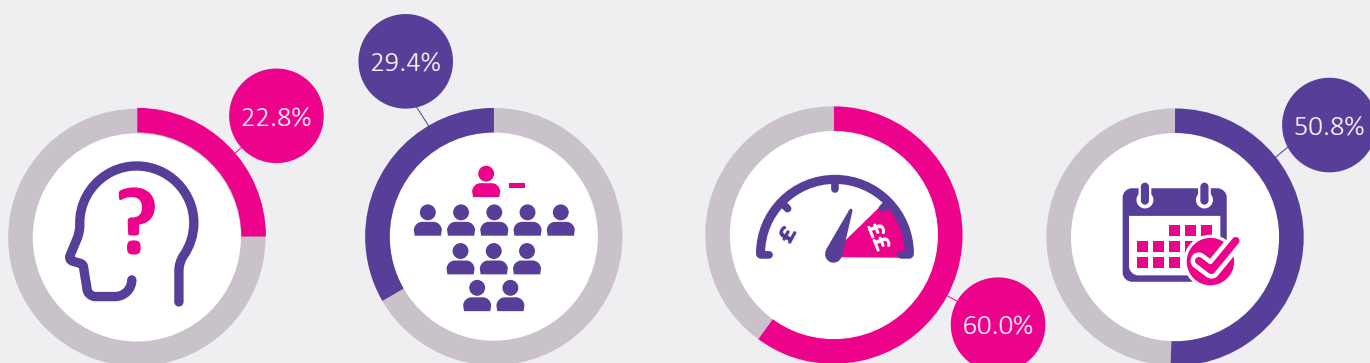
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Uncertainty is a common business concern

Our recent *Riding the Rollercoaster: Insights from SMEs* business survey revealed a very real need for more support to help SME owners better understand what their key numbers are – and how to get regular reports on the status of their business finances.

Let's look at the data

Here's a snapshot of key report findings:

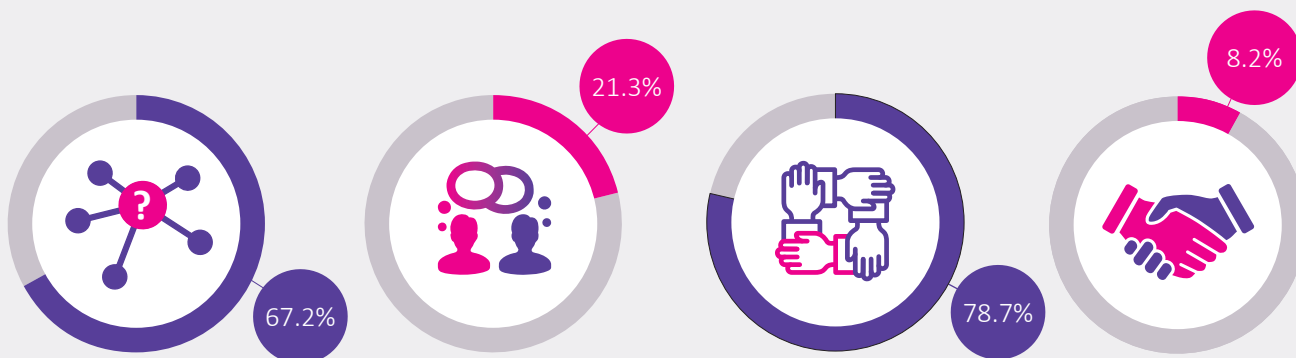


Almost a quarter (22.8%) of SME business owners say they're not sure where they stand at the moment and, as a result, they are uncertain about the future.

This rises to almost a third (29.4%) of smaller businesses with 1-10 employees.

60.0% of owners of businesses with 11-25 employees say that how to manage business risk is one of their most significant financial challenges.

Yet only half (50.8%) of business owners have updated their existing forecasts and are reviewing them on a monthly basis.



More than two-thirds (67.2%) of business owners have failed to put in place any scenario plans – so will be less able to quickly and effectively react to changes in the market.

Over a fifth (21.3%) of respondents felt that they didn't have anyone on hand, who they could ask to talk through their options and plans with them.

Over three-quarters (78.7%) of business owners say they haven't taken advice from a finance professional when preparing for the next 6 months.

Only 8.2% of business owners say they have taken new steps to consult an expert advisor about the numbers in their business.

How do you and your business compare with these reported situations?

The availability of good management information would make a massive difference to most of these business owners...

What is management information and why do you need it?

Management information refers to data relating to business activity over any given period of time, including information about sales, margins, staff, customers and cashflow. You can drill down into as much detail as you need to gain a useful, comprehensive and balanced view of how your specific business is performing, but reports covering these high-level elements are generally considered essential.

Importantly, effective management information is always accurate, relevant, timely and consistent. Regular financial reports will give you the insight you need to analyse trends, helping you forecast the future with a greater degree of confidence and to solve any problems before they occur.

There are three levels of management information you should be looking at – ideally on a weekly basis (maybe even daily when it comes to sales):



Level 1 – The absolute basics

- Profit & loss report – showing current sales costs and profit, often for the month and year to date.
- Balance sheet – showing what assets you own, money owed to you and money you owe others.



Level 2 – Advanced information

- Sales forecast
- Profit & loss forecast
- Cashflow forecast
- Extended profit & loss report – showing how P&L tracks against budget (where it's on track or off track), trends over time (often by month or quarter), and a comparison with the previous year.



Level 3 – In-depth analytics

- Detailed analysis of customer margins and product margins.
- Key Performance Indicators (KPIs) for every area of the business, including productivity, sales conversion, marketing effectiveness and operational efficiency.
- Non-quantitative measures to show qualitative performance.

These three levels of reporting will give you *all the information you need to know* about what's going on where in your business, how the whole machine is working – and whether any changes are good or bad.

Having this information to hand *throughout* each month (not just at the end of your reporting year) enables you to take action when it's needed, rather than months too late.

While most SME business owners will appreciate *why* they need insightful management information, how to get the key reports at their fingertips every week is often a bigger challenge.

Use the numbers to grow your business

Having access to regularly reported management information gives you the crucial added depth you need to make properly informed decisions about your business and the direction it's heading in.

But who will provide the information you should be reviewing?

Producing that information is as much an art as it is a science. You need someone in your business with the right level of finance expertise and commercial experience to take this in their stride. That individual's primary role will be to compile insightful accounts analysis and forecasting reports on a regular basis to provide all-important financial visibility for you.

Having a bookkeeper to take care of your day-to-day accounting is one thing, but they're unlikely to be qualified to help with any kind of forecasting. Likewise, your local accountant is specifically trained to take a backward view of your accounts, rather than to offer forward-looking support. So you may find it's time to reach out to request a little extra support...

The ability to produce detailed analytics and to interpret the various reports – explaining what all the figures mean in an everyday way, so you truly understand what they mean for your business – calls for specialist expertise. This is typically the role of a seasoned financial controller.

How can a financial controller help?

The most successful businesses constantly use their key numbers and data to leverage opportunities to optimise their profits and cash, and spot areas that aren't performing – and most are likely taking full advantage of the added range of capabilities that an expert financial controller brings to the table.

Then there are lots of other businesses. Companies that have great potential to achieve great things – but they're actually just ticking over and recording average figures, rather than fantastic profits. This is often because their owners haven't understood the inherent value in investing in the expertise they really need to meet their growth objectives and realise improved results all round.

A financial controller can quickly get under the skin of your business to give you the answers you're looking for – providing financial insights that maybe you don't even know that you need, in order to make the best possible decisions.

They'll be able to supply you with essential – and *meaningful* reports – covering:



Forecasting & budgeting
– so you can stay informed and keep ahead of the game.



Cashflow management
– so you can explore strategies for funding growth.



Data analysis & trends
– so you can leverage data-driven insights to enable business growth.



Management information & KPIs
– so you can see where your business really stands.

Importantly, they'll also be able to ensure that you get the data that's relevant to your business right now – because management information is dynamic and the figures you need to be looking at will naturally change over time.

Finance function needs at different stages of business growth

Bringing in an experienced financial controller – on a part-time basis, because that's all you'll need – is the ideal solution to the age-old problem SMEs have of balancing people capacity (hours) and people capability (skills) as they grow.

Size really matters when you're an SME. Because incremental growth feels a massive step up – the shift from £1m to £5m turnover always feels 10 times more stressful than growing from £10m to £20m.

The expertise and experience available in your back office needs to shift accordingly, but it rarely does. Businesses will typically boost their sales, operations and marketing functions as they increase in size. But finance is frequently forgotten about – meaning it often isn't fit for purpose as the business grows.

No-one wants to risk “messing with the money bods”! And yet, in our experience, more than 70% of SME businesses have worse cashflow and profitability at £5m turnover than at £1m turnover.

That just isn't sound business sense.



It's a capacity vs capability issue

It's very common for an SME owner to feel 'stuck' and unsupported simply because of the size of their business, and how their finance function has (or hasn't) developed over the years.

It's typical for SME owners to progress from doing the bookkeeping themselves to getting their accountant and/or a self-employed bookkeeper to do it for them. But there comes a time when they need more.

Outgrowing your internal accounting capabilities is a natural occurrence as businesses evolve, so it's nothing to be embarrassed about. But it can hold you back, and even harm you, if you don't get the level of financial support you specifically need at any given time. For this reason, outsourcing is also advised rather than hiring direct – because then the input and expertise can scale and evolve in line with your particular requirements. 'In-sourcing' is even better, because it gives you all the flexibility of outsourcing, but with all the consistency of an in-house team member.

The level of support you actually require will depend on the stage of business growth you currently find yourself in.

Outgrowing your internal accounting capabilities is a natural occurrence as businesses evolve.

Perhaps, like many others in your position, you started out relatively small...

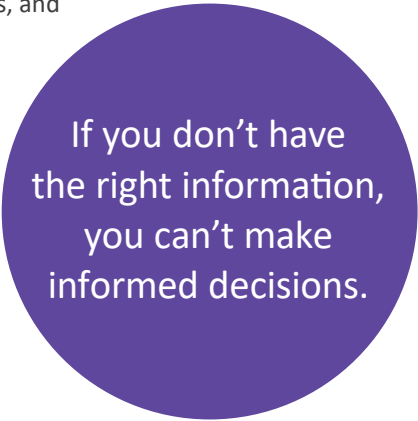
At start-up, all you needed was to engage a local accountant, who advised you on whether forming a partnership or incorporating your business was the best route for you. They'd then be there for you at the end of the year to help you submit your annual accounts and work out your tax liabilities.

Shortly after that, maybe you persuaded your spouse or another family member to help free up a bit of your time by taking care of the accounts for you – it was fairly simple stuff, just time-consuming, and you preferred to focus your efforts on firmly establishing the business. It was a capacity problem.

A few months on, you realised that capability was also becoming more of an issue. Your spouse or other family member was getting frustrated at the time it was taking to 'do the accounts' and was perhaps also starting to feel a bit out of their depth as the business became more established, so you opted to hire a part-time bookkeeper to handle that paperwork for you.

That arrangement worked very well for you for a little while (perhaps you feel it still does). Capacity and capability were both taken care of. The part-time bookkeeper gave you the extra accounting know-how your business needed, without the added cost of having to bring someone in on a full-time basis. While they handled the day-to-day 'ins' and 'outs', your accountant offered to look after payroll as well as checking and submitting your quarterly VAT returns and the end-of-year accounts, and you concentrated on growing the business.

But things started to feel a little uncertain when something didn't quite stack up and your bookkeeper couldn't tell you what or why, and your accountant wasn't really interested. Or perhaps you wanted to invest in some new equipment or staff, and your bookkeeper looked slightly panicked, admitting they weren't qualified to produce the forecasts you needed to make that decision – and you realised your accountant isn't actually trained to help you with that either.



If you don't have the right information, you can't make informed decisions.

Familiar early growth phase issues

At this point, the capability issue raised its ugly head again. It often does, when businesses are in an early growth phase, and the frequency and volume of transactions increases dramatically.

There's suddenly a lot more going on in the finance function that your 'accounting people' need to be fully on top of – and that you need to be keeping an eye on...

If you fail to add the extra required capability at this stage, things can start to slide quite quickly. Rather than being an enabler of your business, an under-performing accounting function will shackle it – and you'll soon start to experience the stress of what that feels like.

It's at precisely that point that the 'frustration' kicks in. You know you need to be making key decisions about your business, but you can't because you don't have the information you need or any real control over what your finances are doing – or even looking like.

Make management information work for you

See how the expert support of an experienced financial controller was able to help three different businesses. Could regular access to similar analytics and management information reports help you and your business too?

Case study 1

Simple support increases sales by 16%

When YRH developed monthly key performance indicators (KPIs) to help this service industry client understand how every function of the business was performing, the top-level sales conversion figure looked like it was on track. But delving underneath the headline numbers, it became clear that one salesperson, in particular, wasn't performing well – converting only 1 client from every 10 sales meetings, when the next best salesperson was converting 4 clients from 10 sales meetings.

Raising the issue with the company directors gave them choices about their options: work with one individual or spend considerably more on adopting a whole team approach. Having decided to focus on just that salesperson, they provided additional training and support – and his conversion rates improved dramatically. That increased total sales across the year by 16%, without any extra money being spent on marketing to fill up the sales funnel, when leads were just leaking out of the bottom.

Case study 2

Appropriate capability cuts finance function cost by 50%

The owners of a complex manufacturing business with a turnover in excess of £5m were frustrated at their lack of management information (particularly visibility over profitability), despite employing a full-time in-house financial controller on a significant salary. When the business sought the strategic, board-level expertise of a part-time financial director, he recommended bringing in a part-time financial controller/management accountant (supplied by YRH) – working 4-8 days a month, in addition to his 1 day per month.

The business had been making the mistake of employing one individual to do everything – they hadn't adapted their finance function as the company grew. The financial controller they had employed didn't have the time and wasn't quite capable of producing the reports they required, but was over-qualified (and overly expensive) for handling everyday transactional tasks.

Now the part-time YRH management accountant keeps the day-to-day accounting on track and maintains systems that allows key numbers to flow through into easily generated and meaningful management information reports. She works closely with the financial director, and the business owners have all the visibility and profitability information they need – for half the previous cost of their finance function.

Case
study
3

Financial controller provides quality planning and clear foresight

The internal accounting system of a manufacturer with multiple product lines, wasn't aligned with the statutory reporting period, meaning the directors were trying to get to grips with double reporting, two sets of numbers – and a great deal of confusion at company level reporting.

This complex business also didn't have any forecasting or visibility over potential investments or product margins – so the owners wanted better reporting and business intelligence. They had a really good in-house person working on day-to-day accounting, but that individual had reached their limit of capability and confidence.

A YRH financial controller worked alongside the existing employee to quickly streamline the accounting process, including how data was being captured – to enable better reporting. By resolving the issue with conflicting reporting and statutory years, the information was simplified, enabling the financial controller to produce a management information pack for the directors. This gave them the data they needed to make confident decisions, including tracking monthly and year-to-date performance against budget, an integrated cashflow forecast and monthly profit projections. It also had reporting on stock management and margin analysis – KPIs around these helped reduce fluctuations and gave a more accurate picture.

On the back of this management information, the business owners changed how they treated transactions and where they were posted on a day-to-day basis – because money has to match the physical movement of stock. They were also able to determine optimum stock levels, freeing up cash.

Management figures are now presented earlier in the month, to allow time for discussion and decision-making, and the business owners feel more in control of costs and cash, with clearer planning ability.



Myths and misconceptions

There are several myths and misconceptions about the finance function needs of SMEs. See how your own beliefs shape up compared with the actual truth of the matter:

Common belief

Bookkeeping is a low-value overhead cost – “it’s just simple admin”.

If you think like this, you’re likely to bring low-value, unskilled people into your business to handle the task. But the work will be inefficient and will ultimately undermine your ambition. Because at a certain point in the growth of a business (often as soon as there are more than 10 customers and 10 suppliers in play), bookkeeping actually needs to incorporate a far more strategic element. The minute you require management information, the whole purpose of the bookkeeping role should shift from basic recording of ‘money in and money out, plus the VAT return’ to carefully considering what data is being captured, where it’s captured and when it’s captured – at what point sales or costs are recorded. In a growing business, at least 50% of the role should be all about effectively supporting the provision of good management information – so a lot of value rides on the capabilities of the bookkeeper you have in the business.

Common belief

I can get insightful management accounts at the click of a button.

No, you can’t. Management accounting is as much art as it is science. Most accounting software simply records cost of sales and sales based on transaction date alone, but that invariably leads to peaks and troughs of profit. A good accounting professional will be making a series of adjustments throughout every month to smooth performance over time, so your management information shows the real impact of cost of sales aligned with when those sales were actually made, for example, rather than in the month before when those sales were billed. And the impact of depreciation will be shown every month, rather than being left until the end of the year for your local accountant to factor in. Producing a good set of management accounts requires human intervention and a specific skill set.

Common belief

Sales, profit & loss and cashflow forecasts are the same thing.

They are absolutely not. Each type of forecast has its own specific purpose in informing you about how your business is performing – and the everyday impacts of the overall direction of travel. The cashflow forecast is a prediction of what’s going to come in and out of the business bank account. So it needs to include an estimate of your VAT liability for the quarter. However, VAT doesn’t appear in the profit forecast, because it doesn’t belong to you – it’s not an income and it’s not cost. It’s the same with employee costs: gross salary payments will appear at the end of one month in the profit & loss forecast, but the associated PAYE, NI and pension contributions will actually go out of the bank account the following month. Ultimately, everything on your profit & loss forecast will convert into

cash – at some point in the future. The cashflow forecast includes all your creditor and debtor liabilities. The sales forecast is simply a prediction of likely billings – without VAT and without taking into consideration when those bills are likely to be paid by customers. So the figures across each forecast never match up, causing huge confusion for many business owners – which is why data interpretation and the presentation of meaningful management information is best left to a finance expert.

Common belief

All accountants are created equal.

This is another key misconception. All ‘accountants’ (that is, all ‘accounting professionals’) – and all accounting disciplines – are not the same. Someone with a bookkeeping qualification will have learned how to ‘balance the books’. Your local accountant is specifically trained to check your financial records and produce the VAT returns and formal year-end accounts that HMRC requires. A finance specialist who has devoted their career to producing insightful management accounts that inform and support optimal decision-making in the corporate world has a very different set of skills and expertise to bring to the table. A financial controller, a finance director and a bookkeeper are all very different beasts, but they all work within ‘accounting’. If you rely on ‘basic bookkeeper plus local accountant’ accounting support when what your business really needs to fulfil its potential is the insights and expertise that a financial controller can provide, it’s like using a carthorse to try and win the Grand National. Their training, their mindset, the energy they bring, the tools they use, the value they deliver are all different. If you want good management information – to see where you make and lose money, and where you can save money and make *more* money – you need a thoroughbred.

Common belief

Hiring a generalist finance person is all my business needs.

Fair enough. And, for a while, that really works. You hire one person, who can ‘do a bit of everything’ for your business as you’re getting established. It saves you money and you probably do get what you need. But there comes a point, as your business starts to grow, when you need *specialist* support – a bit of day-to-day input, a bit of operational expertise, but also a bit of strategic expertise. When you have a generalist doing everything, one of two things will happen. Perhaps you hire a relatively low-salary generalist, who’s a really good bookkeeper and great at following processes, but they’re not so great at identifying when things start to go off track a little – because they don’t have the breadth of experience to be able to stretch into that financial controller space. You’ll also find that forecasting is a bit beyond their skill set. Or you decide to invest in a really good financial controller, who’ll take the more strategic requirements in their stride, but most accounting professionals of this calibre will be bored with the ‘lower value, repetitive’ aspects of the generalist role – which could account for up to 75% of the workload – and you’ll end up overpaying them. It makes far more sense to hire the specialist expertise your business needs for each aspect of the finance function, on a part-time basis.

Common belief

My business needs a full-time finance function.

No, also not true. What your business needs is specialist expertise for specialist requirements – but only when you need that particular type of input. If you need to carry out due diligence for two months before an acquisition, bring someone in to do that for you, for the two-month period you need. If you only do your budgeting once a year, there’s no point paying for an experienced financial controller all year round. Bring that forecasting specialist into your business for a fortnight and then revert to your usual ‘maintenance’ accounting duties. You simply need the right level of capability and the right level of capacity for any specific finance requirement. But business owners quite often confuse capability and capacity issues. Ultimately, what your business needs is the right people, with the right skills, doing the right jobs, the right way, at the right time – and at the right cost level. Very few businesses with a £1m - £5m turnover need a full-time finance function. Different people, part-time, is the way forward – it’s the smart, flexible, scalable solution to providing the support a growing business needs.

Ultimately, what your business needs is the right people, with the right skills, doing the right jobs, the right way, at the right time – and at the right cost level.



Summary

A lack of appropriate management information and loss of control invariably leads to cash constraints and reduced profits. It also inhibits future growth.

Smart business owners keep a watchful eye on their key numbers at all times. Not least because it gives them an early warning system that's built into the way they run their business.

Having essential management information to hand can quickly alert business owners to any potential problems that require deeper investigation – and also enable them to take swift action to seize new opportunities to optimise profits and cashflow.

An investment in your future success

Management information is so much more than basic business performance reports, but acquiring the invaluable insights that will help you run your business better requires investment in the appropriate level of expertise.

You probably only need the support of a financial controller on a part-time basis – and the associated investment is likely to be far less than the value you derive from that decision.

Within a matter of days, a part-time financial controller will be able to help you understand exactly how your business is performing.

Having essential management information at your fingertips will give you all the financial visibility and tools you need to:



| Explore new opportunities. |



| Fix weaknesses and leaks. |



| Optimise growth. |



| Minimise risk. |



| Increase profit. |



| Improve cashflow. |

Ultimately, the right finance professional for your specific business will save you money and make you money – not just handle the paperwork.

About YRH Finance Team

YRH Finance Team works in a flexible, affordable way to professionalise the operational finance function of SMEs, so those businesses can grow faster and be even more successful; more efficient and profitable, with better cashflow and less business risk.

Our commercially-focused, part-time finance teams work with business owners who feel frustrated by the lack of visibility they have around their numbers and their day to day financial processes and who feel the business could be doing better. We know these businesses don't need, and shouldn't have to pay for, a full-time finance manager, so by enabling them to access and implement accounting best practice and by working with the best finance people on a part time basis, we help them unlock the growth potential in their company.

Our reports and guides

YRH Finance Team is dedicated to helping SME business owners achieve their commercial goals. This guide is one of a series of publications offering best practice advice and invaluable insights.

Contact us

If you would like to discuss any aspect of this guide or would like a free and confidential chat with one of our experts to explore how we could help you, please email us at hello@yourrighthand.co.uk or call us on **01252 820002**.


Alternatively, if you'd like to find out more about us, or access our latest top tips and advice, please visit our website: www.yourrighthand.co.uk


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Our commercially-focused, part-time finance teams work with business owners who feel frustrated by the lack of visibility they have around their numbers.



 1st Floor, The IQ Hub
Farnborough Business Park
Fowler Avenue
Farnborough
Hants GU14 7AF

 01252 820002

 hello@yourrighthand.co.uk

 www.yourrighthand.co.uk

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