

## Growth - is it costing you money?

Put aside the dampening in the economy. Has your business been growing over the past three or five years?

If it has, and many businesses have, has that growth flowed into much improved cashflow to you as the owner of the business? Has it rewarded you for your ideas, and for your time nurturing it and rewarded you for your investment?

Alternatively it may have cost you money. You may have reduced the wage you could have received if you worked for someone else or fallen short of the return on investment you had planned.

We don't have to look far to find examples of entrepreneurs, and indeed our every day businesses, that tell us that on one hand they are growing like crazy, and on the other are struggling to financially reward themselves to a level that matches that success.

A recent example is that of well-known juice brand, Nudie. In an interview with Smart Company , Nudie founder Tim Pethick revealed that his poor management of cashflow contributed significantly to the company's issues, leaving his \$3m investment diluted by other investors that he needed to bring in to support the business's growth. Pethick exited the company, and is now left with just a 1% shareholding.

Pethick, has this to offer..."I should have reined in growth. Rapid growth when manufacturing products requires enormous capital. Slower, steady growth allows you to fund the business as you go. It is a slow burn and a slow build."

We don't want to stop growing, but if slower growth is better growth - how do we work out how fast your businesses can grow? Understanding what makes up cashflow and using the process to determine at what pace the business can fund its own growth is key to answering this question.

There are three steps in sustaining financial growth:

1. Determine the cash flow needs of the business by budgeting into the future
2. Establish funding sources
3. Implement systems to keep very accurate monitoring and tight financial controls in place

### 1. Budgeting

Businesses need to budget not only the Profit & Loss but their Balance Sheet too! Profit does not necessarily equate to cash. In addition to expenses there are working funding needs like customer accounts, stock and asset purchases. (See

our article 'Cashflow is not your Bank Balance' for further discussion.)

## 2. Funding

Put simply, and assuming that a business is being run most efficiently, it will be a question of funding. That funding will come from the capacity of owner(s) to invest monies and/or lenders (including banks) to fund operating losses, working owner salaries, working capital and infrastructure costs of growth.

It therefore follows that the business needs to know its funding needs, and its funding capacity far enough into the future to put its growth plans into practice. At least one year, preferably with one or two additional years out.

If you fall short here, you will need to return to step 1 (budgeting) and perhaps modify your growth aspirations.

## 3. Systems

Tools for determining cashflow are the Management Accounts. That is, your own internal financial statements – the Profit & Loss and Balance Sheet created by your accounting staff every week, or at least every month. On their own, the P&L and Balance Sheet aren't 'cash flow' management tools, but they do provide all the inputs necessary to manage cash flow.

External accountant-produced Financial Accounts are great when they can be produced quickly and cost effectively at the end of the month. The banks invariably require them when borrowing funds or at time of performance review. But all businesses looking to be successful will need to develop the capacity to produce quality, timely management information in-house.

Remember, a business like yours, has a tremendous capacity to put great systems in place to create a really successful business! Let's celebrate the fact that you have achieved success and let's find the level of growth that the business can manage, financially.

When prominent growth businesses like Nudie get into financial difficulty – the risk certainly exist for the rest of us. Tim Pethick, is back at it again with a new company. This time, he says he plans to hang on to his financial stake!

Smart Company Source: Gome, A, 2008, "Pethick's next feast", <http://www.smartcompany.com.au/Premium-Articles/EntrepreneurOnline/20080729-Pethicks-prescription.html>, 30 July 2008