

# What will a finance director do for my SME?

A GUIDE TO THE BENEFITS YOU CAN EXPECT

# What will a finance director do for my SME?

## 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 what will they do exactly?

## Introduction

Deciding to hire a finance director is a significant step for your business. Even for a part-time FD the cost will be significant, so you need to be sure that they are focused on adding value in key areas so that you can get some immediate benefits.

If you get this right, you will see improved profitability, grow more quickly and build a more valuable business.

In the report below I have highlighted some of the advantages that you could benefit from if you engage an experienced finance director. I have analysed these between:

- short term gains such as pricing improvements,
- medium term gains to improve profitability, and
- long term gains like preparing the business for a successful exit.



## Short term

It will normally take time for someone to come into your business, understand how it works and start giving value. But there will be areas where your new advisor can make an immediate positive impact.

### **Sounding board**

You know that being in charge of a small business is a lonely place to be. Until a company's sales reach the multi-million-pound level, it is unlikely to be able to employ a management team with previous experience of growing a business. A finance director will often have experience of setting up and growing businesses and will be able to guide you through the most common pitfalls. Being able to talk through these issues with an experienced professional who has a different perspective than yourself will help you find solutions that you would not find alone. This is one of the benefits most appreciated by my clients.

### **Improve profitability**

In a simple business there might only be one product or service sold at one price, but as an enterprise expands it is quite likely to offer various services at different prices and the understanding of profitability for each service is often lost. Research conducted by Jonathan Byrne, senior lecturer at the Massachusetts Institute of Technology, suggests that a massive 40% of transactions are unprofitable. Only about 25% of transactions are truly profitable and these subsidise all the rest. A good FD will be able to analyse your results and help you identify activities where the profitability is poor, or non-existent. These low profit elements can then be improved or removed.

### **Pricing**

Changing price is the quickest way to change profits. This is also an area where small changes can make very big differences. Price cuts and discounts can often be a disaster, whereas even just small increases in prices can have disproportionately large results on the profit, even if demand drops. Small businesses often miss out by assuming that they are constricted by so called market prices, or an assumption that people will not pay a little bit more for their product. But like other successful companies, if you provide value to your clients they will pay premium prices. Insightful analysis of the numbers will enable you to choose a better pricing policy.



## Medium term

Once your FD has spent some time in your business understanding the way it works, they will be able to contribute at a deeper level. Below I have outlined three ways you can benefit in the medium term.

### **More time**

One of the signs that you need to hire an FD is the amount of time that you spend on finance matters. Generally, this is not a good use of management time as you are unlikely to have the right skills and experience to do these tasks well. By employing a finance director you can claw back a significant part of your week to spend on the areas of the business where you can add more value. In a similar vein I stopped doing DIY projects around the house many years ago. I don't have the expertise, I don't have all the right tools and it's just much simpler to get an expert to do the job properly in a fraction of the time.

### **Insights and accurate information**

When I first started working with SMEs I was shocked at the lack of good quality reporting. In large organisations regular management information packs are a basic tool that every business produced and discussed, but the owner-managed companies that I come across had next to nothing. They were generally running blind and making decisions based on gut feelings. Not only was there little reporting and forecasting, but no-one was providing any analysis or insight to help improve financial performance. Your FD should be able to produce useful reports relatively quickly from the data that you already collect and provide feedback to enable you to improve cash flow and profitability.

### **Accountability**

Having a finance director in your business will make you accountable to somebody, where previously you were only accountable to yourself (in other words you weren't accountable to anyone). Research shows that people are more likely to achieve their targets if they make them public and regularly share them with others. Rather than keep vague goals and targets in your head with no formal monitoring of progress, a good FD will produce budgets and forecasts and help you regularly benchmark performance against them. In education the term 'critical friend' describes the role of a school governor – someone who both challenges and supports the headteacher whilst also making them accountable for the performance of the organisation (school). A critical friend will help you improve performance.



## Long term

### **Exit planning**

One way or another you will exit your business at some point even if it's in a wooden box, so it's worth looking at the options well in advance and putting a plan in place. If you want to hand the company on to the next generation in a few decades you have some time to work on it, but if you are looking to exit via a trade sale in 3-5 years you need to start working on it quite soon. An experienced finance director will be familiar with the process (company valuation, preparing the business for sale, due diligence, etc.).

### **Building a saleable business**

Whether you have a definite plan to sell your business in three years, a vague idea to sell 'one day' or no plan at all; your business will run more effectively and produce better returns if you set it up to maximise the value to a potential purchaser. A potential buyer will look for various attributes in a target company such as recurring revenue, effective sales and delivery systems and a management team that don't rely on you. But designing your business in this way will also make it a better, more profitable company which serves you rather than one which takes up all your time for insufficient returns.

### **Risk management**

Large businesses usually maintain risk registers where they identify potential risks to the company and consider what can be done to manage and mitigate potential problems. These might include the loss of major clients or the defection of a key employee. Spending just a few hours a year considering these risks and putting in place a mitigation plan can be the difference between a business continuing or going under.

## Summary of benefits

An established business should benefit significantly by bringing on board a finance director at the right time. These benefits can be summarised as:

1. in the short term a review of pricing, regular outgoings and gross margins will make some immediate improvements in financial performance,
2. over the medium term the right candidate will help your business establish the right strategy and make progress towards your goals more quickly, and
3. when it's time to exit the business your FD will help you choose the right solution and prepare the business to maximise your value on exit.

## Conclusion

Business is a team game. I've been involved in more than thirty different businesses over the last twenty-five years and I haven't seen one that was successful with just one person making all the decisions. A finance director is a bit like the goalkeeper in a football team. Their skills and their perspective are different from other team members, but with them the team works much better as a whole.



## About me – **Andy Cristin**

**Andy Cristin** is the founder of Pareto Financial Direction Limited and designed The CASH Method™ 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.





[www.pareto-fd.com](http://www.pareto-fd.com)