

The Benefits of Financial Management for Small Businesses

Do small businesses need financial management? No business can be truly successful without it, but many small business owners do only the barest amount of financial planning they can. What is it, exactly? We like to think of financial management in three components: Count, Control and Capital.

There is a fourth component that is also very important to the financial planning process: the Chief Financial Officer (CFO), who counsels management on what to do with the information and results from the other three components.

Count: Making the Numbers Work for Your Small Business

At the most basic level, bookkeeping is an essential function in any business, even small businesses, so that you know how much money you have coming in and going out.

At a higher level, an accountant can take those numbers and tell a story about the health of your company. You might be able to take care of your basic bookkeeping functions with a software program, but the software cannot take the place of real-life financial analysis. This information is important for you to be able to make financial decisions, like whether you need to take out a corporate loan, change your pricing structure or expand your business. The financial statements produced by your accountant are important to any outsiders looking to make financial decisions about your company—such as whether to give you a loan.

Financial statements can also be used to set benchmarks within your company so you can determine whether your business is growing at the rate you expected. Additionally, you can use these benchmarks to compare yourself to other companies of similar size and type in your industry to see how well you are doing against your competitors.

Control: Taking the Reins of your Financial Future

The control aspect of financial management includes producing annual forecasts, preparing operating and capital budgets, and implementing strategic financial plans. In addition, preparing risk assessments can be a valuable tool in determining where the risks are for your company so you can try to alleviate them.

All of these actions put your small business in the best possible position to increase profit or mitigate loss at every opportunity. They can help you to act before a problem occurs—not react afterward when you have less control.

Capital: Managing the Money

Making the most use of available capital is vital to a company's success. In today's highly competitive marketplace, you need to take advantage of every opportunity if you are going to beat out your competitors. Not only is it important to manage existing cash to maximum potential, but it is also

important to know when to borrow money so you can take advantage of opportunities in the marketplace.

Making use of the Knowledge

While producing all of the reports, forecasts and budgets is the heart of financial management, this information is useless unless you know how to use it. This is where the CFO comes in: his role is to counsel management on financial matters. He applies his knowledge to all of the financial reports, forecasts and analyses to determine the best path for the company, then advises management on what to do about it.

It is only by leveraging all of these financial management tools that your business can succeed to its maximum potential. **So, do small businesses need financial management?**

We would have to say that the answer is a resounding “YES!”