



6 Things You Need To Know About Financial Management

What is it?

Financial planning and budgeting are a critical activity for every business irrespective of its age and size with the preparation of financial projections as an integral aspect to the business planning process.

Most budgets can be derived from an initial projection of the expected sales or income of a business. From this, the resources such as working capital, trading stock, staff, and equipment requirements can be identified and planned for.

That means that budgets are effectively your Business Plan expressed in financial terms.

Where do you start?

There are six aspects to address in preparation of your financial management plan.

1. Assess the current operational position of your business

This includes products, distribution, competition, customer loyalty, and marketing and advertising strategies. Outline the strengths and weaknesses in each of these areas – use your SWOT analysis to inform this aspect.

2. Assess the current financial position of the business

This includes pricing, loans, and cash flow. Money is the most important asset of a business. It is therefore imperative to have a full understanding of the current financial position of the business before improvements can be acted upon.

3. Establish a financial plan that includes budgets, forecasting and controls

Planning and budgeting are essential for attaining business goals. If the business starts to go in the wrong direction, a plan and a budget will provide an early indication that something is awry. Forecasting allows the business to simulate what effects, such as an increase in interest rates, will have upon cash flow for example.

4. Review business strategy continually to adapt to changing market conditions.

Businesses exist for their consumers and consumers can be fickle creatures. Continual revision of the state of the market and the position of your business is imperative. The same applies to the market conditions of suppliers.

5. Set achievable quantitative and qualitative goals.

Quantitative goals refer to those such as sales, while qualitative goals refer to such things as improving customer service. Setting goals gives focus to the business and a sense of achievement when met.

6. Benchmark costs to fit within industry standards.

Industry benchmarks are readily available. For example, if advertising costs for the business are 20 percent of sales, and the industry benchmark is 15 percent, then the business should look at cutting this cost down.