Boardroom Advisors

SCALE UP YOUR BUSINESS: SCALING YOUR FINANCES

Vol. 3 of 8 in the
Complete Guide to Scaling Up Your Business

Get Your Business Financially Ready for Scale-up Growth

Growing your business means an increase in financial complexity. If you're growing your assets, taking on new staff, or making more sales, you will have more money coming in and more going out.

Is your business prepared to handle the increased financial responsibilities of scaling up? This eBook looks at exactly that question.

Financially preparing to scale up also covers getting investment. Funding is important to scaling up, and advice on preparing for it is crucial to take on board.

Thinking About Scaling Up Your Business?

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How Are Your Finances Managed?

When preparing financially, the first question is how you currently handle money in your business. Some methods are inherently more scalable than others, and some don't work for a scale-up business.

It's very common for small businesses to have no in-house finance team. When your turnover is smaller, there's nothing wrong with hiring an independent bookkeeper to do your monthly accounts and an accountant to submit your company accounts. That needs to be more scalable, however.

To handle the increased demands on your business, consider setting up more regular accounting with a more in-house approach. That could even be aided digitally to add some automation. Of course, you can hire a partial department after some time, but there's a healthy middle ground you should find.

If you already have your business's finances handled within the business, you'll want to assess its ability to keep up with your growth as you would for any other department.

Are Your Finances Scalable?

However your business handles its finances, you need to ask how easy it'll scale with your growth. Of course, any bottleneck in your business will lead to your growth being held back, but financial issues can also bring significant consequences.

How will your existing systems handle the increased income that growth will bring? Of course, that is part of considering how your finances are managed, but it goes beyond just the people doing it.

It would help if you asked questions like this about every part of your financial system. Assessing each part individually will help ensure that no one thing holds back the others. Some things worth considering are:

- What sort of accounts does your business have?
- Are there any limitations?
- How long does it take for payments to process?

If you know it will take a certain amount of time for a payment to go through; you can factor that into your whole strategy. For example, you could switch to a faster or better-suited business account.

If you invoice your customers, how long do you give them to pay? As your business grows, your outgoing costs will likely rise as well. So it may be a good idea to reduce the time between doing work and getting paid for it.

For example, if you have to buy materials before doing a job, that cost comes from your spare cash. Being paid for the job replenishes that pool of available resources. The longer you wait, the less capacity you have to do further work.

You might benefit from introducing a deposit system to mitigate the risk of losses. You may need to change how you offer credit. Whatever you do, be open and honest with your existing customers about why things are changing.

Tracking Finances

How easily does money move around your business, and where is the accountability? What rules do you have on claiming expenses? As your business grows, you will likely need to become stricter about budgets and record-keeping.
Your business's finances should be entirely transparent. You don't want money disappearing into untracked purchases. So how do you currently keep your accounts?

Your finance department can advise on how to do this best, but options are available to make things easier. For example, accounting can be automated through several apps or software. That would allow expenses to be registered immediately and reduce the risk of forgotten things.
For your finances to be scalable, you want them to be able to handle money as it comes in and goes out quickly. In addition, you want everything to be easily tracked so that all of your cash flow is accounted for. Of course, the best way to do this will depend on your business, but you can find it with the help of advice.

Taxes and Reporting

That is why getting your finances right is so important. Businesses have to pay taxes and provide reports to stakeholders. If you can do this properly, you can avoid getting in trouble.
Although small businesses are still expected to file tax returns and pay what is owed, they are much simpler to keep track of. However, as your business grows, your financials will become more and more complicated. Something will need to change if you can't keep on top of it all.
Doing your research is always important, especially when authorities are involved. For example, find out what tax law governs a business like yours.
Remember that a new product may be classified differently. Your employee's wages will be subject to taxes. If you're starting to export, what's different in your target country?
That is why you want to ensure your finances are tracked and everyone is accountable. You want your accounts to be clear and complete. Everything coming in and going out should be findable if needed.

When you're assessing how much you've grown to report it to any shareholders, your financial information is how you'll figure it out. They're where you will find your income and costs and derive your profits. If they need to include things, your figures will be correct.
Making sure you have someone who oversees your business finances is invaluable. If this isn't your area of expertise, you could miss things or make obvious errors. An expert will ensure that your business is ready to handle the growing responsibilities and may only be needed on a fractional basis.

Investor Ready

Getting investment is a step all scale-up businesses are likely to take. If you want to make many big changes, you need funding to pay for them. That money will likely come from an investor.

Typically, at the scales involved in rapid growth, the go-to investment in Series A funding. Other options are available, such as venture debt, grants or crowdfunding, but venture capital firms (larger amounts) or business angels (smaller investments) are the most common.

You must impress your investor, just like when you sought seed money. However, the methods for doing so are different.

Scaling a business up means that you have had measurable success already. You can prove your business works and has potential. You'll need to use this hard evidence in Series A pitches.

Where To Find Investment for Your Business

Different businesses will benefit from different forms of investment. Exactly what suits you best will come down to you and your research. Below are some common options to give you an idea of where to start.

Venture Capital (aka Series A)

The most common form of equity funding for scale-ups, Venture Capital (or VC) firms act like Business Angels do for start-ups. However, they invest their client's money, not their own. That means they have access to much larger sums to invest but have responsibilities to invest safely, so they carry a higher burden of proof.

VCs are looking for businesses that can prove their viability and know what they'll do to maintain their growth. Many VCs will have a minimum ticket of £1-2,000,000 or higher and won't accept business approaching them for less money.
Services are available to help you find a suitable VC for your business, and you may find the Enterprise Investment Scheme helpful in securing funding.

Business Loans

Traditional banks offer loans for those wishing to expand their businesses. They operate like any other loan, using the business's existing assets as collateral.

Much like a VC, banks are investing their clients' money and so will have high standards expected. These standards will often be similar to those of a VC but will cost you interest rather than shares.

Venture Debt

Venture debt sits somewhere between traditional banking and VCs. Instead of using assets for collateral, lenders will invest money in better-established, low-risk businesses. Usually, they look for turnovers in the millions or the involvement of a reputable VC to offer a loan.

These loans often do not cost you any equity but can be capital-intensive. So again, it depends on whether debt or equity financing works better for your business and which would suit you better.

Government Grant Schemes

The Government offers grants for businesses to expand their operations. These often have a particular aspect of business in mind, such as providing funding for R&D or starting to export. Tax credit schemes also allow you to claim certain expenses against your taxes.

Grants are often given via reimbursement, so you have to spend before you are given the money. Many grants are run by local authorities as well as those at the national level, so research your area to find out what is available.

Business Angels

Although individual angels are unlikely to be able to provide investments of the size scaling up requires, they are often members of syndicates of angels. These syndicates may come together to raise funds from multiple angles.

It is also worth remembering that you can get some of your investment for a funding round from a single source or at the same time. If an angel can provide you with the funding you need for a single project, you can take it without waiting. For example, if you want to upgrade your digital technology as part of your scale-up, you can do it without being paid for every other project that will go alongside it.

Revenue-based Finance

Another form of business debt, revenue-based finance, operates differently from traditional loans. They will take their repayments as a portion of your revenue going forward. As such, they usually require evidence that you'll be able to provide them with revenue before they invest.

That means you will only have to pay back what you can afford if you have a weaker period. If you repay 5% of your revenue, then this will adapt to what you make in that term.

Get Your Documents in Order

Investors will want to see that your business has its finances in order, which signifies that you're well organised. In addition, they will want to see how you use your money, as this will show them how well you will use theirs.

Getting your key documents together will mean you can give them exactly what they ask for as soon as they ask for it. Of course, you don't have to give away company secrets, but your financials should be transparent anyway.

Likewise, they'll want to see your business plan. They need to be confident that your business will succeed before they invest. Your plan will help them decide if they think you have what it takes.

The plan should include exactly how you would spend their money. Investors are more likely to give you funding for something hard, specific, and attainable. So make sure you know why you want the money in the first place.

If you have yet to decide, have a planning meeting to figure this out, as it will strengthen your pitch. That will be tied into your strategic plan. Your strategies involve costs, so break them down and show how you'll use their funding.

If you're going to open a new location, for example, you can project the costs involved. You must acquire the site, fit it for your purposes, hire staff, and establish logistics connections. These are hard and specific goals with a clear purpose and benefit that you can present to an investor.

Prepare the Perfect Pitch

The people running the business will be something that an investor will care about. You can show the idea's potential on paper, but it takes a lot of work to show the potential of the leaders.

As much as it is a chance to sell the business, the pitch is there for you to sell yourself. It shows them you know what is needed and gives them an idea of your character. They'll need to be confident in you and your team.

Your pitch will be a condensed version of what you're providing them. It should tell them why your business is a good idea, what success you've already had, and how you will take it to the next level.

"3 key aspects of a successful scale up are:

- ***Focus on niche & its competitive advantage contributes to the business growth.***
- ***Onboard key talent in sales, accountancy and finance and involve them in your vision for bigger goal***
- ***Focus on delighting your customers, listen to them and improve product or service persistently"***

- Kiran, International Director

Research, Invest, and Scale Up

The most important part of scaling up, financially speaking, is making sure you keep track of everything. You want to ensure your business can handle the increased cash flow and that every cost is accounted for.

If you want to learn more about how to prepare for getting your investment, we have an eBook dedicated to that subject. Learn more with The Scale-up Business Guide to Getting Investor Ready Ready.

You may need expert support; if you need more confidence, you have the skills and knowledge necessary for scaling up your finances. Boardroom Advisors offers the services of Part-time Finance Directors.

They're available on a flexible contract that can suit your business budget and workload. Contact us to see how we can help.

Boardroom Advisors

Do You Need Help With Challenges Facing Your Scale Up Business?

Boardroom Advisors can help you with challenges your business is facing. Examples of challenges you may be experiencing include:

Strategic Challenges

Financial Challenges

Management Challenges

Operational Challenges

Book A Free Health Check

To explore the particular challenges your business Is facing

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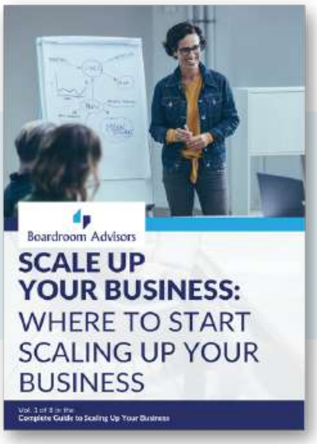
The Scale-Up Series

1

START

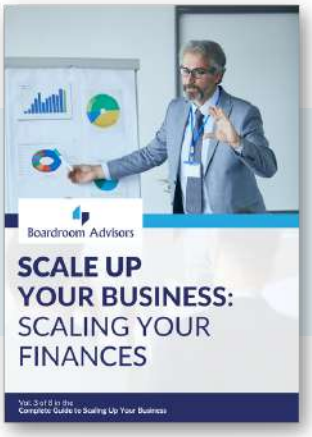


2

BUILD

3

SCALE



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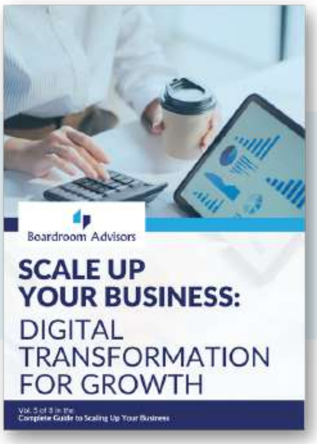

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MARKET

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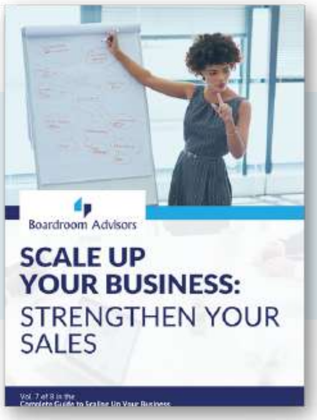

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EXIT