PROEFO

HOW TO SETUP DILIGENT FINANCIAL MANAGEMENT IN YOUR COMPANY

...FROM SCRATCH...
...AND EARLY STAGE...
...FOR LONG TERM

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> Every successfull company can make fast decisions based on data. They know it and they use qualified team and technology to support it. The sooner the company starts doing something about it, the higher is their chance to be successfull.
>
> *~ Michal Belan, CEO & Founder*

WHY HAVE YOUR FINANCES SET UP DILIGENTLY FROM EARLY STAGE

ALWAYS KNOW YOUR CASH POSITION

- Most important job for any company is to always stay liquid (illiquidity leads always to company's death).
- By knowing and planning cash position, you optimize your growth and minimize bankruptcy risk.
- Cash planning also helps you to master cash conversion cycle, which is as crucial as pricing or salaries.

ALWAYS KNOW YOUR PROFITABILITY

- Every successful business needs to make money so it is essential to know if (and how) you are profitable. Or if you are on track to achieve it.
- Regular review of margins enables you to challenge pricing, workforce productivity or overhead expense rate frequently and efficiently.

ALWAYS KNOW YOUR VALUE DRIVERS

- By knowing where your money comes from, at what cost and what pace, you get the ability to optimize your growth.
- Knowing the details enables you to increase your effort in prospective revenue streams and limit the resources spent on less meaningful activites.

> "Core ideology defines a company's timeless character. It is the glue that holds the enterprise together even when everything else is up for grabs...a consistent identity that transcends product or market life cycles, technological breakthroughs, management fads, and individual leaders."

Jim Collins on entrepreneurial values above profit

HOW IT SHOULD WORK

01 STEP
DOCUMENT COLLECTION

1. Information flow setting
2. Timely completion of all documents (invoices, receipts, bank account statements, contracts, etc.) in a given month

02 STEP
DOCUMENT CATEGORIZATION

1. Assigning departments/ projects/employees and possibly analytical accounts to individual documents
2. Providing other managerial information (accruals, capitalization, unearned and deffered items, etc.)

03 STEP
DOCUMENT BOOKING

1. Import of documents into accounting software
2. Document booking with preset categorization
3. Sending list of missing documents to the person responsible for the collection

04 STEP
CONTROLLING

1. Check of the correctness of accounting data (comparison of time series continuity, comparison with the budget,...)
2. Submission of the controlling report to the accountant

05 STEP
DOCUMENT BOOKING #2

1. Incorporation of the controlling report and finalization of accounting data in the given month

06 STEP
REPORTING

1. Display of processed data in managerial form (financial metrics, industry metrics, KPI, plan, ...)
2. Sharing data with people involved in the company's financial management

07 STEP
FINANCIAL MEETING

1. Interpretation of reporting with impact on the execution and strategy
2. Evaluation of margins, plan, working capital, cash flow, ...
3. Creation of an action plan based on outputs

Each process must be dedicated to the owner and deadline!

Additional info

» All processes are executed at the level of one month.

HOW MUCH TIME AND MONEY SHOULD BE INVESTED

UP TO 5% OF REVENUE

- The maximum reasonable amount invested in finance is up to 5 % of the average (or expected) monthly revenue for the SMEs.
- This includes activities starting from back office, accounting, reporting, and financial execution.

UP TO 10 HOURS PER MONTH FOR C-LEVEL

- As company grows, the maximum time dedicated to finance for C-level individual should be peaking at 10 hours.
- This includes document gathering and categorization, report controlling, financial data interpretation. Delegating them in this order.

Hiring sequence in financial department for SMEs is usually as follows:

1. Founders do everything by themselves until it makes economical sense to hire back office person (at least part time).
2. Founders do the financial management by themselves until it is economically and strategically viable to appoint external CFO.
3. External CFO leads financial department until company can afford full time CFO (but may still keep external CFO as a consultant).

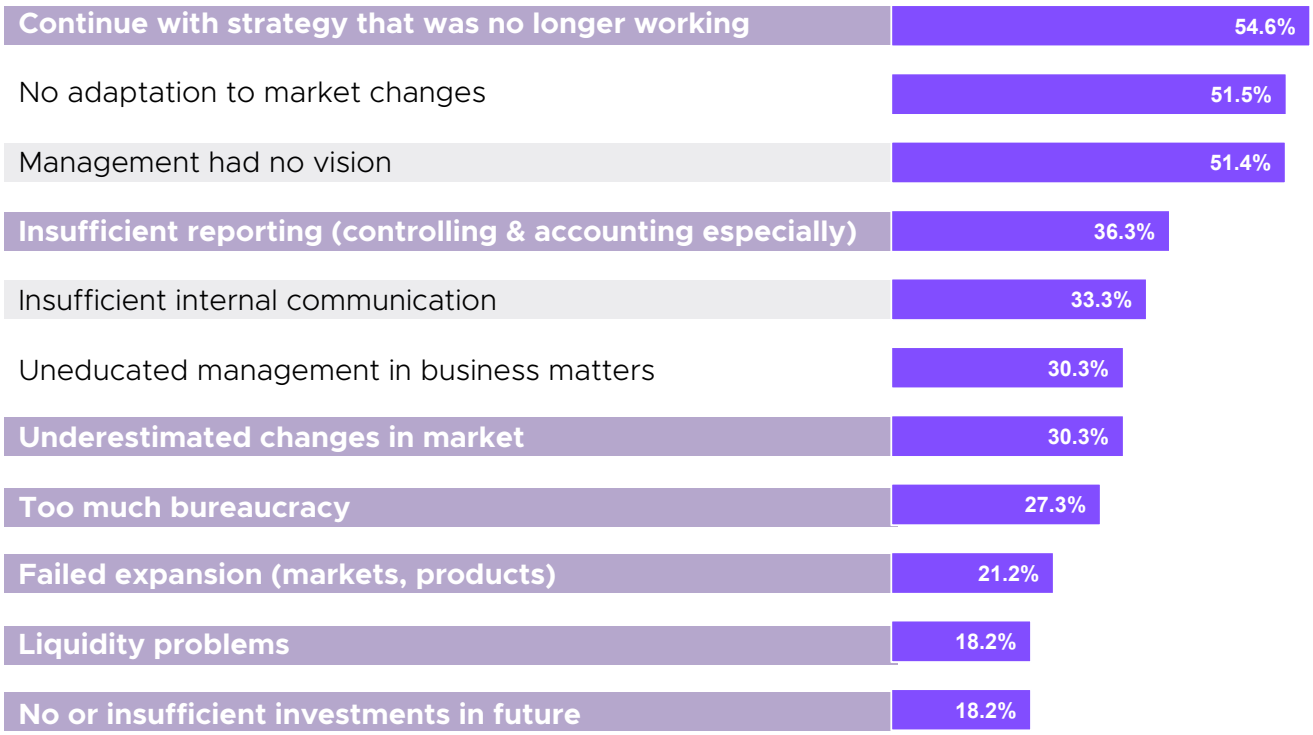
FINANCIAL MANAGEMENT IS ALWAYS EASIER WITH QUALIFIED AND PROACTIVE ACCOUNTANT!

WHAT IS THE RETURN ON INVESTMENT IN FINANCIAL MANAGEMENT EXCELLENCE

Although it is quite difficult to calculate precisely the benefits of the excellent financial management, there are many areas and situations with tremendous value-added potential:

- You rarely get in the unpredicted situation ➔ you significantly lower your default risk that can come due to illiquidity.
- You change focus agilely. You optimize your time and resources.
- You do not leave any money on the table for government by diligently claiming the VAT and paying your fair share of the income tax.
- The information flow and processes in your company gets standardized, saving you a lot of friction and redundant time consumption.
- Every person involved in company management gets company information in accurate and timely manner. This results in higher investor confidence, quicker reaction time to challenges and higher people satisfaction.

7 OUT OF 11 MOST COMMON COMPANY FAILURES CAN BE SOLVED VIA SYSTEMATIC REPORTING AND ANALYSIS OF THE RESULTS:



Source: Why do companies fail survey by Turnaround Management Society & Dr. Christoph Lymbersky, 2014.

MINIMUM DATA TO GATHER

Accounting journal

Required data:

1. Date
2. Text
3. Debit / Account
4. Credit / Counter account
5. Amount
6. Document ID
7. Company ID
8. Department ID
9. Project ID
10. Employee ID
11. Analytical account

Use:

The one correct and only source of reported financial data should be from accounting.

Departments

Required data:

1. Department ID
2. Department name
3. PL Subcategory
4. PL Category

Use:

Company must be divided into departments, which should reflect the organizational structure.

Cash flow plan

Required data:

1. Period
2. Department ID / Company ID
3. Amount

Use:

The ultimate financial task from the very start of the company is to plan the cashflow, either by the budget allocated to company or by the department budget.

DATA FOR ADVANCED ANALYTICAL BACKGROUND

Employees

Required data:

1. Employee ID
2. Position
3. Salary payment type
4. Salary legal type
5. Salary
6. Valid from
7. Valid until

Use:

Forecasting and better employee financial management.

Projects / CRM

Required data:

1. Project ID
2. Project name
3. Client name
4. Price
5. Currency
6. Target profit
7. Project type
8. Project start
9. Project deadline
10. Project status

Use:

To always know the pipeline, backlog or client segmentation.

Timesheets

Required data:

1. First name
2. Last name
3. Email
4. Employee ID
5. Project ID
6. Stage ID
7. Duration

Use:

Better product/project management, easier time optimization and budgeting also for internal activities.

Financial plan

Required data:

1. Revenue plan decomposed to value drivers
2. Expense plan by company ID or department ID
3. Period

Use:

Provides extensive and longer term plan that includes company's strategy.

For every data source there could be implemented adequate specialized software or temporarily tabular editor.

HOW IT SHOULD NOT WORK

There are **no clear deadlines** for document gathering and **documents** are being **provided** to the back office **uncontrollably** during the month.

Managers/investors spend a lot of time on financial meetings by **questioning the numbers**, usually wasting time of the most expensive people.

There is **no accountable person** for each end process or function and **no one owns any** completeness or correctness **guarantee**.

Responsible person **does not communicate** with the team in timely and proactive manner.

There is **no clear process roadmap, information** gets **"stuck", people** need to **pursue** and **double check** tasks and document completeness.

The **accountant is passive** and does not proactively participate on nurturing of the correctness of numbers.

There is an **undefined quality standard** on how the optimal reporting looks.

There is **no automation incorporated**, everything is manual and thus many mistakes emerge.

Due to lack of confidence in financial reports made based on accounting data, the executives require "**managerial**" **reports to be** done on the side, resulting in two unreliable reports and a lot of ineffectively spent time.

> The biggest mistake, in my opinion, is when people do not know what to do. If they do, they do not know what the desired end state is. And if they do know, they do not know if they're getting there and how fast. Proper reporting is primarily about aligning the goals of individuals in the company in order to achieve company-wide goals.
>
> ***-Jan Gabriel, head of financial services in Proefo***

HOW TO START AND HOW LONG IT TAKES TO MASTER

1. Set the expectations on the outcome and purpose

Goals must be ultimately SMART (specific, measurable, attainable, relevant, time based). You can get inspired by one of the previous pages.

2. Analyze the current situation

On one page there is how processes currently work, who are responsible people and what data you gather. On the other are the required changes for the optimal solution to work.

3. Select preferred software

It is never a bad idea to start with excel and once you know what you require and how you want it to look you can implement some advanced solution.

4. Setup the required processes

Draw the process roadmap, set the responsible person for each step, set the deadlines and data quality standards.

5. Setup the managerial structure

It should reflect your orgchart as this will be the base for budgets too. Also, when you break down your costs and value generated, this is the level on which you usually start.

6. Setup the follow-up actions

Basically, what happens if, until when. Usually this is the endpoint of every financial meeting.

7. Implement the solution technically

You can dedicate this step to someone in the team, create internal team or have an external professional do it. The economic and quality viability depends on the size of your company, skill disposition of your team and its expense rate. Never automize when the data are incorrect. You will only automatize mess, meaning bigger challenges to overcome in the future!

8. Implement the solution into regular routine

Starting from the first day, the process owner is accountable for each step to be completed on time with required quality. It is often favourable to implement the fulfilment into person's reward scheme.

For a small, growing, driven company it should take from 1 to 3 months to master and fully implement the process.

THE PROEFO WAY

We successfully implemented the solution to tens of businesses, read a lot of literature and learn many things the hard way.

The most crucial element in perfect financial department implementation in SME are the founders of the company. Once they are on board with the right mindset, everything tends to work out.

If you need help with implementation and/or execution of the solution, we are ready to assist you. Just shoot us an email to info@proefo.com and we get things moving fast!

The ideal solution could look like this.

FINANCIAL DEPARTMENT COSTS