Five Ways to Supercharge Your Business

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Introduction

Accounting and Corporate Finance is the best way to supercharge a business. I wanted to share some of these tools with you, that I have seen work wonders in organizations. The better you are at Accounting and Corporate Finance, the more effectively you can use your money to achieve your goals.

These recommendations will not be suited for everyone. If you want your business income to stay small and steady, this book is NOT for you. This book is for business owners who want to experience massive growth. 20% in a year. 50% in a year. The sky is the limit, but you have to want it.

When I work with a business for the first time, I have a checklist of around 100 things that I do to improve the company's finances. But I wanted to help you out by prioritizing the list. So I thought to myself, "If I could only pick five things, which five techniques would have the biggest impact for an organization?" So out of all the things I do, these are my top five. These work for any organization, both for-profit and non-profit.

1. Flexible Budgeting
2. Real Time Reporting
3. Accounting and Sales Integration
4. Accounting Organizational Structure
5. Stock Price Model

As you review this list, you will probably notice something interesting. You may not know what these things are. That is because 95% of companies do not do these things. The reason companies do not implement these activities is because it is not required by accounting regulations, so many business owner's think, "Why should I spend the money?" That is a mistake! I personally have used these tools to generate massive results. Many of these are easy and cost very little to implement. This is a major opportunity, because if your company implements these tools, it gives you a huge competitive advantage.

There is something in common about all five items on the list. All five items are designed to focus your company on growth. Most accounting departments focus on basic accounting tasks like processing purchase orders or recording accounts receivable. But imagine if your accounting staff became your "eyes and ears" to ensure your money is used towards your company's growth goals.

Before we start, let me share a little about my background. I have worked in accounting and corporate finance for 15 years. I am the current Chief Financial Officer (CFO) at Spaceport America, and have worked previously at Sandia National Laboratory, Cox

Communications, Starwood Hotels and Resorts, E! Entertainment, and others. My degrees include a Bachelor Degree in Cinema and Business from the University of Southern California in Los Angeles, an MBA in Finance from Arizona State University, a Master of Accounting from University of New Mexico, and a Master's Certificate in Project Management from George Washington University.

In this book, I am sharing with you the best tools from my experience. These are the top five things you need if you want to grow your business.

Flexible Budgeting

95% of businesses use Traditional Budgeting. This probably includes you. Traditional Budgeting is holding your business back, and you do not even know it!

Let me guess what your budgeting process is like. You probably get your top executives around a conference room table for a month planning for the upcoming year. You create a budget document and then track results against that budget throughout the year. A month of your executive's time is an expensive use of payroll.

What if you could create your budget and spend ZERO time? That is what Flexible Budgeting achieves.

Before I explain Flexible Budgeting, it is useful to know the history of Traditional Budgeting. Traditional budgeting only became accepted about 50 years ago. Prior to that, businesses only managed cash flow as it happened. Budgeting was a radical innovation that allowed businesses to plan and track accomplishments better. When businesses heard about budgeting, they started adopting the best practices. It was so effective, most businesses still do budgeting the same way today.

However, there are some major problems to Traditional Budgeting. Jack Welsh, the famous CEO of GE spoke strongly about budgeting in his autobiography "Winning."

> *"…the budgeting process at most companies has to be the most ineffective practice in management. It sucks the energy, time, fun, and big dreams out of an organization… It brings out the most unproductive behaviors in an organization, from sandbagging to settling for mediocrity."*[1]

Jack acknowledged the problems with the budget process, and devotes an entire chapter of his book to budgeting. He suggests focusing the budget process on more strategic questions, but stays with the traditional budgeting methodology. I do not think he went far enough.

The two main problems with traditional budgeting are:

1) **Sandbagging.** When managers are planning the budget, they know they will be judged on the results. As a result, they try and set easy targets they know they can achieve. This is called "sandbagging." The budget process becomes a negotiation, where no one is honest about their budget numbers.

[1] Winning. Jack Welch. Chapter 12 "Budgeting: Reinventing the Ritual." Harper Business. 2005.

2) **Dis-incentive for over performance.** If the year is going well, once a department hits their budget number, there is no incentive for them to over perform. The budget effectively acts as a ceiling on performance. This is the opposite of what most business owner's want, which is for their staff to constantly strive for their best results.

These are major problems. Luckily Flexible Budgeting solves both these issues.

The main difference between Traditional and Flexible Budgeting is that Flexible Budgeting relies on computers. Traditional Budgeting was developed at a time when there was no computers. So now that we have computers, why are we doing budgeting the same way? Why do organizations wait a year to update their budgets when computers can update them in real time?

Flexible Budgeting changes department budgets throughout the year based on changes in cash flow. Essentially, **there is no set budget.** This is a radical new way of thinking about budgeting. It eliminates the need for lengthy planning meetings, and all the dis-incentives of the budget process. As revenues increase, everyone's budget increases. If revenues decrease, everyone's budget decreases. This is all possible, because computers can easily perform these calculations quickly, which would have been difficult before computers.

Flexible budgeting is necessary to support rapid growth. When markets are changing fast, you need the ability to adapt. Flexible budgeting allows you to see what works, and make sure you are increasing resources as needed. This also sends a good message to your team. If you bring in more customers, you get more money to spend. If you do not bring in more customers, you get less money to spend. As an added bonus, I have found that Flexible Budgeting provides a business leader with more control over their financials. You can make adjustments throughout the year rather than wait to change the plan until the end of the year. This is ideal in a growing market when there is a high level of uncertainty about the future. If you do not know what business is going to look like in a year, it is not a good use of time to create a traditional budget.

Here are the steps to Flexible Budgeting: (there are more sophisticated ways to manage this process, but I have found this to be the easiest)

1) **Set the baseline.** Your existing business operations are your baseline. You already have a business that is operating. You are going to grow from your current state. This eliminates the need to create a detailed budget planning document.
2) **Adjust your ratios.** This is your opportunity to make adjustments. Looking at the current state of your business, do you want to change any of your spending ratios between the departments? Do you want to spend more in sales? Operations?

Accounting? These tweaks should be relatively quick and easy for a business leader to make.

3) **Do not include capital expenses.** This is for operational expenses only. Large investments in capital equipment should be evaluated separately using Return on Investment (ROI) analysis and strategic analysis.
4) **Monitor cash flow each month.** You can track this more frequently, but usually monthly is adequate. Accounting can generate a report each month with updated cash flow. When cash flow is growing, you can grow your budgets according to the ratios you set up. This allows you to quickly take advantage of business opportunities.

Accounting is the main owner of this process. Their job is to communicate with each department when they need to dial their budget up, or dial it down. Just to clarify, I am not suggesting that accounting police everyone's purchases. People should be able to purchase what they feel is necessary. Accounting is more of a cheerleader for everyone to speed up or slow down purchasing.

Your largest expense is usually payroll. Flexible Budgeting is extremely useful to plan staffing. Most company's set "target" hire numbers a year in advance. But in a rapidly changing organization, it is difficult when your staffing is controlled by decisions made a year prior. Flexible budgeting gives you real time guidance on when and what positions to hire.

The greatest danger with Flexible Budgeting is that it is such a radical change from Traditional Budgeting. Traditional Budgeting has been engrained into company cultures. If you went to your leadership and said, "Let's do away with the budget process," you would probably lose your job. So initially, you will likely have to perform both Traditional Budgeting and Flexible Budgeting. You will need to manage two budgets until your leadership recognizes the waste of time from Traditional Budgeting.

Real Time Reporting

The best compliment I ever received at work was about Real Time Reporting. I was leaving a meeting and one of the executives said to me, "Zach, before you came on board I felt like we were trying to fly an airplane through a thick cloud. Now I feel like we are flying the plane with a map." That is the power of financial reports.

Real Time Reports are essential to a rapidly growing organization. Business leaders need good data to make decisions. Many organizations fall short, sometimes taking a month or more to deliver financial reports, or sometimes not generating reports at all. Without good data, business leaders are left to make decisions with their gut. This is a shame, because they do not have to. With modern accounting systems and computers, it is possible to get financial information in real time in ways that are quick and easy.

When I work with an organization, one of the first things I do is create good reports. I follow these steps:

1) **Identify Key Performance Indicators (KPIs).** Each business is going to have different metrics that are important, depending on the strategic goals. It is important to identify the key metrics so you can track them in reports.
2) **Build dashboards.** Excel is a great software tool to generate financial reports. You can combine tables and graphs to tell the story of your business.
3) **Automate.** It is important to generate your reports on a consistent basis so leaders get used to using them every month. So it is helpful to design the reports in a way where they are quick to update every month. You do not want anyone spending a lot of time typing numbers into reports. Often times you can fully automate reports so your financial system updates the information automatically in real time.

The greatest benefit of real time reporting is cultural. When you provide your staff with regular financial reports, they will start to rely on them to make data driven business decisions. This is one way to encourage people to make their daily decisions based on the financial goals of the business.

It is also helpful to track non-financial information, like how much activity was performed. This can be incorporated into a "Balanced Scorecard." This helps to paint the picture of what the financial results mean.

Watch my YouTube video **here** on dashboards.

Watch a YouTube video **here** on my favorite KPI, the ratio ROA (Return on Assets)

Accounting and Sales Integration

The number one rule of business is "revenue solves all problems." Sales are important, and accounting can be extremely useful when they are integrated into the sales process. However, very few companies ever try this. Accounting and sales are usually kept completely separate.

You can integrate accounting and sales with one simple tactic: Have a representative from accounting attend the weekly sales meeting. Most organizations hold a weekly sales meeting where the sales team discusses the deals they are trying to close. This meeting is usually used to identify and remove roadblocks for potential customers. Including accounting in that meeting will give them the insight needed to support sales.

Here are some ways that you will see benefits from Accounting and Sales Integration:

1) **Accounting forecasts will be more accurate.** Accounting needs to generate financial forecasts. This requires a thorough understanding of future business opportunities.
2) **Resource allocation decisions will be more accurate.** If accounting understands new business coming in, they can ensure resources are available to deliver on new orders.
3) **Accounting can use customer information from the Customer Relationship Management (CRM) system.** It is shocking to me that accounting is often not given access to the sales department CRM system. Customer information is useful to generate invoices and interpret contracts to ensure a seamless customer experience when moving from sales to operations.

Remember that we want to enable massive growth. The sales department is the engine to bring in new revenue. Accounting can amplify sales' efforts. If accounting understands the sales opportunities, they can ensure that financial resources are available to capture new revenue growth.

I would also caution about combining too much in this meeting. Meetings should stay focused. Be cautious the meeting does not turn into an operations meeting. The point of a sales meeting is exclusively to focus on generating new growth. Operations meetings focus on how to deliver on that growth. Operations meetings are also important, but my priority is integrating Accounting and Sales.

Watch my YouTube video **here** on revenue.

Accounting Organizational Structure

One of the biggest mistakes most business owners make is understaffing their accounting departments. This is a big mistake. Accounting is watching the money! Without the right people in place, you will not have good control over your money. This translates into lost profits.

Accounting helps to answer the question, "How do I put my money to work in the most effective way possible?" We are talking about growing your business. If your profits double or triple, reinvesting some of those gains in accounting salaries will intensify future growth.

I do not fault business owners for making this mistake. It is tempting to reinvest money into sales or operations, instead of accounting. A lot of people do not know how to build a high performing accounting department. In this section, I will describe the ultimate accounting organizational structure. These are the skill sets you should look for in your hires. Once I explain this structure, I think you will easily see how powerful this can be for your organization. Very few businesses have developed all these skill sets. So if you can create this accounting structure, you can dominate your competition.

The accounting department is usually run by your CFO (Chief Financial Officer). Under the CFO there are four departments. Each of these departments has different goals, uses different tools, and requires different skill sets. The combination of all these departments allows you to understand and control your money. The four departments are:

- Accounting
- Project Management
- Corporate Finance
- Supply Chain Management

Accounting. This department focuses on the **past**. They can answer questions like "What is my performance to date?" or "What is my current financial position?" The greatest benefit of accounting is gaining a clear understanding of what happened in the past, to identify areas of high productivity and potential problem areas.

Accounting tools include your accounting software system to manage all transactions and journal entries.

Most companies are fairly good at this skill set. This department includes all the typical accounting functions like Accounts Payable (AP) and Accounts Receivable (AR). Once money drops into the company bank account, it is Accounting's responsibility to track the money. Any organization has a cash flow, with revenues coming in and expenses going out. Accounting is responsible for enabling this cash flow process as efficiently as possible, while following any financial rules and regulations. Accounting creates the financial reports necessary for an audit or public financial statements.

Project Management. This department focuses on the **present**. There is a period of time when you are performing work for a customer, but before you are paid. If the cash has not entered your bank account, the accounting department is usually not aware of it yet. That is why project management is important. It gives you an understanding of the current work load, and how much revenue is likely to be earned soon.

The tools used by Project Managers include Microsoft Project or similar software. Once a customer signs a contract for new work, the effort is usually assigned to the project manager to track, until the work is complete. This effort is captured outside the accounting system, but will usually be entered into the accounting system as earned revenue once the project is completed. Once the project is turned over to accounting, the customer invoice is generated and accounting performs collections.

The most important skill of project management is "status reports." If you are running a business, you do not have time to micro-manage all customer projects. You need someone generating regular status reports so you can understand the progress. The information from status reports is used to generate customer invoices. Project managers also create project schedules called "gantt charts." As the number of projects and customers grow, you can roll up all the project schedules into one Master Schedule to track the overall workload of the business.

Corporate Finance. This department focuses on the **future**. This is usually the least developed department in most companies, but can produce the greatest benefit. Corporate finance is responsible for developing the revenue (and profit) forecast. DO NOT leave it up to the sales department to create the forecast. You will find it helpful to have an impartial person from corporate finance to work with sales to create the forecast. More than just revenue information, this forecast should also predict future cash flows, and identify the resources that will be available to service future revenues. Corporate finance can help you answer difficult questions like, "What is the best use of available cash? Should we hire more people now or wait six months? And should we increase or decrease spending?"

Much like project management, this information is also outside the accounting system. This role is typically a subject matter expert in Microsoft Excel. Most of the information will be stored in Excel spreadsheets. Much of this role is managing a separate data set of information. In their spreadsheet, they combine information from accounting, project management, and business development into one place to provide leadership with a complete financial snapshot. Corporate finance is also the coordinator of the budget planning process, as they have the greatest insight into future revenue streams and customer demands.

The ultimate role of corporate finance is to start with the information they get from accounting of the "cash in the bank" and then answer the question "What is the best use of the available cash?" Investment decisions attempt to put your money to work in the most effective way to support future growth. Leadership is always seeking to determine the best return on investment (ROI). If you have a good corporate finance team, you can ask them to give you the data that backs up any ROI decision you are considering.

Supply Chain Management. Supply chain focuses on purchasing. This once was part of accounting but has become a whole field of study. The reason is that purchasing has such a significant impact on your organization. If you have multiple large contracts, you need someone managing those contracts, and have backup suppliers for those contracts to keep pricing competitive. It is also helpful to build strong networks with your suppliers to manage increases or decreases in workload. Purchasing is a critical area where you need a team ensuring you are not wasting money, or causing delays for your growing business.

All these four departments work together to create a powerful accounting organizational structure. If you develop all four, this structure will help you get the most out of your money.

Stock Price Model

There is a question that most business people get wrong…

"What is the main purpose of a business?"

The answers I normally hear are:

- To create value
- To help your customers
- To make money

Wrong, wrong, and WRONG!

The main purpose of a business is to **sell** that business. At some point, every business owner is going to want to sell their business. It may be after 5 years, 10 years, 50 years, or 100 years. The point of setting up and growing a business is that at some point it will be sold and the owners should realize a profit. Whether the business is owned outright by a single individual, or the company has many different stockholders that want to trade their stock, the business is being sold.

When you realize that the main point of everything you do is to sell the business, it changes your perspective. You focus on what is most important. When someone buys a business, they care about two things:

1) **Consistent revenue.** Does the business have a reliable set of customers that will continue to buy in the future?
2) **Free cash flow.** How much cash does the business generate every year?

Many more things are involved in valuing a business, like the value of inventory and equipment. But revenue and free cash flow are the main drivers of the price of a business. The value of anything is the present value of future expected benefits. In simple terms, if you want to buy a business and operate it for the next ten years, you would figure out how much money you would expect to generate for the next ten years. You would then determine the present value, by discounting the older payments by some amount for risk. Adding the discounted payments together gives you the present value. The present value would be what you are willing to pay for the business.

The point is that you should be focused on the sales price of your business, even if you are not ready to sell. Most people do not have any idea how much their business is worth. You should know and understand that number off the top of your head. You can do this very easily by creating a Stock Price Model. This is a simple equation that gives you the selling price of your company.

This equation is in two parts:

1) **Create an internal strategy map.** This describes how revenue turns into profit. Break down your business into departments like: Sales, Administration, IT, Operations. Then trace $1 of revenue as it flows through your organization. How much of that dollar is spent on each department? How much is left in profit at the end? This exercise determines your ratios.
2) **Calculate the sales price.** Once you know your profit in terms of free cash flow, create a forecast of future annual cash flows. Discounting those free cash flows to present value will give you the selling price of your business. You can use complicated models, but you can also use something as simple as Free Cash Flow divided by a variable for risk.

When you have this formula, it is so powerful. You can track changes in your business valuation over time. You can compare every strategic decision against how it would impact your company valuation. The goal is to have clarity about how your business is generating value.

The trick to the ability to perform continual company evaluation is an excellent accounting department. You need accurate, timely, and well organized accounting records. Ideally, everyone in your organization would understand the company valuation (or stock price) and be focused on how to increase that value.

Non-profit and government agencies are not really going to be sold, but I have found that the same approach applies. You can identify the value model of your organization, how cash is spent, and your ideal ratios. Your cash inflows will just match your cash outflows, so there will be no free cash flow. You can then use this value model in the same way to evaluate the impact of your strategic decisions on your organization.

Watch my YouTube video **here** on the Dividend Pricing Model, a valuation technique.

In Closing

Thank you for reading this book. I am excited to share these tips with you. Today's market is a great opportunity to implement these five things in your business. Very few of your competitors will be good at these techniques which will give you a significant edge. I am sure you can tell I am passionate about accounting and corporate finance. It is because I get excited about the tremendous value you can create for your customers.

If you liked this book and you want more training, click on this link to **subscribe** to my YouTube channel. The best way to supercharge a business is through accounting and corporate finance, and I release a new video every week so check out my next video.

I wish you the best of luck in your business.

Sincerely,

Zach De Gregorio, CPA