Outsourced Finance - 5 Common Mistakes Entrepreneurs Make

Most entrepreneurs are good at sales & marketing or at operational delivery, sometimes both. Many of them do not understand finance. Some are even scared of it.

Finance is in my blood. Playing boardgames like Monopoly as a boy, I was always the banker. My first job, aged 11, was delivering newspapers in the city where I grew up. The job had two responsibilities: delivering papers each morning to about sixty homes, and at the end of each month, ringing doorbells and collecting cash from my customers. Once a month, the area manager for the newspaper would come to my house and take the newspaper's share of the money. The rest was mine to keep. It was a good early lesson in business because it taught me in a hands-on way about delivering a product, keeping customers happy and dealing with money.

One day, the area manager asked if I liked collecting money. It was my favourite part of the job. I loved the interaction with customers and getting to know them as people. It was much better than dropping a newspaper on their porch at 6am. I loved organising the money. When the area manager came to collect the newspaper's share, it was ready for him: always the exact amount the newspaper company was owed. He asked if I would like to collect more money for them, as there were some people who were happy delivering the paper, but they weren't good with the money. In return, I would earn a percentage of the money collected. This sounded like a great deal. Within a year I had given up my paper round, handing it over to someone else, while I collected money on four or five rounds in the area. I was doing the part of the job that I loved, and my income had more than doubled.

My first "proper job" was in the 1980s when I joined the Royal Bank of Canada as a bank teller while studying for my degree. I remember one day after a bank holiday weekend, when we took in a huge amount of cash, and at the end of the day when balancing my till, I held $100,000 in cash in my bare hands. It was a pretty heady experience for a 19-year-old to hold that much in cash. After graduating from university, I trained as a Chartered Accountant with PWC and qualified in 1987, when my wife and I moved with PWC from Canada to Switzerland. In 1993, my wife, our two daughters and I moved to London, where we still live today. During my career, I have done business throughout Europe, Asia Pacific and North America. I've been the Chief Financial Officer of companies listed in on stock exchanges in London and New York. I've raised over £120 million / US$ 150 million of funding and bought or sold 29 companies.

Entrepreneurship is in my blood too, starting with the experience as a paper boy all those years ago. In the last 15 years, I have founded or co-founded several businesses, and since 2012, I have worked exclusively with entrepreneurs. Today my consulting business, Add then Multiply supports entrepreneurs in finance and scaling their companies using advanced strategies I have developed.

Because many entrepreneurs do not understand finance, they are held back in their ability to grow their business. They may know their daily sales figures and how much money is in the bank, but they don't know how to use finance to drive both growth and profitability. They follow what their bookkeeper or external accountant tells them to do for filing statutory accounts and tax returns, but they do not know the strategic role that a strong finance function can play in a growing business. This lack of knowledge can cause stress and anxiety.

Here are five common mistakes entrepreneurs make that can easily be rectified with a good finance team and will help drive profitable growth:

- They don't have a detailed financial plan. A plan is a tool for measuring performance, not something that constrains the business. Break down sales across different categories. Know the volumes needed at prices the market will bear to achieve the revenue target. Look at every cost line item to ensure money is being spent on the right things. Identify areas where spending can be cut and where it needs to increase. It's important to see both the big picture and the detail for income and expense items.
- They don't look at monthly results. What gets measured gets managed. With a detailed plan, it's easy to compare actual performance on a regular basis to the plan. Identify the main variances. Understand why they happened and what needs to be done to get back on track. If things are ahead of the game, can more resources be allocated to continue that outperformance? By staying on top of the results, action can be taken to improve growth and profitability.
- They don't chase overdue debtors. For many entrepreneurs, this is the biggest drain on cash in the business. They've gone to the effort of making a sale and delivering their product/service to the customer, but they don't chase when the payment is overdue. A robust credit control process is key to driving cash flow.
- They focus on reducing their tax bill rather than maximising profit. Of course, they should not pay more tax than required under the law, but instead of driving growth and profitability, their attention is drawn toward ways to reduce tax.
- They don't consider external funding as a tool to accelerate growth. Many entrepreneurs are held back in their growth because they claim they can't afford to invest in the business: new staff members, more marketing, adapting their business to maximise the potential of artificial intelligence, or other investments that will accelerate their growth. External funding is available for growing, profitable businesses and will accelerate growth.

With a few simple changes and the right finance people in place, it's easy for entrepreneurs to address the five common mistakes and eliminate their stress and anxiety about finance. They have the financial firepower to invest and grow their business. Then, they can implement the advanced growth strategies set out in my award-winning book, Add then Multiply – how small businesses can think like big businesses and achieve exponential growth.