Get your business fundamentals fit to drive economic value

In an increasingly complex environment, every private business across Australia can benefit from establishing and refining three core fundamentals. In this article, we pinpoint these and explain how each one helps your business get fit and grow.

Based on our experience working alongside leaders in private businesses across Australia, three core fundamentals consistently enhance value while keeping day-to-day business operations in peak condition.

Whether your business is just starting out, or growing, or preparing for sale – these fundamentals can give you the confidence to control, adapt and thrive. We'll look at each of these in turn:

1 Strategy and business planning

2 Financial management and process improvement

3 Working capital

pwc

1 Strategy and business planning

In every private business we've ever encountered, hardworking CFOs and senior leaders are pulled in multiple directions. Understandably, many struggle to invest time in strategy and planning. But without this, a business cannot reap the full benefit of all their hard work.

Business strategy is a set of choices regarding what the business can achieve, and what the business will (and won't) do next. Strategy helps senior management and CFOs understand the financial implications of those choices, too.

Being able to articulate business strategy is vital. It gives funders, acquirers, and investors the confidence that management and business owners know what's driving the business. And it gives private businesses an element of control, especially in an uncertain environment.

Commonly, private businesses struggle with strategy during growth spurts, or when growth plateaus. Both these stages offer huge opportunities, providing that CFOs and senior management make time to reset and consider where they're headed next. Sometimes, they may have ideas for their next strategy but they lack the process to define and articulate it. A good place to start is to ask questions such as:

1. What does our strategy look like for each of our divisions?
2. Are we clear on our obligations to deliver the strategy?
3. How do/might we measure each division's contribution to strategy?

2

Financial management and business/ process improvement

For private businesses and their finance teams, a common challenge is productivity. In particular: knowing which indicators will provide meaningful insights and enhance growth. There's an array of data available, and finding the right data gives a business the agility to make strategic decisions in a timely fashion.

Besides internal data, finance teams also need to consider what's happening in the market at a macro level. And increasingly, KPIs need to switch from being just lag indicators to include lead indicators as well.

Every business has a different set of drivers and KPIs which evolve over time. To identify relevant KPIs, measure them, capture meaningful data, and allow leaders to make choices on where they need to pivot – the fundamentals must be right in the finance function first.

This requires a focus on process, technology, and people:

Process: Process mapping and simplification helps the finance team understand what it currently does. It shows where activity is (and isn't) contributing to providing relevant and meaningful insights linked to strategy and growth.

Technology: To maximise productivity, you need to understand the capabilities of your technology platforms and leverage these. And you may need to embed new technologies. Many businesses are now beyond harnessing robotics process automation in isolation; they're starting to experiment with artificial intelligence (AI) too.

People: If you're struggling to secure talent, it's important to know what high-calibre people expect from employers. For example, we consistently find that finance professionals are seeking digital upskilling and strategic involvement from their next role. Given the reliance on technology, you need people with the right data science and AI skills. That allows you to harness AI and provide insights in a quick and meaningful way.

Initial questions for CFOs and senior management to ask include:

1. Have we completed a process map to ensure our business activities are contributing to measurement, tracking and ultimately achievement of objectives and strategy?
2. How can technology speed up that process? Do we have the best systems and tools in place?
3. Do we have the necessary skills and capabilities in our finance team? If not, what can be learned through upskilling and reskilling, and what capabilities do we need to hire/import from outside?

3

Working capital

Working capital is another area that growing businesses sometimes overlook. Yet the ability to measure and optimise working capital can deliver genuine dollar value and tangible outcomes.

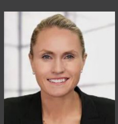
The biggest pain point for CFOs and business leaders in working capital is optimisation. We often suggest that the most cost-effective, low risk way of generating value to your business is to capitalise on the easy wins, such as optimising your collection and payment cycles.

Being able to forecast shortfalls and cash flow is where working capital management really comes into its own. It can ensure you avoid having excess cash sitting idle on your balance sheet, and it can help ensure you have reserves in place if you ever run short.

To start improving working capital management, CFOs can ask themselves:

1. Do we have a good insight into our cash lifecycle?
2. Do our business processes adequately measure, support and manage our working capital KPIs?
3. Do we experience shortfalls or excess working capital? If so, how do we manage these?

Wherever you are on your business journey, we can help you master these three business fundamentals. To find out more, visit our Private Business Life Cycle hub. For a more detailed discussion, please get in touch with your PwC advisor or contact:



Jade Dixon
Partner - Outsourced CFO,
Sydney, PwC Australia
T: +61 2 8266 3590
E: jade.dixon@au.pwc.com
linkedin.com/in/jadedixon

Tim Hall
PwC | Private | Partner - Tax,
Melbourne, PwC Australia
M: +61 416 132 213
E: tim.a.hall@au.pwc.com
https://www.linkedin.com/in/tim-hall/