

Best Practice Financial Management



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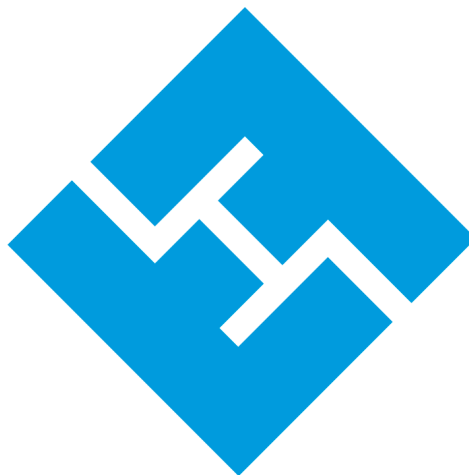
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Prepared by:



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Best Practice Financial Management

Running a business is high risk. There is so much opportunity, yet a lot that can go wrong. Without sound financial management, you cannot effectively maximise the opportunity you seek or minimise the threats to which you're exposed.

Adopting sound financial management means embracing rigorous financial forecasts and real-time accounting, so you are looking forward through the 'windscreen' and not relying on the 'rear-view mirror'. You need a clear understanding of the opportunities that lay before the business and its actual performance to manage the upside and downside risks that will invariably arise.

In the past, achieving best practice financial management was challenging and often seen as prohibitive from a cost perspective. However, with technological advances, business owners can now cost-effectively embrace best practice financial management to improve business performance and risk management.



Moving Beyond Compliance

Often accounting systems are seen as a necessary evil primarily focused on record-keeping to meet compliance obligations, such as meeting Business Activity Statement (BAS), Goods and Services Tax (GST), income tax and other statutory obligations. Here is a typical scenario:

1. The business owner uses their accounting system to record income and expenses sufficient to prepare their BAS and track who owes what
2. There is often a flurry of activity around the end of each BAS period to get the accounts up-to-date to meet BAS lodgement requirements
3. The business' books aren't up-to-date or entirely accurate and, therefore, can't be used to make sound business decisions

4. At the end of the year, the business' external accountant takes this information, puts it into a different accounting system, makes the necessary adjustments, and prepares an accurate set of annual reports:
 - i. This happens once a year and many months after the financial year
 - ii. While this can be effective for meeting the end-of-year compliance requirements, the reports are far too out-of-date to be of any real business value in capturing opportunities or mitigating threats
 - iii. Sometimes, the business' external accountant may update the accounting records to create an accurate starting point for the beginning of the most recent financial year. Even when done, however, it generally occurs many months later and leaves the business 'running blind' in the meantime
 - iv. A lack of ongoing monitoring and the intermittent updating process means accuracy and timeliness issues continue to render the accounts only useful for compliance
5. On occasions, the business owner might prepare a cash flow forecast (either by themselves or with some external help) to support a funding proposal. Typically, this is:
 - i. A one-off activity (done solely to support a finance application rather than for the effective management of the business' performance and risk exposure)
 - ii. Unsupported by the necessary measures and controls to track progress, identify opportunities or threats, and proactively do something about them.

In short, this type of financial control lacks the accuracy and timeliness needed to permit effective and proactive business management. It's an antiquated approach **acceptable in the past, but no longer.**

The accounting system is a core business management tool that should measure business performance in real-time to capture opportunity and mitigate threats. Greater attention must be given to the underlying business, how it's run daily, and the management control level adopted. In particular, business owners need to:

- Forecast future business performance, cash flow and financial position (three-way forecasts that include the Profit and Loss, Cash Flow and Balance Sheets)
- Measure performance in real-time and provide timely reporting for informed decision making
- Proactively manage unforeseen events, variances in actual-to-budgeted results and effectively manage risk to protect themselves and other key stakeholders.



Regardless of their underlying business's strength, unless business owners can show sound financial management, they will be out of step with what finance providers require. A misfit between actual and desired financial management will limit the business' ability to raise funding and secure the most favourable rates, terms and conditions.

A lender will perceive that the owner is exposing their business and financiers to unnecessary (and often unacceptable) risk unless they have a:

- Clear line of sight into the business' expected future financial performance
- Reasonable basis for concluding that the business' actual performance is being measured and reviewed in real-time
- Reasonable basis for concluding that appropriate action is taken to capture opportunity and manage threats.

When borrowing money, it's paramount to provide financiers with the comfort that you're measuring business performance in real-time and identifying opportunities and threats promptly. This comfort doesn't come from a backward-looking, compliance-focused accounting system.

Those who embrace and demonstrate best practice financial management will further improve their competitive advantage in an environment where accessing capital is also competitive.

Where you require external support to implement best practice financial management, costs are no longer prohibitive. Instead, real-time performance measurement and management is a sound business practice that's now relatively easy to achieve.

What Constitutes Best Practice Financial Management?

As illustrated in *Figure 1* below, you can achieve best practice financial management by focusing on:

Performance measurement – measuring the ongoing performance of your business in real-time

Data automation – improving data entry timeliness and removing the cost and burden of effectively achieving real-time performance measurement

Planning – actively forecasting business performance, capital requirements, and risk exposure

Optimising performance – actively comparing actual results against expected results, undertaking analysis, reporting and taking corrective action as required.

By focusing on each of these critical elements and using technology currently available, you can achieve best practice financial management and significantly improve the management of both opportunities and threats relatively cost-effectively. Each of these steps is explored in further detail.

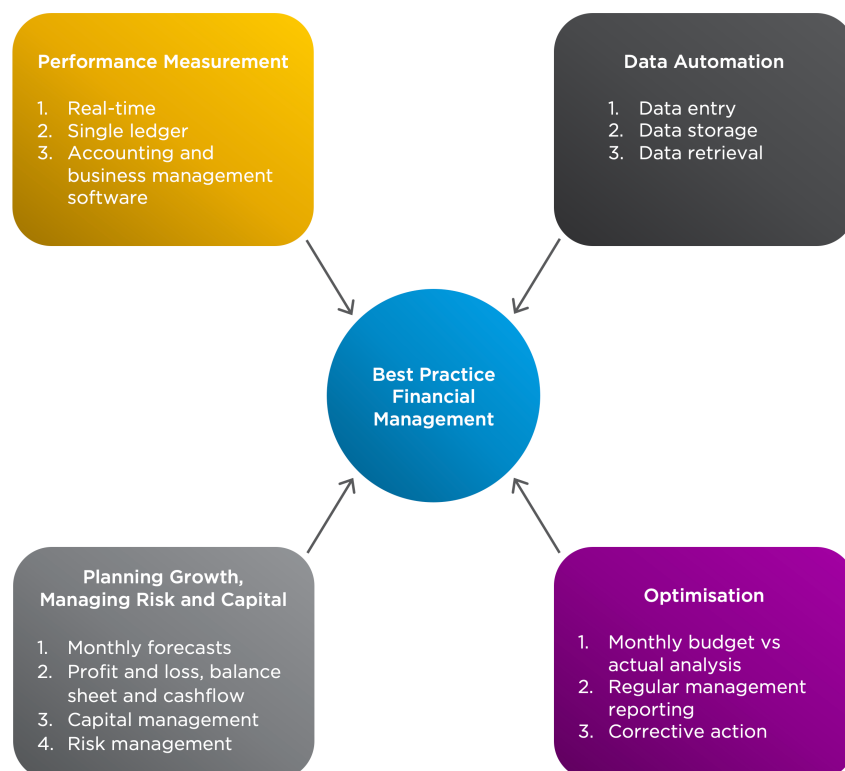


Figure 1 - Best Practice Financial Management

Performance Measurement

Accounting is about performance measurement. When coupled with other management systems, they can collectively become powerful tools for managing profitability, growth and risk. With technological advances and innovative products such as Xero, Hubdoc, and their integrated applications, small- to medium-sized businesses can now enjoy enterprise-wide management systems that:

1. Remove much of the burden of manual data entry and the complexity of maintaining your accounting systems
2. Eliminate the need to duplicate work, including requiring an external accountant to spend unnecessary time re-entering data you've already recorded, thereby lowering costs
3. Significantly simplify compliance obligations, improving compliance and lowering both internal and external compliance costs
4. Enable real-time accounting that goes **far beyond** just meeting compliance obligations
5. Improve the accuracy and timeliness of information available for decision-making and actually using it for its most valuable purpose – growing the business and managing risk!
6. Give external advisers real-time access to your business' performance and trends, so they can provide proactive, relevant and more valuable advice and support that helps you capture opportunities and mitigate threats
7. Raise your credibility in the eyes of external stakeholders (for example, finance providers) by providing greater confidence and comfort in how you manage your business, capture opportunities and mitigate risks
8. Strengthen the prospects of securing the funding you need to grow your business and improve the rates, terms and conditions of any funding you secure.



If you're not using a real-time single ledger accounting system like Xero, you'll limit your:

1. Ability to effectively manage your business' operations
2. Ability to take advantage of opportunities, mitigate risks and generate the profits and wealth you seek
3. Success in seeking funding and how competitive the rates, terms and conditions you secure are.

There is simply no excuse for not having accurate and up-to-date financial information (see [Figure 2](#) for a sample business dashboard and [Figure 3](#) for a sample scorecard that you can use to track business performance).



Figure 2 - Sample Financial Dashboard



	July	August	September	October	November	December	Total
Budget	61,330	31,289	26,340	26,356	26,359	26,356	198,030
Actual	63,746	28,401	54,998	54,509	20,818	26,567	249,039
- Total Revenue score	3.94%	-9.23%	108.8%	106.82%	-21.02%	0.8%	25.76%
Budget	9,000	9,000	9,000	9,000	9,000	9,000	54,000
Actual	8,302	9,387	10,891	9,679	8,124	9,092	55,475
- Wages and Salaries score	7.76%	-4.3%	-21.01%	-7.54%	9.73%	-1.02%	-2.73%
Budget	44,923	17,203	13,254	13,270	13,273	13,270	115,193
Actual	47,332	13,883	34,930	35,520	7,074	11,759	150,498
- Gross Profit score	5.36%	-19.3%	163.54%	167.67%	-46.7%	-11.39%	30.65%
Budget	39,987	13,747	7,348	7,414	6,174	4,521	79,191
Actual	42,926	10,956	30,312	28,194	1,002	5,496	118,886
- Net Income(Loss) score	7.35%	-20.3%	312.52%	280.28%	-83.77%	21.57%	50.13%

Figure 3 - Sample Business Scorecard

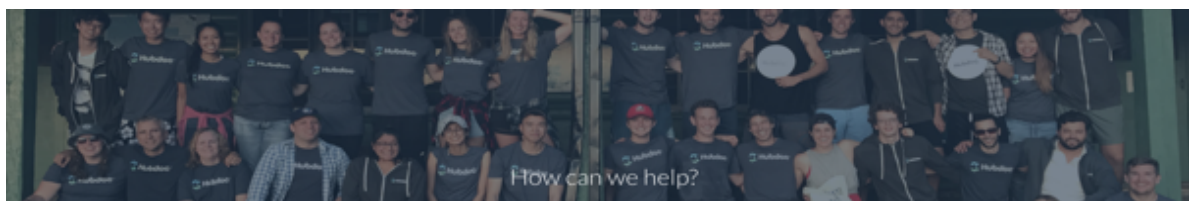
Data Automation

Two critical issues prevent business owners from adopting real-time accounting and proactive business management systems – overcoming the burden of manual data entry and the difficulty of completing it on time. But it no longer needs to be like this!

Products such as Hubdoc provide a **highly automated** means of achieving real-time data entry at minimal cost. When coupled with products such as Xero, measuring your business performance in real-time, making informed decisions and managing risks is far simpler than ever before.

For example, Hubdoc allows you to capture all your purchase invoices via your mobile phone or automatically fetch them online, where they can be stored and published to your accounting system, ready for reconciliation and payment.

You can eliminate manual data entry and record retention, reducing costs and significantly improving timeliness. That means you can achieve real-time business performance measurement with little effort.



Planning Growth, Managing risk, and Capital

As a business owner, you must answer two key questions:

1. How can I get my business to deliver the outcomes I want?
2. How can I maximise the performance of my business to achieve even greater success?

The answers involve challenges, trade-offs and paradoxes, often in uncertain and complex environments. You must embrace sound planning that enables you to proactively identify and seize opportunities while actively countering threats. As illustrated in [Figure 4](#) below, planning for and shaping business growth is a four-step process:

1. Developing forecasts
2. Undertaking financial modelling
3. Determining your capital requirements
4. Optimising your funding requirements and business performance by closely monitoring actual performance against forecast and taking early action to capture emerging opportunities and mitigate the impact of negative variances and downside risk.

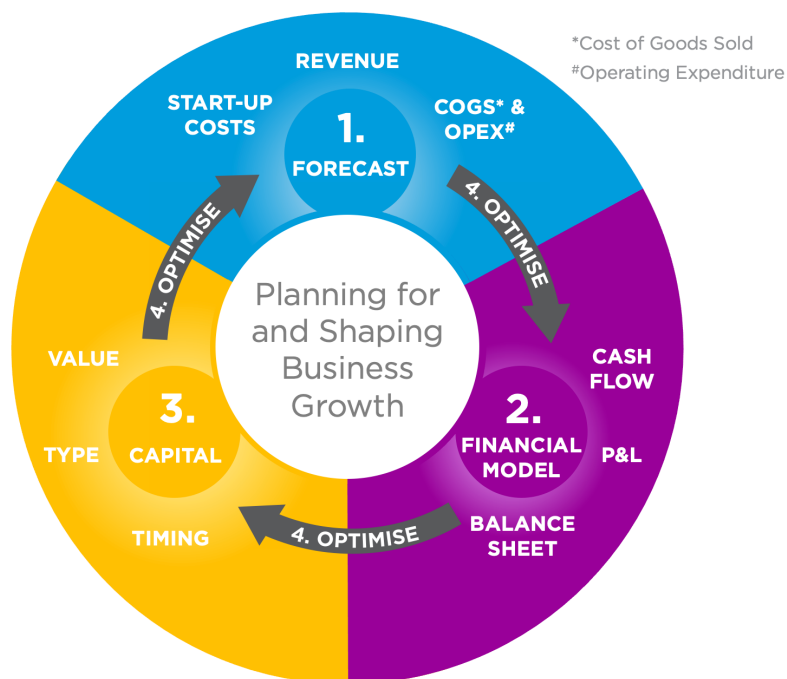


Figure 4 - Planning for and Shaping Business Growth

Each of these steps is detailed on the following pages.



Developing Forecasts

Developing sound forecasts involves forecasting your:

1. Start-up/project costs
2. Revenue
3. Cost of sales
4. Operating expenditure.

As illustrated in [Figure 5](#), you'll need supporting material to confirm the information, being lean but accounting for the hidden costs, adopting a suitable forecast period and intervals, allowing for inflation, and applying sound commercial judgment.

Step 1

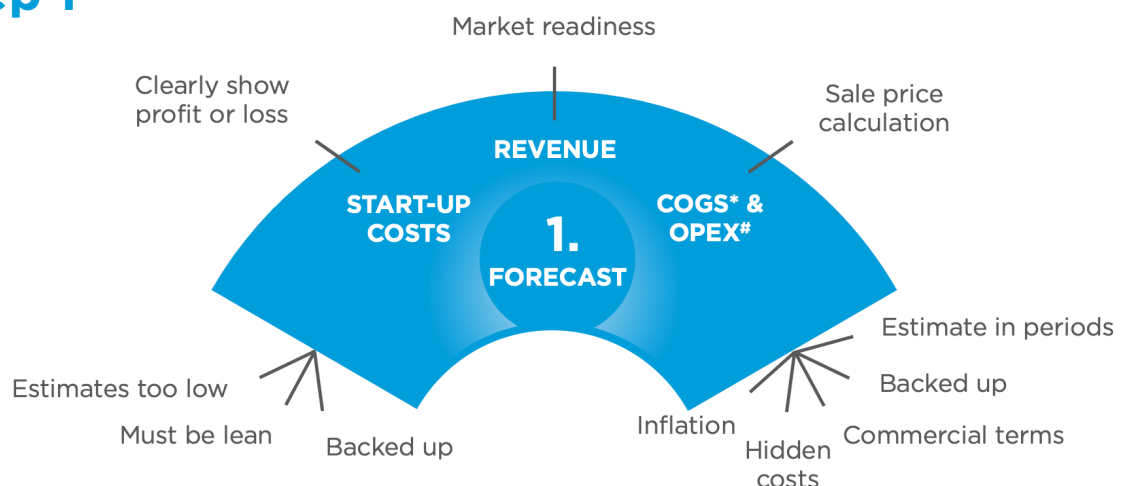


Figure 5 - Forecasting Fundamentals

Financial Modelling

Once you have established your start-up costs (if applicable), your revenue, cost of sales and operating expenditure (as illustrated in [Figure 6](#)), the next step is to build a three-way forecast of your:

1. Profit and loss
2. Balance sheet
3. Cash flow.

You should use software dedicated to building three-way forecasts and incorporating automatic recalculations that facilitate effective scenario planning. The financial modelling process should also take a bottom-up approach, account for all balance sheet movements and capital requirements, and provide a realistic estimate of your profit and cash position.

Step 2

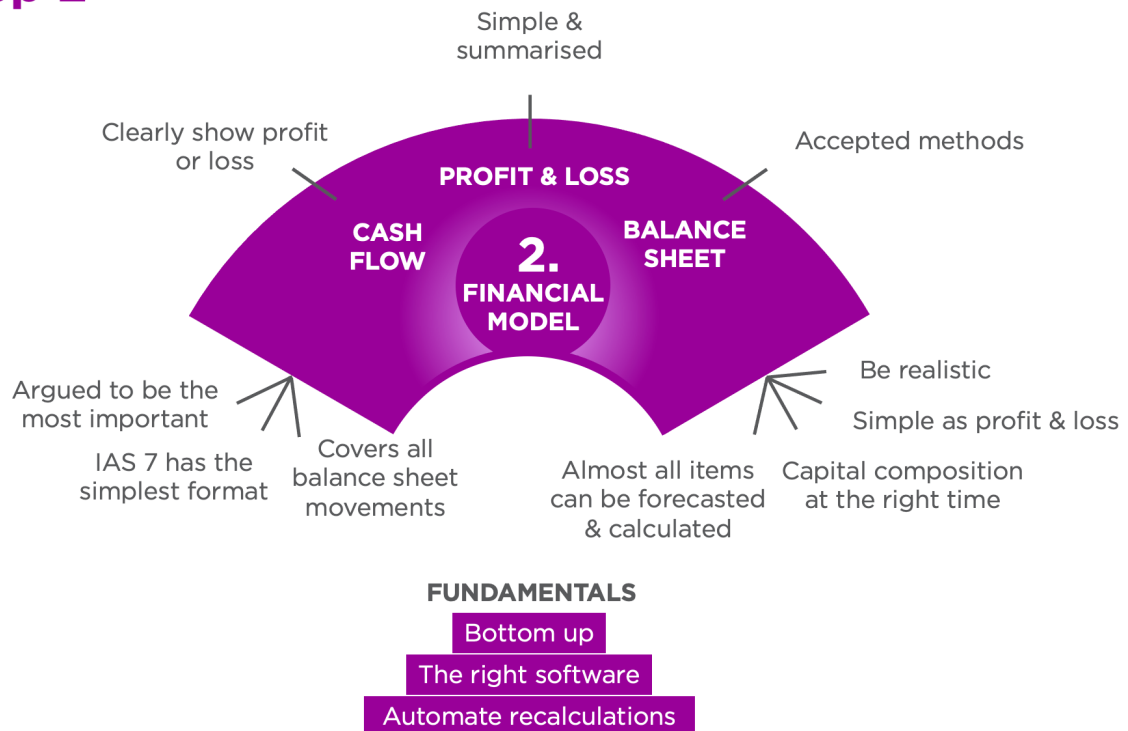


Figure 6 - Financial modelling

Capital Requirements

Once you've constructed your three-way forecasts, as illustrated in [Figure 7](#), you can then develop a clear understanding of your capital requirements in terms of the:

1. Value (amount of capital required)
2. Type (debt vs equity)
3. Timing (when you receive it and when you return it)
4. Cost of capital, its affordability, and the associated risk exposure.

Step 3

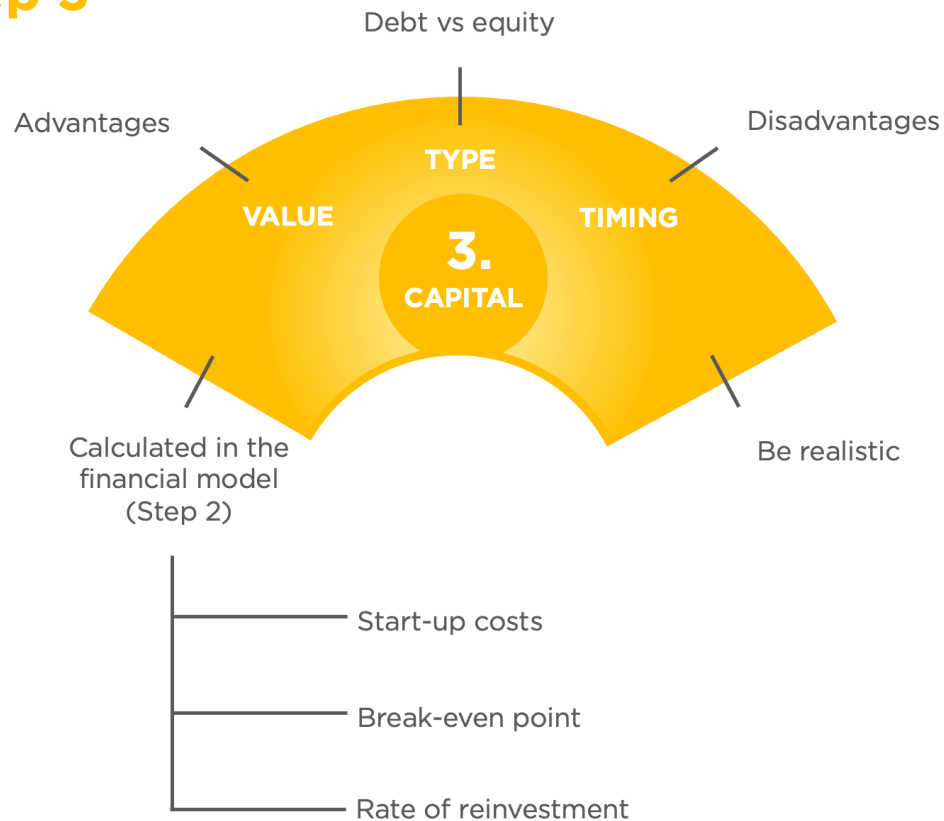


Figure 7 - Establishing capital requirements

Optimising Performance

Once you have a sound forecast in place and secured your capital requirements (illustrated in [Figure 8](#)), the next step involves optimising performance. You'll need to measure actual versus budgeted performance, undertake analysis, report results, and take corrective action to seize opportunities and counterthreats.

To optimise performance, you must compare actual results against budgeted results, identify opportunities and threats early and respond in a timely, effective manner. It's not enough to do this on the 'fly'. You must follow sound practices so that you:

- Have a systematic approach that won't miss opportunities or threats
- Complete it regularly
- Document it and demonstrate to key stakeholders (e.g. debt and equity providers) that your (and their) interests are being appropriately, promptly and effectively managed



- Make it an ingrained business practice, rather than seeing it as a short-term initiative aimed solely at securing funding.

Step 4



Figure 8 - Optimisation

Figure 9 illustrates the types of automated variance reports generated to assist with business optimisation using appropriate integrated software.

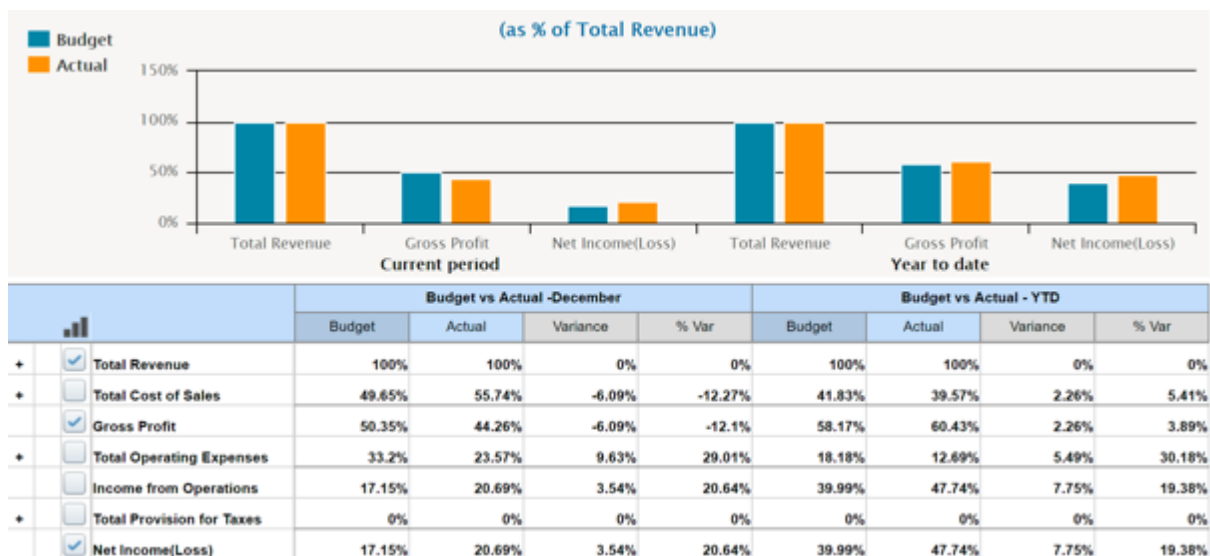


Figure 9 - Sample Profit and Loss Variance Report



Summary

To maximise success, business owners must embrace a best practice business management approach that includes implementing and demonstrating superior financial management.

You must adopt a forward-looking and proactive approach to business management given the complexity, uncertainty and pace of change in today's business environment.

With ongoing advances in technology, you can achieve best practice financial management more cost-effectively. The four steps to achieving best practice financial management involve:

- Measuring the ongoing performance of the business in real-time
- Improving data entry timeliness and lowering the cost and burden of achieving real-time performance measurement
- Actively forecasting business performance, capital requirements, and risk exposure
- Actively comparing actual results against forecasted results, undertaking analysis, reporting and taking corrective action as required.

This must become an ingrained business practice, rather than being seen as a short-term initiative aimed, for example, solely at securing funding. By developing best practice financial management as a core business routine, you can:

- Maximise revenue, profits and long-term success
- Minimise the risks that may otherwise threaten the success you're after
- Secure the funding you seek and get more favourable rates, terms and conditions.



Moving Toward Best Practice Management

Many business owners have a significant opportunity to enhance their financial control and risk management cost-effectively by incorporating these activities into their business practices. Technological advances mean a real-time business management system is within your grasp. To take this step, you need to:

1. Seek a suitable expert's advice and support
2. Establish a solid foundation for cost-effectively measuring business performance in real-time (using systems like Xero and Hubdoc)
3. Use the right software to construct your three-way forecasts and compare and interpret actual-versus-budgeted results
4. Report the results in a timely and professional format
5. Take action to capture the opportunities that emerge or threats that arise.

Suppose business owners embrace this as a continuous mode of operation and implement it correctly. In that case, they will improve their business performance, reduce risk, and secure greater credibility with key stakeholders, such as financiers (see [Figure 11](#) and [Figure 10](#) for further samples of performance measurement reports).

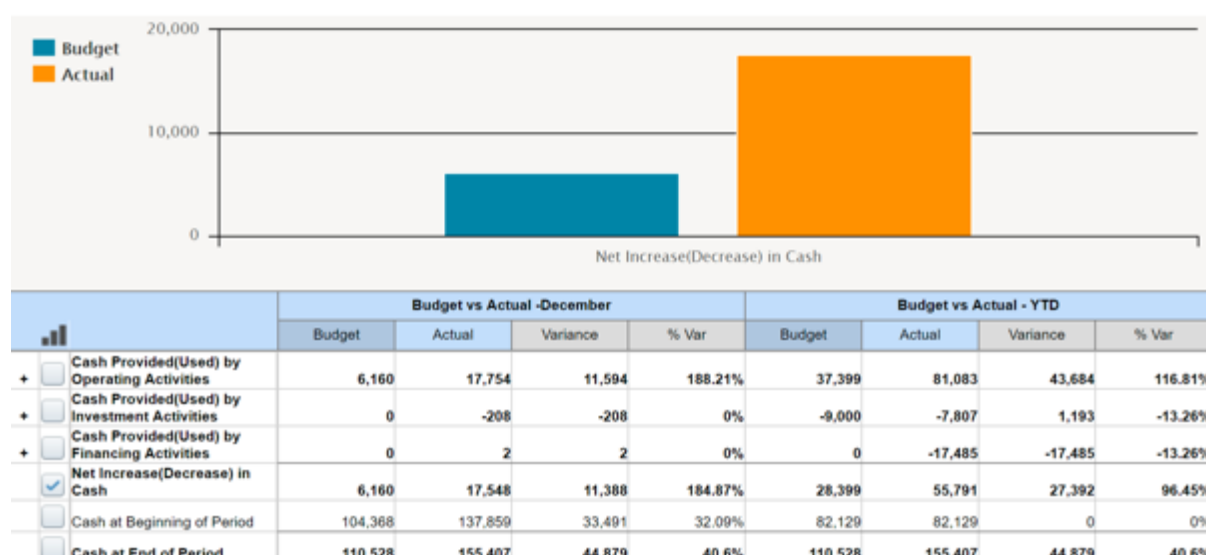


Figure 10 - Sample cashflow variance report



	Budget vs Actual -December			
	Budget	Actual	Variance	% Var
Liquidity Ratios				
Current Ratio	7.62	9.84	2.22	29.13%
Quick Ratio	7.62	9.83	2.21	29%
Working Capital to Sales %	439.93	590.46	150.53	34.22%
Efficiency Ratios				
Accounts Receivable Turnover	1.15	1.4	0.25	21.74%
Days Receivables	26.95	0	-26.95	-100%
Coverage Ratios				
Leverage Ratios				
Fixed Assets to Equity	0.28	0.04	-0.24	-85.71%
Debt to Equity	0.12	0.1	-0.02	-16.67%
Operating Ratios				
Asset Turnover	0.15	0.14	-0.01	-6.67%
Sales to Fixed Assets	0.65	3.59	2.94	452.31%
Sales to Working Capital	0.22	0.16	-0.06	-27.27%
Profitability Ratios				
Return on Equity %	3.18	3.34	0.16	5.03%
Return on Assets %	2.6	3.01	0.41	15.77%
Return on Sales %	17.15	20.68	3.53	20.58%
Expense to Sales Ratios				
Depreciation to Net Sales %	0.73	0	-0.73	-100%
Other Ratios				

Figure 11 - Sample Financial Ratios Variance Report



Appendix 1 – Curriculum Vitae

Grant Ferry

Professional Experience

- Experienced management consultant with a focus on business strategy and innovation.
- Twenty-five years' experience in establishing, leading, growing and advising businesses in a wide range of industries, including agriculture, retail, wholesale, manufacturing, export and professional services.
- Works in partnership with business owners and leaders to help them achieve their personal and business goals, creating value and success.
- A dynamic business partner who believes implementing a well-developed business strategy and effective innovation are critical for sustained business growth and success.



Key Competencies

- Creativity and innovation
- Business strategy
- Marketing strategy
- Entrepreneurial and visionary
- High-level, critical and detailed problem-solving skills
- Delivering outcomes and creating success
- Negotiating complex issues
- Financial and commercial acumen
- Project management.

Key Appointments

Fortitude Business Consulting

Principal Consultant

2014 – Present

Fortitude Business Consulting is an independent business advisory firm. It works closely with small-to-medium businesses and accounting practices to provide them with resources and support to maximise business performance and deliver the owner's personal and business goals.

Accomplishments

- Worked closely with clients to develop and implement business strategies and operational plans aligned to their business and personal goals
- Developed and refined business value propositions, business models, visions, missions and purposes.
- In partnership with clients, implemented innovative strategies to sustain and grow the business
- Successfully integrated innovative software technologies to improve business performance, efficiencies, management control and reporting, compliance and risk mitigation
- Helped raise capital for business expansion
- Assisted with implementing changes to deliver desired outcomes, including enhancing asset protection, preparing business sales and transfers, cost savings and other key objectives
- Provided a sounding board and accountability.

Crowe Horwath Australasia

Senior Principal

1995 – 2014

Crowe Horwath is a listed public accounting business with a turnover of \$400m. 3,000 staff deliver a wide range of services to high-net-wealth individuals, small-to medium-sized enterprises, and the fifth largest accounting firm in Australia.

As a senior principal focusing on business advisory, Grant managed a \$3.2m client base while leading a team of fifteen full-time equivalent professionals and support staff. He also contributed to the leadership, growth and management of the firm's other divisions.



Accomplishments

- Created the firm's top-performing business services team, which provided management consulting, business, accounting and taxation advice. Generated double-digit growth, materially contributing to the firm's overall financial and non-financial performance
- Managed most of the firm's largest (\$100m plus), most complex clients
- As a member of the Board of Management, I created and implemented the firm's strategic direction
- Obtained government funding for many clients from a variety of programs
- Assisted Anabranh Water by successfully negotiating the return of the Great Anabranh of the Darling to its natural state and transferring ownership. This highly complex project involved \$50m plus of infrastructure works and established a sinking fund to ensure the project's future security
- Successfully defended the application of Part IVA (income tax anti-avoidance provisions) against a group of sixteen clients' that the Australian Taxation Office sought to deny over \$8m in tax deductions
- Assisted a major client to successfully navigate a high level, 16-month long audit covering a large range of taxation and commercial issues
- Successfully argued various Payroll Tax, Income Tax and Goods & Services Tax Audits by using a thorough understanding of client issues and proactively applying it to the taxation and commercial realities.

Other key roles

Wargan Farms	Managing Partner	2000 – 2013
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Wargan Farms is a dried vine fruit vineyard. Grant organised and oversaw the business' creation from concept development, research, design and construction to a fully operational and productive \$2.5m business.

Mt Hope	Managing Director	2008 – 2014
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Mt Hope Pty Ltd provided contract labour services, specialist equipment manufacturing and steel fabrication services to Wargan Farms and the Australian Dried Vine Fruit Industry.

Thomson's Agribusiness

Business Manager

1999 – 2013

Thomson's Agribusiness is a large-scale (200 hectares) dried vine fruit vineyard operated as a managed investment pursuant to Corporation Law. Roles included business manager, compliance officer, and project leader.

Sunset (JV)

Business Manager

2002 – 2012

Sunset (JV) was a privately held, large-scale, 162-hectare, \$8.0m wine grape-growing joint venture comprising 16 different parties.

Australian Premium Dried Fruits

Managing Director

2005 – 2012

Australian Premium Dried Fruits is a food processing and marketing business aimed at revitalising the Dried Vine Fruit Industry by reducing production costs and developing higher-value markets.

Grant created the business, set its strategic direction, and led and managed the initial \$10m capital investment, ongoing business operations and strategic direction.

Industry Experience

- Accounting
- Agriculture and viticulture
- Building, construction and earthmoving engineering
- Export
- Financial services
- Food and light industrial manufacturing
- Health and medical
- Legal
- Machinery and automotive dealerships
- Property development, including residential, commercial and industrial
- Retail and service.



Formal Education

HEC Paris	Master of Science in Innovation and Entrepreneurship	2019 – 2020
Stanford University	Stanford Entrepreneurship and Innovation Certificate	2017 – 2018
RMIT	Executive Master of Business Administration	2014 – 2018
University of NSW	Master of Taxation	1999 – 2003
CPA Australia	CPA Program	1997 – 1998
La Trobe University	Bachelor of Business (Accounting)	1993 – 1996

Professional Certifications, Memberships, and Registrations

Registered Tax Agent	Tax Practitioners Board
Certified Practicing Accountant	CPA Australia
Certified Management Consultant	Institute of Management Consultants
Certified Professional Innovator	International Association of Innovation Professionals
Certified Management of Innovation	International Association of Innovation Professionals



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