PROFIT
CASH
GROWTH

5 Common Myths About Finance

Myth 1 – You should leave the finance to a professional

Lets get started with the biggest myth of all! Absolutely, you need a bookkeeper to keep on top of your day to day work like invoicing and VAT returns, and you need an accountant to do your year end tax returns.

But finance is so much more than that. Financial management is about using the numbers in your business to understand what is and isn't working, and making smart decisions that increase your profit, improve your cash flow and grow your business.

It's day to day decisions such as pricing, what stock to order, if you can afford to recruit, and getting maximum return on your marketing.

In short, understanding your financials isn't just about crunching numbers. It's about making informed decisions that can lead to the success of your business. So, as a small business owner, it's important to learn at least the basics of finance. It will provide you with the tools to make better decisions for your business.

Myth 2 - You should always have cash in your bank

I speak with a lot of business owners and many of them have one thing in common. They love to tell me how they separate bank account they set money aside in. They have it for things like their VAT bill, annual tax return, or even just saving it for a rainy day.

In fact I met one business owner who kept £0.5 million (his turnover was £2.5m by the way 😱) in a bank account as he liked a safety net, just in case.

So would you think I was mad if I told you the perfect bank balance is zero? That's right, zilch, nowt, a bit fat zero! This doesn't mean the business is broke, but rather that it's efficiently using its cash. Instead of sitting idle in the bank, every penny is invested back into the business or used to generate more income. This could be through purchasing inventory at a discounted rate, investing in more marketing, or even expanding operations. By keeping the bank balance at zero, businesses ensure their money is always working for them, potentially earning profits rather than just sitting in the bank.

Now in reality it's near on impossible to achieve the perfect score of zero, but the first step to achieving this is doing a cash flow forecast so you have clarity on how much money you have coming in and out, and you can identify where you have any excess cash. Once you have this perspective you can decide how to best use that money to grow your business.

Myth 3 – Low costs are a sign of a well-managed business

While maintaining low costs is often seen as a sign of efficiency in a small business, it can also indicate a lack of investment in the business's future. When a business consistently operates on a shoestring budget, it may not be allocating resources towards growth initiatives like research and development, marketing, or employee training. It is also highly likely that your productivity and quality is impacted too as you do not have the right systems and equipment to support a growing business.

This lack of investment can stifle innovation, limit market reach, and result in a less skilled workforce. Over time, these factors can lead to stagnation and make the business less competitive. Therefore, while it's important to manage costs, it's equally crucial for small businesses to invest wisely in their future to ensure long-term success. Remember, the goal isn't just to spend less, but to spend smart.

Myth 4 – Budgets and business plans are for big business & start-ups

Firstly lets cover off the difference between budgets and business plans. Think of a budget as your financial roadmap for the next year. It's like a GPS guiding your business, showing you how to allocate resources, how many team members you'll need, the sales you aim to make, and the profit and cash flow you expect. It's your one-year plan to financial success!

On the other hand, a business plan is like your business's vision board for the next 3-5 years. It's less about the nitty-gritty details and more about the big picture. It outlines your key goals and what you plan to achieve, without getting too caught up in the 'how'.

Now, small businesses might feel overwhelmed by the idea of constant planning and budgeting. But here's the thing - having a plan for the most likely outcome is crucial, especially if you're growing. It's like having a financial crystal ball, ensuring your path is profitable and you have the cash to support it.

This planning process is also your business's early warning system. It helps you spot potential hurdles on the horizon, like needing to hire new team members or your warehouse nearing capacity. So, while planning might seem daunting, it's your secret weapon for long-term success!

Myth 5 – Debt is bad

Many small business owners have a badge of honour that they have self-funded the business and not taken on any debt.

And taking on debt might seem daunting, but it can actually be a strategic move for small businesses. Because Debt allows you to fuel your business's growth now, rather than waiting until you've accumulated enough cash. It's like a turbo boost, propelling your business forward at a faster pace. This could mean expanding your product line, hiring more staff, or investing in new technology - all of which can give you a competitive edge.

Plus, with the right planning, the growth you achieve can more than offset the cost of borrowing. So, while debt should be managed carefully, it can be a powerful tool for small businesses aiming for growth.

Remember, it's not just about taking on debt, but about strategically investing in your business's future.