Pyramis solutions

Strategic Financial Management

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Vicki Lamch, Pyramis Solutions.

In essence…

Strategic financial management mainly focuses on the sourcing of business finance, how that finance is used to generate returns and how best to utilise those returns for future growth and wealth. At this level of the organisation/business, you will be concerned with the whole business (as opposed to divisions or departments), considering the medium (2 – 5 years) to long term (5 – 10 years) and ensuring the financial strategy fits in with the organisational strategy, specifically how the finance will support business operations & growth.

From the top…

A lot of finance is focused on the historical transactions of the business and how much profit it has made, however this is such a small part of your businesses finance. Financial management is about ensuring you have a plan for how you're going to continue to run your business and how you are going to have the finance to support that.

Do explain further…

Returning back to the key areas that can be considered the root of Financial Management:

Financing

In essence, this is how you source the funds for your business and this isn't just at the start-up phase, this is throughout. Many forms of finance fall into one of the following two categories, Debt or Equity.

Debt can be categorised as borrowing an amount of money (usually fixed except for overdrafts) for an agreed interest rate over an agreed period of time.

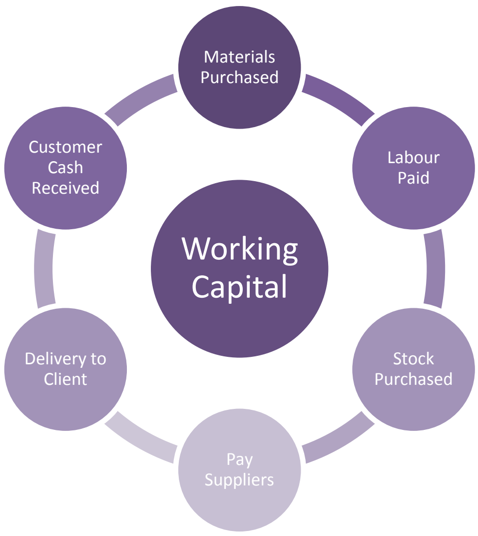
Equity is often related to the ownership of the business. If you choose to sell your shares to raise money for your business, you have raised equity finance. The cost to you now is a share of your profits or the investor's requirement for you to grow the value of their shares.

Depending on the size and structure of the business, where you are in your business lifecycle (start-up vs mature) and your expected plans for the future, it will normally affect the type of finance that is available to you and the type that suits your needs. Both sources come at a cost, Debt is normally cheaper but is a fixed outgoing no matter how well you perform, Equity is typically more expensive however it is not fixed, payments can be withheld if needs be.

Strategic financial management seeks to find the optimum mix of Debt & Equity finance for the lowest cost to the business, ensuring there are funds available looking forward, whilst keeping its existing funders satisfied.

Investment

The investment part of Financial Management looks at how the funds raised are actually spent to gain returns for its owners. There are several areas that require investment within your business, although your workforce and product (or service) is important, the main areas considered within financial management are Capital Investments and your Working Capital.



Capital investments are those large purchases such as land, buildings or equipment, also known as your non-current assets. They are the type of purchases that need some consideration before diving in, items like business acquisitions, a new store/division, or the purchase of the latest manufacturing equipment; all should have some kind of investment appraisal.

The other area to think about is the level of Working Capital the business requires, this is effectively the operating levels of cash needed from buying your source materials through to receiving the money from the client. Ensuring you have plenty of cash/funding to cope with the length of time your business needs to operate until the client has paid you.

Risk Management

There are some specific risks when dealing with finance, these being Foreign Exchange Risk and Interest Rate Risk.

If you are trading in multiple currencies or have some business segments in other countries, the exchange of currency can be a costly and can be an unpredictable risk if the exchange rate fluctuates against you.

Similarly, changes in the interest rates can dramatically affect your borrowing costs and your gains on investments, good financial management can help implement financial tools that can limit or minimise the risk and create some certainty around unpredictable adverse movements.

In conclusion…

Strategic financial management is mostly focused on the medium/long term, having a good plan for your financing needs, making the most from your investment opportunities and successfully mitigating the financial risks your business may be facing. It is also very unique to the businesses long term objectives so careful consideration is needed to gain the right balance between using the standard financial tools with what you want to achieve.

If you would like to know more or to discuss any of the above content, the author would love to hear from you, please contact them on vicki.lamch@pyramissolutions.co.uk.

Who do you know that would benefit from reading this article or speaking to us at Pyramis Solutions; please do share this information and our contact details.