When Your Business Grows **Bigger**

A Practical Guide to *Financial and Business Management*

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Financial Management

In a large corporate setting, the typical corporate finance functions would include corporate accounting, financial planning, financial reporting, business analysis, corporate treasury, and investor relations. The entrepreneurial setting of one person doing all tasks ceases to be feasible as a company grows to become a larger corporation. To function efficiently and effectively, a corporation would need specialization from and cooperation among different departments or functions. It requires defined systems, policies, and procedures so that consistent standards can be applied and quality be assured.

Corporate Accounting is responsible for processing and recording the daily transactions of accounts payable, accounts receivable, and general ledger. Financial Planning involves annual planning and budgeting as well as long-range planning for three to five years. This department can also conduct competitive analysis, strategic planning, taxation planning, and mergers and acquisitions (M&A) analysis, if there is no other specific department formed to carry out these functions. Financial Reporting and Business Analysis provide periodic financial reporting and performance analyses of strategic business units (SBU's), product lines and geographic locations. They help facilitate timely management actions on both feedback and proactive bases. Corporate Treasury is in charge of a corporation's cash management, risk management, capital funding and structure, as well as bank relations. Finally, Investor Relations in public companies takes charge of servicing and communicating with investors.

Profitability and Growth

Balancing profitability and growth is a challenging issue a corporation faces. A company needs to be profitable to sustain its long-term survival. Healthy profitable growth is the ideal priority a corporation wants to pursue. However, there may be different industry dynamics and company maturities that warrant the pursuit of growth over profitability, or vice versa. Eventually, profitability comes from increase in revenue and/or reduction in costs. At the current market downturns, cost rationalization and successful negotiations with key suppliers, particularly with volume purchase, become the common strategies in cost reduction. Further, continuous process improvements ensure process efficiency and productivity in human resources.

Growth can occur internally or externally. Internal growth would involve expansion in market share, product lines, and geographic penetration. A corporation would want to pursue both market breadth and depth. That is, gain market breadth by selling existing products to new customers and seek market depth by selling new products to existing customers. External growth is achieved through M&A activities. Careful engagements in M&A activities give a corporation a quantum leap in growth, particularly with synergies between different businesses. However, given the high failure rate in M&A, a corporation should pursue M&A with prudent analyses, negotiations, implementation, and integration.

Strategic Planning

Critical to a corporation's profitable growth and strategic planning is the analysis of Michael Porter's "five forces" model. Porter's model identifies five forces that drive competition within an industry:

1. The threat of entry by new competitors.
2. The intensity of rivalry among existing competitors.
3. Pressure from substitute products.
4. The bargaining power of buyers.
5. The bargaining power of suppliers.

In essence, utilization of the model discloses the value drivers, leading to the exploitation of dynamics and relationships throughout the industry stream and supply chain. Eventually, a corporation would need to make a strategic choice in its market positioning to be a real winner: becoming a quality leader, cost leader, or niche player.

My final words go back to the business essence. That is, customer is king. Our customers provide the lifeblood and reasons why a corporation exists. Understanding customer needs and achieving customer satisfaction is the key to business success. In particular, business managers and owners in the service industries rely heavily on referrals of new customers by existing delighted customers. Successful businesspersons understand how to provide value to customers and please them so that these customers take pride in referring new business. These referrals serve as "free advertisements" and "word of mouth" recommendations, which walk further and last longer than large investments in paid advertisements or promotions.