

Business Owners: For Access to Capital, Bridge the Financial Information Gap

Use three key value drivers to make your company stand out

By Douglas R. Askam

Business owners and company management do a wonderful job of telling their stories to outsiders such as bankers and investors. Not only that, they have a vast knowledge of their industry, its workers and financial status. The problem arrives when owners can't bridge the information gap between them and the outsiders they are seeking capital from.

You've got to do more than tell a great story of the past, present and what you see as the future. You've got to quantify that story with numbers, as well as words. It may seem rudimentary that in order to obtain financing, you need sound financial statements, yet in our experience with hundreds of clients, it is a problem with a large percentage of small or start-up business owners.

Today's business world thrives on information, and bankers and investors are no different. They especially have an insatiable hunger for information, given the financing decisions they make on a daily basis. So how does a growing company with a great story differentiate themselves from what appears to be similar companies looking for some type of funding? The answer is to provide reliable, accurate, and comparable numeric financial information that communicates the past, present, and future "story" of the company.

GAAP – Generally Accepted Accounting Principles

When you send your business and financing plan to a banker or investor, your company and its "story" is being thrown into a pool of funding candidates. Bankers and investors are looking for financial information that is reliable, correct and comparable to presentation standards. In the United States, this is known as US GAAP or Generally Accepted Accounting Principles. GAAP are accounting rules for the preparation, presentation, and reporting of financial statements. Be proactive with the preparation of your historical financial statements and adhere to these accounting rules, which allow non-accounting individuals, such as the banker and investor, to be able to compare your company as an investment opportunity to another company.

Three Vital Value Drivers

Many business owners believe that their business is worth more than bankers and investors think it is. They also believe that more money is available to them than the funding sources will provide. To help bridge this gap, we recommend adopting three value drivers of a well-run and professionally managed company.

1) Management Team--Many businesses are controlled by a single owner who is heavily involved in all aspects of day-to-day activities. We have consistently found a gauge in understanding the depth level of a professionally managed company – what disruptions will the business undergo when the owner is away. Professionally managed companies will have an owner who is "working on the business," not "working in the business."

Working on the business includes setting company direction, providing leadership, developing and preserving the culture, driving new products and service offerings and developing new and existing customer relationships. Funding sources may be more interested in a company that has management depth, which reduces the risk of having reliance on a single person. This occurs when the business owner performs the majority of the daily tasks or is “working in the business.”

2) Financial Strength--Financial strength from the aspect of a funding source is not necessarily just ratios and EBITDA, but includes the financial management and accounting talent in a company. Obviously, any funding source, be it a banker or investor, is looking at the traditional balance sheet and income statement. What may differentiate your company from the competition will be your accounting talent, which provides trust, experience and reliance upon the financial information provided. Nothing causes more distrust of financial information than financial information that is incomplete, not in accordance to GAAP or inconsistent from month-to-month or between years.

Financial information should also include additional information which will show a funding source that company management is on top of their financial situation. Many times, this additional information is requested as part of a due diligence effort of the banker or investor, and nothing shows more financial strength than to provide the immediate response, “I can email you the electronic file tomorrow.” The following is a listing of the additional information that will create a “wow” effect to a funding source:

- Monthly and annual prior year comparative balance sheet and income statements
- Monthly income statement variance analysis
- Budget to actual comparative income statements
- Sales and gross margin trend analysis
- Sales forecasts, backlog reports, and pipeline detail
- Breakeven analysis
- Profit/loss by product line and business segment
- Industry benchmarking analysis

3) Operational Systems--Technology can be a huge differentiator. No matter your industry, if you are not taking advantage of technology, I can promise you that your competitors are, and funding sources may be taking your operational systems into consideration during their due diligence and evaluation process.

The use, or lack, of technology provides insight, whether this was intentional or not, to your potential funding source as to your existing operational systems. If an investor deems that to bring the business’ systems up to par will require additional technology investment, the investor will discount their price to bring unacceptable technology and operating systems up to a higher level.

Communicating the Future

The last piece of the puzzle in communicating the “story” to potential funding sources is the future plans or strategy of the company. The future plan and growth “story” is best told by an integrated financial statement model that projects the financial results of the assumed business plan and the effects on the balance sheet, income statement and cash flow statement. The financial model also supports the value drivers discussed earlier in regards to the management team and financial strength by providing evidence and communicating a financial picture that company management knows where they are going and the financial effects of their decisions.

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