

# FINANCIAL MANAGEMENT

Get a basic understanding of how to manage  
your financial statements

*Focus : Understanding financial statements for business development*





## DISCLAIMER

This presentation is for educational purposes only and is intended to provide entrepreneurs with a basic understanding of how financial statements can be used in business development.

The content contained is **not** financial advice, accounting or support. Entrepreneurs should consult with relevant advisors for their specific business needs.

Any numbers shown in the examples used in this presentation are fictitious and used for educational purposes only.

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## SOME NUMBERS

Micro, small and medium sized enterprises (MSMEs) make up a large proportion of businesses in Africa and operate in a largely cash-based economy. Key considerations for entrepreneurs include tracking large volumes of cash, relationship management with other MSMEs, digitizing operations and having a strategy for growth.



90%

**90% of businesses in Sub-Saharan Africa are MSMEs equivalent to at least 44 million**

| International Finance Corporation



76%

**76% of SMEs in Africa projecting similar or increased revenue in the next 12 months .**

| Mastercard SME Confidence Index 2023



92%

**92% of SMEs in Africa identified digital payments, digitizing business and training as the main drivers of growth**

| Mastercard SME Confidence Index 2023

[www.opelo.co](http://www.opelo.co)

Source : <https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=17513> & <https://www.mastercard.com/news/eemea/en/newsroom/press-releases/press-releases/en/2023/september/mastercard-sme-confidence-index-76-of-smes-in-africa-project-similar-or-increased-revenue-in-2023/>

# 1. WHAT IS FINANCIAL MANAGEMENT?

Strategic **planning, organizing, directing,** and **controlling** of the **financial resources** in your business.

*London School of Business and Finance*

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Some questions financial management can help you answer:

“How much money do I need to **grow and operate** my business? From where?”

“How much **money is the business making?** From where?”

“How much money is the **business spending?** Where?”



“I’m making money but is it **secure?**”

“Should I pay myself a **salary,** dividend or use the money for new projects?”

“**What is my business worth?** What did I make last year? What do I plan to make in 2027?”

## 2. WHY IS FINANCIAL MANAGEMENT SO IMPORTANT?

- **To know the business financial position and cashflow management**
- **For informed decision-making**
- **To assist in developing the strategic direction for growth**
- **To navigate challenges from an informed position**

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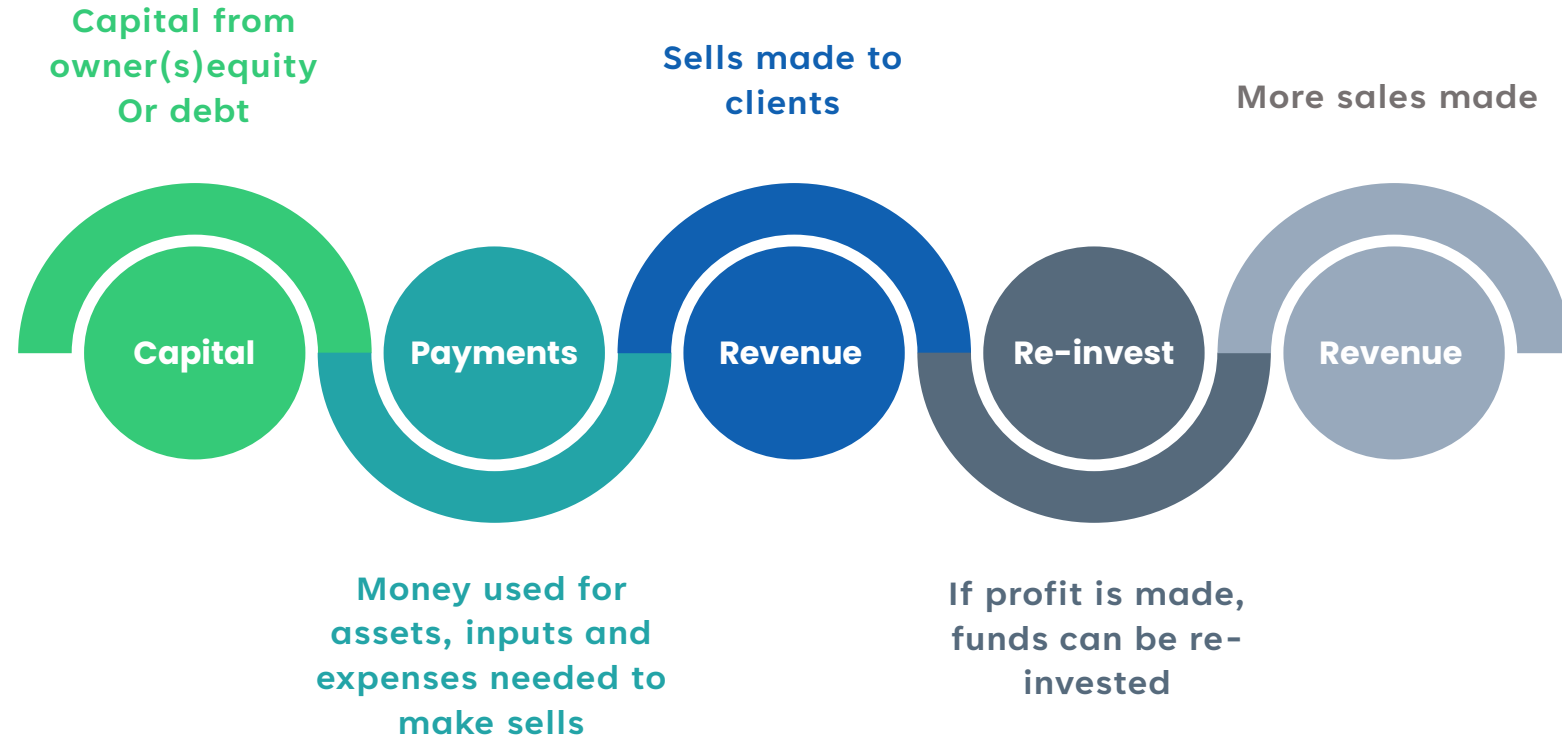
*“I know my money. I know where it is coming from. I know where it is going. This business is viable. I can see my dreams materializing. I know my financial position “*



### 3. WHAT ARE FINANCIAL STATEMENTS ?

A **formal record** of how cash moves within the business, the business activities and the business financial position.

Simplified illustration of how financial resources move in a business:



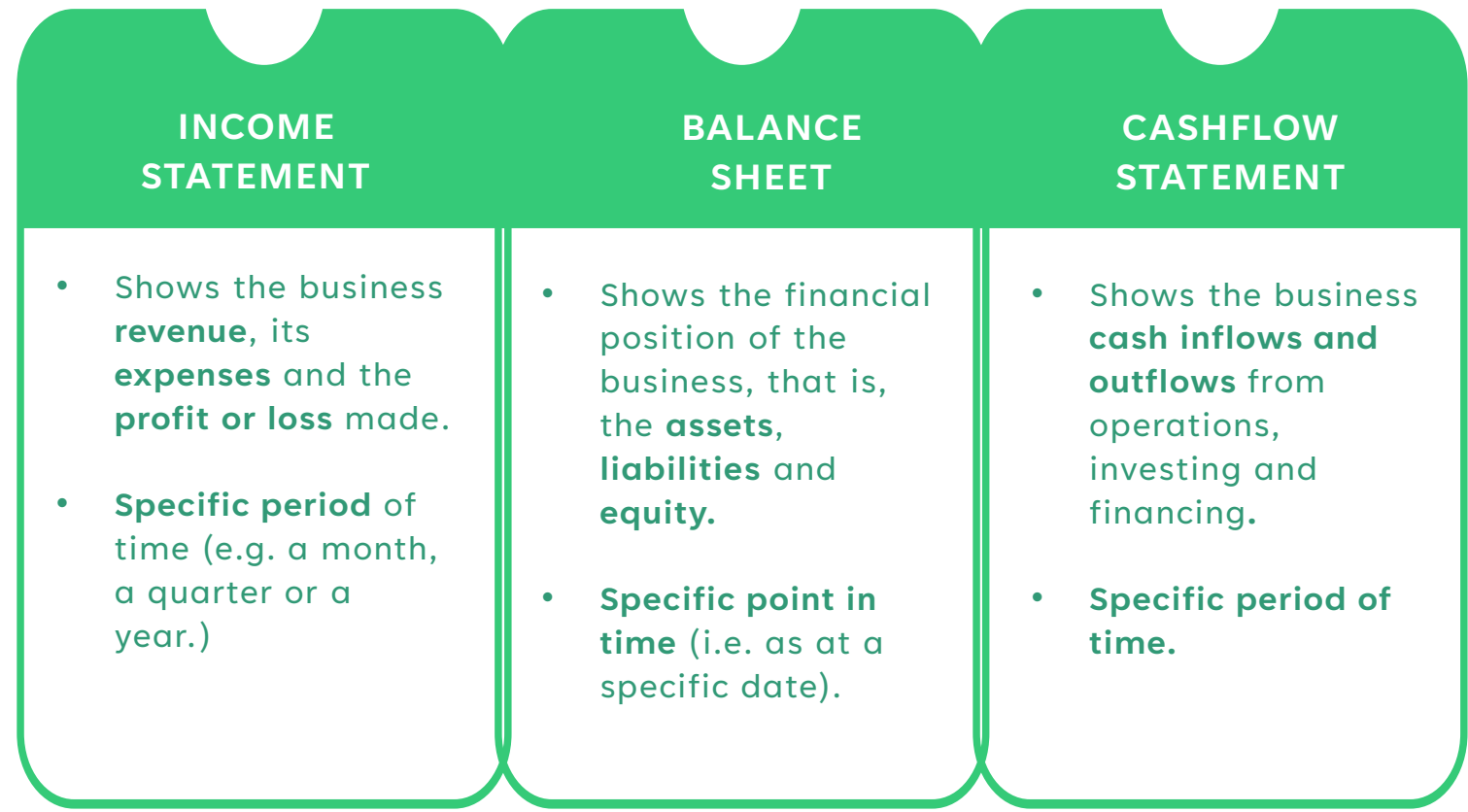
### 3. WHAT ARE FINANCIAL STATEMENTS ?

- **Income Statement**
- **Balance Sheet**
- **Cashflow Statement**

*Is the business profitable?*

*Is the business solvent?*

*Is the business liquid?*






# 4. FINANCIAL STATEMENTS ANALYSIS

- Trend analysis
- Ratio Analysis

## Simplified example financial statements:

You can analyze horizontally, calculating ratios or base-year analysis for example. 

\$'000	2020	2021	2022	2023
INCOME STATEMENT				
Revenue	50	120	200	250
Expenses	25	50	110	400
Profit/Loss	25	70	90	(150)
BALANCE SHEET				
Assets	125	195	285	285
Liabilities	0	0	0	150
Equity	125	195	285	135
CASHFLOW STATEMENT				
Cash Balance	25	95	185	35

You can analyze vertically, comparing ratios, growth and figures between periods.



## 5. FINANCIAL STATEMENTS AND BUDGETING

- Identify trends
- Project revenue
- Project expenses
- Project capital expenditure
- Project capital needs
- Project cash inflows and outflows

You can use Financial Statement Analysis for:

- Comparison – to past performance, budget and other companies
- Identification of market gaps and competitive positioning
- Assessing operational efficiency – efficiency of assets, liabilities and expenses
- Assessing liquidity, solvency, profitability through ratios such as liquidity ratios, solvency ratios, profitability ratios, efficiency ratios , coverage ratios
- Developing your business strategy and financial projections

## 6. FINANCIAL MANAGEMENT FOR SMES

**Your understanding of financial statements can assist with:**

- **Strategic planning**
- **Financial Modelling**
- **Transaction structuring for fund-raising**
- **Market positioning**

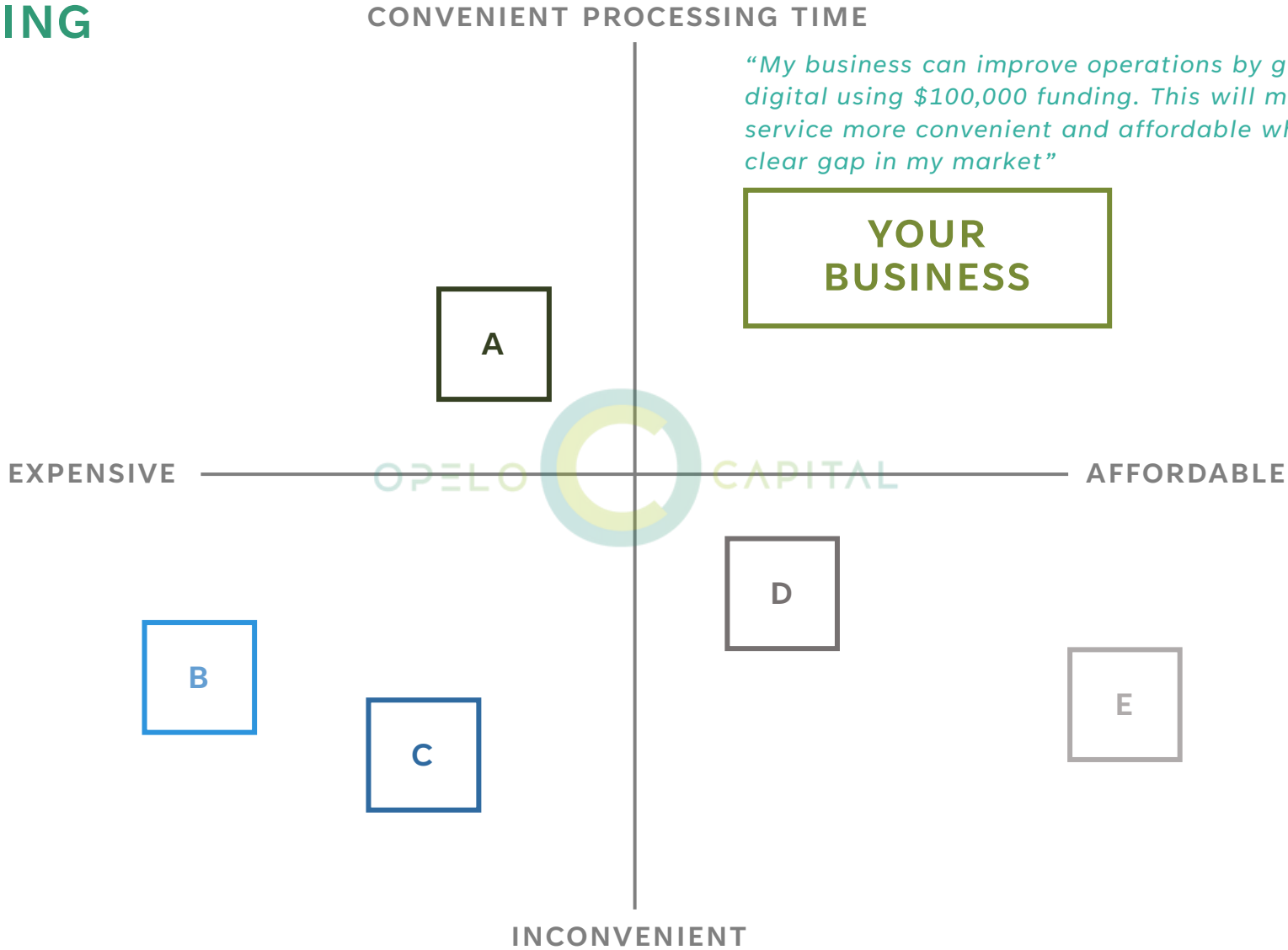
Business Area	Uses	Key outcomes
Business strategic planning	<ul style="list-style-type: none"> <li>▪ Using historical figures to forecast future performance</li> <li>▪ Identifying market gaps and competitive positioning from analysis</li> <li>▪ Identifying areas of weaknesses from analysis</li> </ul>	<ul style="list-style-type: none"> <li>• Financial forecast to support strategic planning</li> <li>• Business valuation</li> </ul>
Transaction structuring	<ul style="list-style-type: none"> <li>• Assess the type of financing the business needs</li> <li>• Assess the businesses' ability to repay investments received</li> <li>• Assess the type of financing to use based on the length, amount, and conditions that meet the business needs</li> <li>• Scenario analysis to assess the impact of changes</li> </ul>	<ul style="list-style-type: none"> <li>• Optimal transaction structure</li> <li>• Business Valuation</li> </ul>

# COMPETITIVE MAPPING EXAMPLE:

Market gap for affordable and convenient services.

- A – Convenient but expensive
- B – Inconvenient and expensive
- C – Inconvenient and expensive
- D – Inconvenient but affordable
- E – Inconvenient but affordable

*When you understand your financial statements, you can assess how your products fair in the market and what type of products and services you can offer while remaining profitable. An example of a competitor map is provided on the right:*



# PRODUCT ROLLOUT PLANNING

*When you understand your financial statements, you can assess if you are selling the right products, at the best price, in the best place and using the most optimal promotion:*



## PRODUCT

- What product mix will we use and why?
- Who are our target clients?

Financial statements analysis can help you identify the most profitable product mix. Analysis of the impact of external factors as seasonality, and macroeconomic changes can also help you see the best product mix for risk management and resilience.

## PRICE

- What pricing strategy is best?
- Does it meet our client needs?

Understanding your financial statements and scenario analysis can help you identify the best pricing strategy that also meets business profitability targets.

## PROMOTION

- Television and radio advertisements
- Social Media
- Email newsletters
- Search Engine advertisements
- Mobile Money text advertising
- Community Outreach programs

Understanding your financial statements can help you assess much is needed for promotion and how this relates to revenue growth.

## PLACE

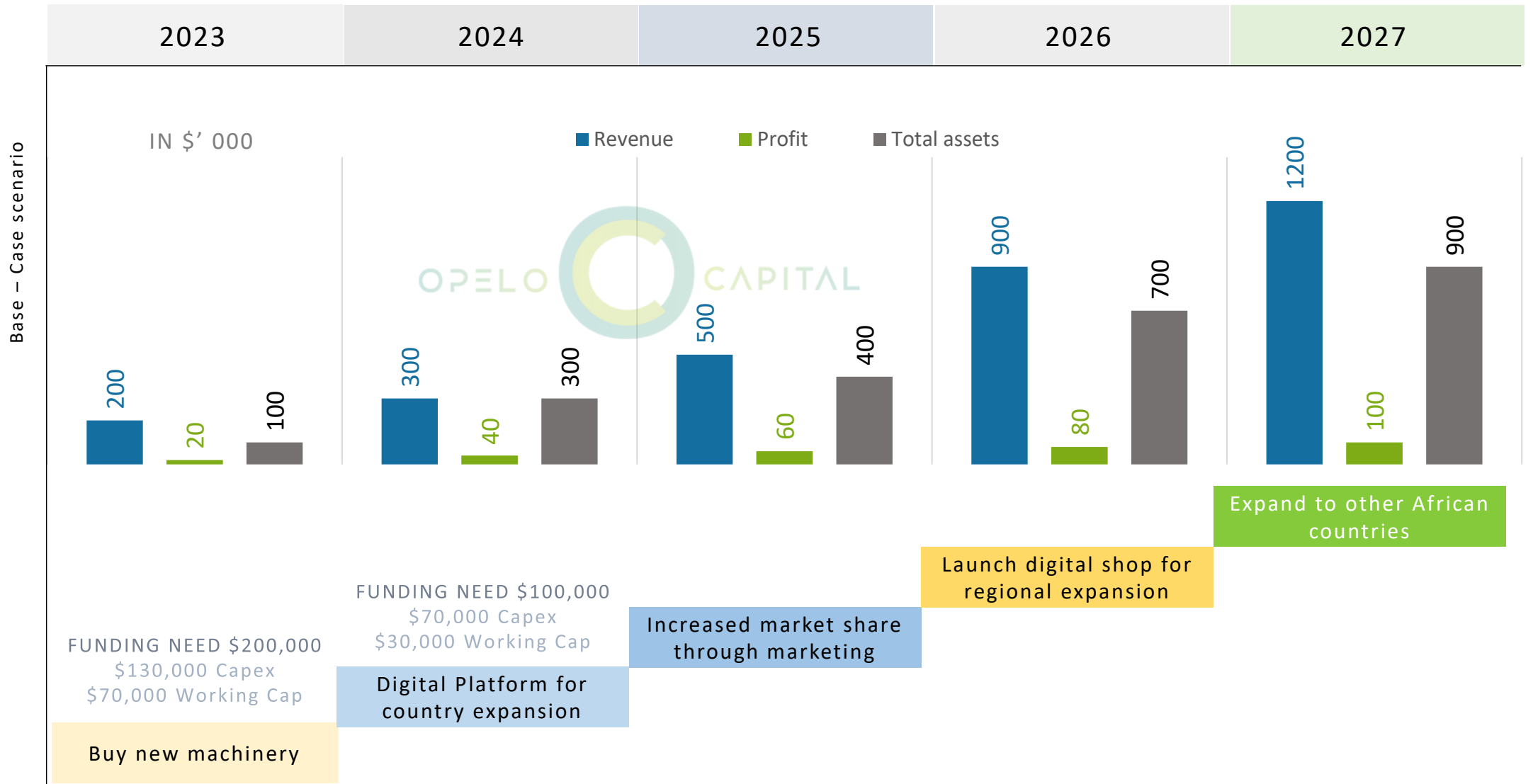
- Physical offices
- Agents across the country
- Digital Service Provision

Understanding your financial statements can help you assess what type of offices, stores and digital platforms the business can afford while remaining profitable.

OPELO CAPITAL

# EXAMPLE – PROJECTIONS AND STRATEGY

Understanding financial statements can help you see historical trends and think critically about the future of your business and its strategy. The financial projections linked to your strategy can then be summarized in easy visual presentations like the one shown below: 



# EXAMPLE – DEVELOPING PERFORMANCE MEASURES

BALANCED SCORECARD											
Your Business			2023 - 2027			Target : Growth					
<b>Vision: To be the best service provider of xx in Africa</b> <b>Mission: Insert mission statement</b>											
Strategic objectives & KPIs	2023		2024		2025		2026		2027		
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	
<b>FINANCIAL PERSPECTIVE</b>											
Increase profitability											
-Net Profit Margin (%)	10%		10%		10%		10%		10%		
-Net Profit US\$	20		40		60		80		100		
Balance sheet growth											
- Total assets (US\$)	100		300		400		700		900		
Market Return on equity											
- Return on equity (%)	10%		13%		15%		17.50%		20%		
<b>CUSTOMER PERSPECTIVE</b>											
High customer satisfaction											
Customer satisfaction survey (%)	85%		85%		85%		85%		85%		
Positive impact											
No. clients	20		30		40		50		80		
Brand promotion/pa											
No. of marketing initiatives	12		24		36		48		60		
Increased market share											
% growth in revenue	10%		10%		10%		10%		10%		
<b>INTERNAL PROCESSES</b>											
Automate processes											
% processes automated	70%		80%		90%		100%		100%		
low company risk profile											
No. of health & safety issues	0		0		0		0		0		
No. of audit queries	0		0		0		0		0		
<b>LEARNINGS</b>											
Increase staff satisfaction											
% staff satisfaction survey	90%		90%		90%		90%		90%		
Avg training hours per staff	12		24		36		36		36		

When you understand your financial statements and develop your strategy and financial projections; you can set performance targets for your business. Your targets should incorporate all the various areas of your business needed to achieve your strategy (e.g. customer perspective and internal processes).

As example of projections feeding into performance measures is provided on the left.

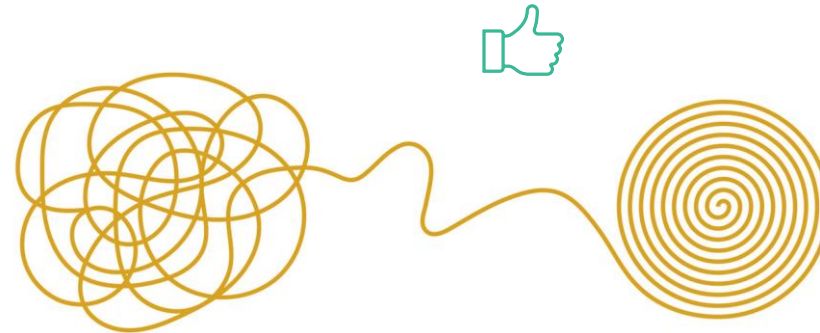


## 6. FINANCIAL MANAGEMENT FOR SMES

- **Assessing the type of financing needed**

Equity	Debt	Grants
<ul style="list-style-type: none"><li>• Consideration of ownership dilution</li><li>• Possible onboarding of strategic partner</li><li>• Return from dividends and increase in business value</li></ul>	<p>Consideration of:</p> <ul style="list-style-type: none"><li>▪ Tenor</li><li>▪ Interest</li><li>▪ Type of Lender</li><li>▪ Collateral/ Security</li></ul>	<ul style="list-style-type: none"><li>• Consideration of conditions of the grant and the impact of the business</li></ul>

*When you understand your financial statements, you can make more informed decisions for the future of your business.*





## 6. FINANCIAL MANAGEMENT FOR SMES



Consider digital tools that can help with payments, accounting and controls




Put in place policies and procedures for financial management and train yourself and staff



Record and know your business figures

## EXAMPLE OF FINANCIAL MANAGEMENT PROCEDURES AND POLICY AREAS

OPERATIONS	SUPPLIERS	CUSTOMERS	EMPLOYEES	ASSETS	LIABILITIES	EQUITY
<b>POLICIES AND PROCEDURES TO CONSIDER HAVING</b>	Chart of accounts - define the rules for categorizing and recording your financial transactions	Accounts receivable - define the processes and controls for receivables, billing procedures, collections.	Employee handbook -define policies for payroll processing and employee relations.	Fixed Asset - define policies for fixed asset management	Related party transactions - define policies for related party loans to and from the company	Dividend policy - define procedures for dividend payouts, succession planning and CEO remuneration
	Accounts Payable - define the processes for payments including supplier management, invoice verification, payment terms, and approval procedures	Cash management - establish guidelines for cash handling, cashflow management, cash receipts, and controls				
<b>SYSTEMS TO CONSIDER HAVING IN PLACE</b>	Expense reimbursement - define the guidelines for employee's reimbursement of business-related expenses					
	Petty Cash - define the processes for petty cash management and reconciliation					
	Accounting systems - SMEs may consider various ICT tools to assist such as ZOHO Books, PASTEL etc Payroll processing - SMEs may consider various ICT Tools to assist like Flex Payroll, Odoo Payroll etc Risk Management system for identifying, assessing and mitigating risks					

*Consult an accountant*



## CONCLUSION

Understanding financial statements and using the information to develop your business plan can build confidence.



*“I know how my business performs.”*

*“If I need to raise finances externally, I have records to show my financial performance and business value”*

*“I have sufficient cash to stay afloat.”*



*“I’m confident in my understanding of my market.”*

*“I have controls in place for my business resources.”*

*“My business is growing”*



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sustainability  
support and training:**

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