

A different kind of Education...

Most people focus on (and spend tons of money on) higher education which is all fine. But formal education shouldn't stop when you leave college, especially if you want to set up and run a business.

Let me explain. Entrepreneurs and Small and Medium Enterprises (SME) make up a significant portion of the GDP in many countries. Not only that, they are a major job creator. Hence the whole task of setting up and running SMEs cannot be ignored or left to chance.

In his book *Small Business Management*, Michael Ames gives 8 reasons for small business failure: Lack of experience, Insufficient capital, Poor location, Poor inventory management, Over-investment in fixed assets, Poor credit arrangements, Personal use of business funds and unexpected growth. You will notice the words in italics; five of the 8 reasons given are directly or indirectly finance related.

I have met quite a few entrepreneurs and their ignorance of financial basics is very worrying. The reason is simple. Most entrepreneurs are specialists in HR, Sales, Marketing or IT and they are probably very good at what they do. Many start up CEOs have the vision and the drive to turn their idea into reality. But what they often lack is the financial know how.

Let me give some examples.

Most entrepreneurs start off with scarce capital and have ambitious plans. Equity is more easily available but is terribly expensive. Debt is cheaper but banks are tight fisted with their money these days, even in giving money to reputed companies. Yet very few entrepreneurs have thought about how they will go about raising long term money. The world of angel investors, venture capital and private equity is quite foreign to them. And its not only access to adequate finance we are talking about- when start up financiers give cash they also help in many other ways.

Or take working capital management. Start ups often don't have the luxury of dictating credit terms to buyers and suppliers; they have no choice but pay advances to suppliers (or accept short credit periods) and give credit to clients. Throw in fast obsolescent stock, bad debts and tight competition from established players with deeper pockets and suddenly managing working capital becomes critical. The idea of working capital is rarely well understood, much less on how to manage this. There are many well tested ways of reducing receivables and stock and managing your creditors, techniques that are fairly simple and require little if any investment in people and technology.

Cost analysis is another weak area. Few entrepreneurs have a good idea of their cost structure or know what their break even sales are and even fewer use it properly. This is a simple but powerful tool that tells you at what level of activity do you start making profits (or slide into the red). And application of this concept can work wonders in business. A related concept is Operating Leverage which helps a company boost profits by playing on its cost structure....

I can go on but I think the point is clear. So what is to be done? Education is an obvious solution.

Executive MBAs are a good option but they can get very expensive and is over a large-ish period of time, normally a year or so, which is simply too long for someone running a business and with short and medium term business problems to solve. Also, most Entrepreneurs really don't care about big name Universities as long as they learn enough to handle their business

Reading up on finance is always helpful but it is supplementary, not a substitute for a structured training program. And its not very efficient either; you can arguably learn twice as much in half the time if you attend a finance course.

So look for a course that offers not just theoretical learning but also training that is practical and localized. Something that does not require you to be away for long from your business. A program that not only covers the basics but fits within your budget as well. Most importantly, ensure the people delivering the course have not only qualifications in finance but (ideally) experience in the corporate world whether it is heading a large finance department or running a business.

The past three years have transformed the landscape for most businesses. Demand has dropped sharply, liquidity is much lower and margins are thinner. Getting up to speed on Finance was never more important.

Binod Shankar is a Chartered Accountant and a CFA Charterholder. He is a presenter and trainer and runs Genesis, a financial training company. He can be reached at Binod.shankar@gmail.com.

URL: www.genesisreview.com