

# Manage the Finances for Success



Presenter: David Muller, Director, Armstrong Muller Consulting Pty Ltd

Presentation Date: 30 October 2009

Presented to: Aboriginal Enterprises in Mining, Exploration and Energy  
Ltd Conference





# Key Messages to successfully manage finance

- Know your Business Model, the key business drivers and how they affect your financial results
- Understand all capital requirements of your business
- Disciplined monitoring of the right information





# Fundamentals for any business and model

- Build and know your product
- Marketing your product
- Financial management

To successfully manage finance you must know your Business Model, the key business drivers and how they affect your financial results





# Key Business Drivers

Key business drivers vary depending on the business – eg

- Service industry – labour utilisation, service performance and safety
- Capital intensive industry - asset utilisation and throughput
- Manufacturing - cost reduction, quality (re-works) or productivity improvement





# Key Business Drivers

Establish a set of measurements that will tell us how we are performing and costs compared to what they should be against what is important for our business. Examples:

- Risk Management – *careful of false economies*
  - Insurance costs – may be under-insured
  - OH&S – mining companies wont allow you to compromise on safety
- Purchase of large item of plant (eg drill rig) – substantial capital cost that we need to recover day by day. Calculate how many days it needs to be working p.a.





# Relationships within your Business Model

## Managing Finance is not just the numbers

Managing finances for success also requires managing relationships with groups that have a financial stake in your business. For example

- **Customers** the less issues - the sooner they pay  
the less working capital we require
- **Creditors and Staff** seeking payment for goods and services
- **Banks** hold security over assets and have the ability to extend or retract finances
- **Shareholders** expectations of returns by way of dividends or capital growth





# Understand all Capital Requirements

## Set Up (Infrastructure) Capital Versus Working Capital

- Need to understand the difference
- Will affect how a financier provides funding

For example: bank overdraft versus lease versus term loan

- Distinguish between permanent and temporary requirements





# Understand Infrastructure Capital

- The cash required to establish or expand the asset base of the business
- Long term in nature – expect return over a number of years
- Shown in the Balance Sheet
- Represents Investment decisions and this is reflected in the nature of funding provided
- Examples – funds to purchase grader, truck, drill rig, embroidery machines





# Understand Working Capital

- Working capital – Bank overdraft, stock, accounts receivable and accounts payable
- Short-term in nature – match with short term funding
- The level of Working Capital (Profit and Loss is determined by:
  - The timing of cash flows from trading activities – The length of the cash chain / pipeline
  - Growth in operations – **the more you grow the more you need**
  - Net Profit Margins



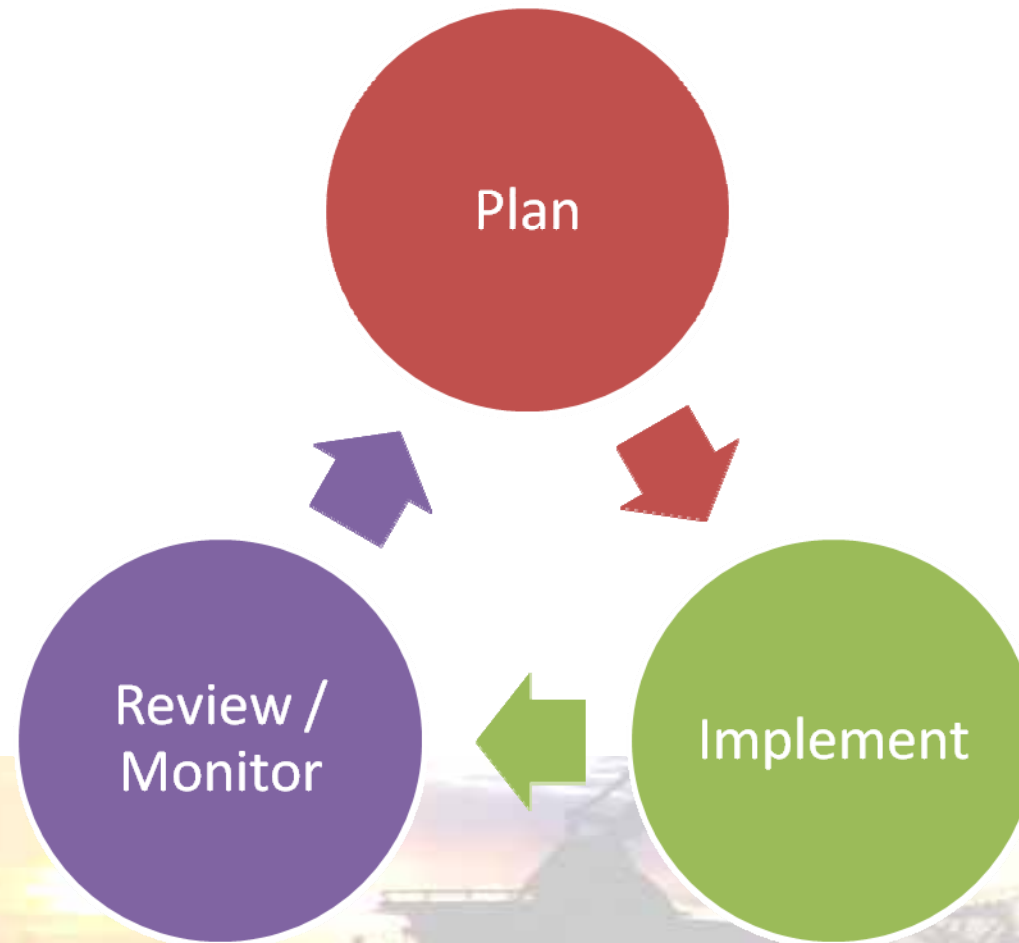


# Grants as a Source of Capital

- The business model needs to exist with and without grants
- Uncertainty of future level
- Terms and conditions associated may reduce what you can do



# The Cycle of Business - MONITORING





# Monitoring Results

Financial results are the scorecard - are we winning or losing

## **DISCIPLINE**

- The numbers never lie
- Show trends – good and bad
- Control - The further we are from the operations the better management tools we need
- Informs our stakeholders of our performance
- Use external advisors where needed





# Monitoring the Correct Information

- Relevant - right information to the right people link to business model
- Accurate and timely
- Simple and logical - user friendly
- Communicate performance needs throughout
- Balanced Scorecard approach – perspectives of financial; customer; innovation and learning; internal process





# Key Messages - Revisited

- Know your Business Model, the key business drivers and how they affect your financial results
- Understand all capital requirements of your business
- Disciplined monitoring of the right information

