

Importance of financial management for a startup

Finances are the spine of any business but startups often tend to overlook this crucial aspect while focusing on other parts of establishing an enterprise. They focus on revenue generation solely, but that alone can't decide the success of a new company. It is equally important to know how you are spending money and if the expenses can generate a solid return. A startup must have tighter control over its finances and must have an emergency fund that it can tap into during difficult times. This can only be achieved if a startup is good at financial management.

What is financial management

By definition, financial management is a business function that deals with the process of planning, organizing, directing and controlling the financial activities of a business to ensure greater business success and return on investment (ROI).

Financial management focuses on sourcing the capital, attributing it to various business functions, analysing the returns & revenues, and optimising the whole money-related function of a business. It is responsible for fund allocation in an optimized way to ensure greater financial stability and growth for the organization.

Importance of a good financial management system

Being financially independent is the primary goal of any business. It is, therefore, imperative for business owners to consider the potential results of their management decisions on profits, cash flow, and the financial situation of the company. Most companies experience losses and negative cash flows during their startup period. Hence, financial management is extremely relevant and important during this time.

A good financial management system determines the business objectives, formulates policies, and lays out the procedures for the optimal running of an organisation. It does so by analysing the cash flow and financial reserves to allocate sufficient funds for each function while making sure there is minimal leakage when it comes to getting returns on investment.

Benefits of Financial Management

Financial management is not only about the flow of money within a business but impacts the overall processes and goals of a company. Here are some of the benefits of investing in a financial management system for startups:

Defining company goals:

When a company is in the startup phase, they need to follow a clear vision of objectives to be achieved. One needs to figure out what is the need of their business in a market, how they can differentiate from competition, and build products. When a business is in the process of creating its products and understanding the market, there are certain functions that would need more money than others. Financial management will help a startup understand which aspects need the funding and which can be put on hold.

Manage cash flow

A good financial management system predicts the accurate cash flow for a business and helps the company stay on track. When a company is in a startup phase, expenses tend to spiral out of hand. Having a management system in place, you can easily control extra expenses and optimise your processes.

Reduce costs

A good financial management plan is crucial to cost reductions in a business. If you have planned your finances well, you won't spend on unrequired resources or processes that are not key to your business growth. A recurring review of your financial plans ensures that you are better positioned to allocate your expenses.

Mitigate risks

When you have tight control over your expenses and a clear understanding of your revenues and incomes, you mitigate risks like financial fraud and economic crisis. Financial plans make room for business insurance expenses, and losses through risky inefficiencies, and set aside resources for unexpected expenses.

How to get the right FMIS services for your startup

Financial Management Information Systems (FMIS) is an automated support setup for managing budget formulation, execution, accounting, and reporting for businesses. FMIS solutions can significantly improve the efficiency and equity of a business by suggesting the right financial investments and allocation processes. It helps in strategising business goals, facilitating decision-making processes, and controlling expenses.

The right FMIS will act as the backbone of your business. Thus, it is very important to find the right services that suit the demands and needs of your business.

Before choosing the right FMIS for your startup, read a lot and consider multiple options along with your CFOs and finance teams. You can also take Vittakosh's consultation services to plan your budgets plan. Vittakosh financial management information system is one of the most refined and progressive system available in the Indian market, helping a number of startups to build profitable businesses.