

Navigating a business through rapid growth

How RBI helped a young rapidly growing business navigate an aggressive market



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David Maher is the founder and director of Right Brain Insights (RBI), an Australian company providing CFO advisory services.

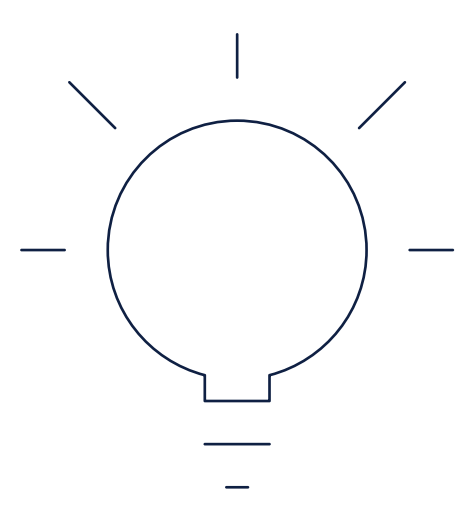
This case study outlines how RBI helped a young rapidly growing business in the Australian renewable energy sector gain control of its growth and manage the challenges of plummeting cash flow, volatile profitability, and business managers lacking financial oversight and control.

- Financial analysis
- Decision making
- Client engagement process
- Forecasting

Key takeaways

Learn how RBI deployed Fathom to

- Deliver instant financial insights and a client roadmap at the first client scoping session.
- Visually demonstrate the difference between profit and cash to help the client understand this foundational concept for decision making.
- Build client engagement and advisory using Fathom's analysis and forecasting functions to drive the performance over a long-term engagement.



Tip:

“Understanding the relationship between profit and cash is the basis of making good decisions. Our client needed to visually see what was happening, see what they needed to do, and be able to gain control almost instantaneously.”

Summary

Challenge

- Maintaining market share in an aggressively growing market.
- Understanding and managing working capital requirements.
- Client feeling defeated and lacking the confidence to inform critical decisions.

Solution

- Use Fathom's financial analysis and data visualisation platform to inform the client's critical, long-range and expensive decisions.
- Set the plan, track performance, and adjust performance to maintain the course.

Key Fathom tools used

- Forecasting (future plans)
- KPIs (actual versus plan)
- Goalseek (decision support)

Results

- Client maintaining market share
- Improved financial health
 - Month-on-month profitability for 10 consecutive months
 - Halved accounts receivable days
 - Five times improvement to the current ratio
 - Debt levels understood and managed
 - Reduced stress for business owners

Right Brain Insights (RBI)

Based in Melbourne, Australia, Right Brain Insights provides outsourced CFO services to industrial, manufacturing, and trade service businesses.

RBI helps business leaders understand and manage the financial health of their business by planning for the worst, striving for the best, and making strategic decisions that drive financial performance.

Leading RBI's team is founder and director David Maher. He's an economist by training (BBus - Business, Economics & Finance, RMIT University) and has worked as an economist, financial analyst, banker, and CFO. David has also served in the Australian Army.

RBI's client

- One of Australia's largest providers of operational services to the renewable energy sector.
- Began in 2019, pre-COVID.
- Experiencing rapid growth in a competitive industry.
- Cash shortfall and no financial oversight.
- Business owners with limited financial knowledge.

“

We are proud to work with those businesses who make, move, and maintain the economy. Our goal is to help businesses make informed decisions that lead to prosperity and, importantly, peace. Peace of mind for business owners is an important intangible outcome that drives our team. Our goal to is to deliver to our clients the clarity, conviction, and confidence to grow.

Challenge

RBI's client faced three key challenges:

- Navigating an aggressively growing market to maintain market share.
- Managing working capital requirements.
- Improving the business owners' financial understanding to make critical decisions.

Aggressive market

The Australian renewable energy sector is expected to continue growing rapidly over the next decade.

Increased competition, reducing technology costs, plus increased demand for renewable energy is forcing market players to keep pace with aggressive industry growth.

Cash flow shortage

The business's cash flow requirements were outpacing revenue. This cash shortfall was driven by factors including required investments, debt, and delayed receivables.

The business owners were attempting to plug the cash drain by increasing revenue. The financial performance of the business was declining and in a vicious cycle. Factors such as capital expenditure, working capital, and increasing staff levels were also contributing to this drain on cash.

Business owners' uncertainty

RBI's client are world class experts in their field but not financially trained. RBI needed to bridge the gap of financial understanding to help their client make informed decisions.

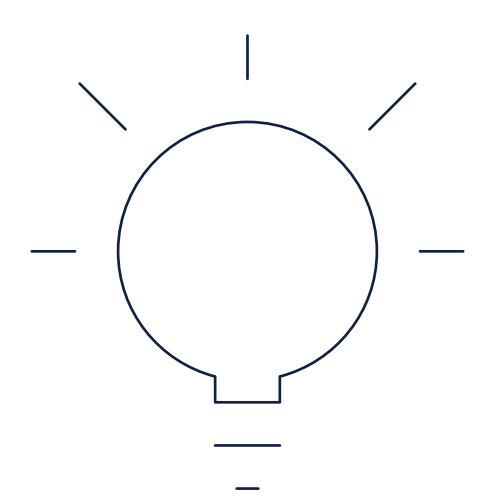
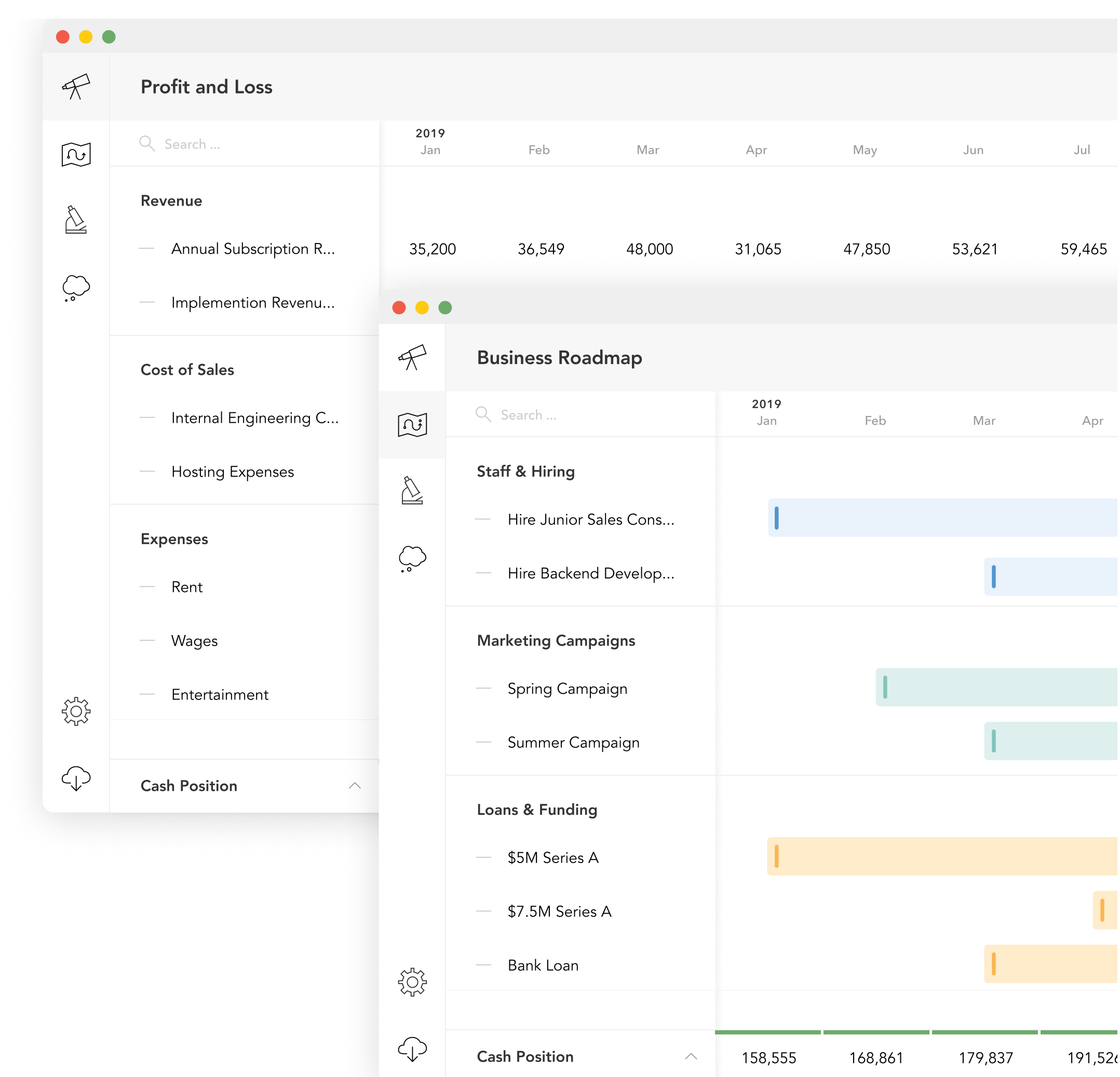
Solution

RBI chose Fathom to power its advisory and financial analysis offering, using the platform for the initial client scoping session as well as ongoing client engagement.

RBI has used Fathom's analysis, reporting, and KPI tools since 2012, and recently its three-way cashflow forecasting capability. In this case study, RBI used Fathom to visualise financial data for both the scoping sessions and ongoing client engagement. This helped the business owners to understand the business's current and historical performance, as well as key business levers to improve future performance.

The power of data visualisation

David says, “By using Fathom on a screen, we showed our client how their business makes profit and how it makes cash. We identified their goals and then based on the profit and cash, we played with the various financial levers in the business to show our client how they can achieve their goals.”



Make the complex simple

“Fathom is super easy to set up, not very expensive and ultimately the most well-designed system in the market that makes sense to our clients.

Fathom makes the complex simple. The platform has nailed the science and the art. Fathom can report on past, present, and future and that's ultimately what business owners want: ‘Where will we end up in the future?’ That all comes together in the Fathom process.”

Solution

Client scoping session - Two hours

Foundational to RBI's advisory is helping clients understand the financial concept of profitability versus cash flow as the basis for financial decision making.

David says RBI's mandate for the scoping session is simple: "We want to add more value than we take. And help our client understand it."

These are the steps RBI took in the client scoping session:

1. Set up Fathom

RBI connected Fathom to the client's financials in Xero. This took a few minutes and instantly allowed the RBI team to visualise the client's financials.

2. Profitability versus cash flow

Once Fathom was connected to the financials of the business, RBI was able to explore the relationship between profitability and cash flow. RBI compared the net cash flow number against the EBIT number. This showed the client how much profit was being made compared to how much cash the business generated.

RBI helped this client work through questions such as:

- How does the business make profit?
- What do you sell?
- What is the cost of goods sold as a proportion of revenue?

Solution

3. Goal identification

RBI identified and understood the client's goals for the year ahead and linked these to high-level targets. These goals were quantified as a dollar amount with a rough time frame.

Specifically, RBI determined how much cash the business needed to generate to achieve these goals. This was achieved using Fathom's Goalseek function. A net cash flow goal is set based on the client's quantified goal.

4. Investing for growth

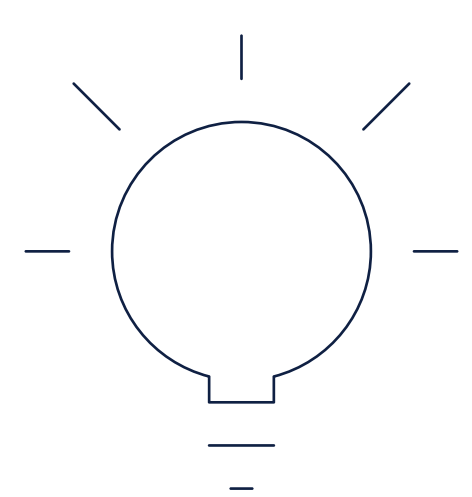
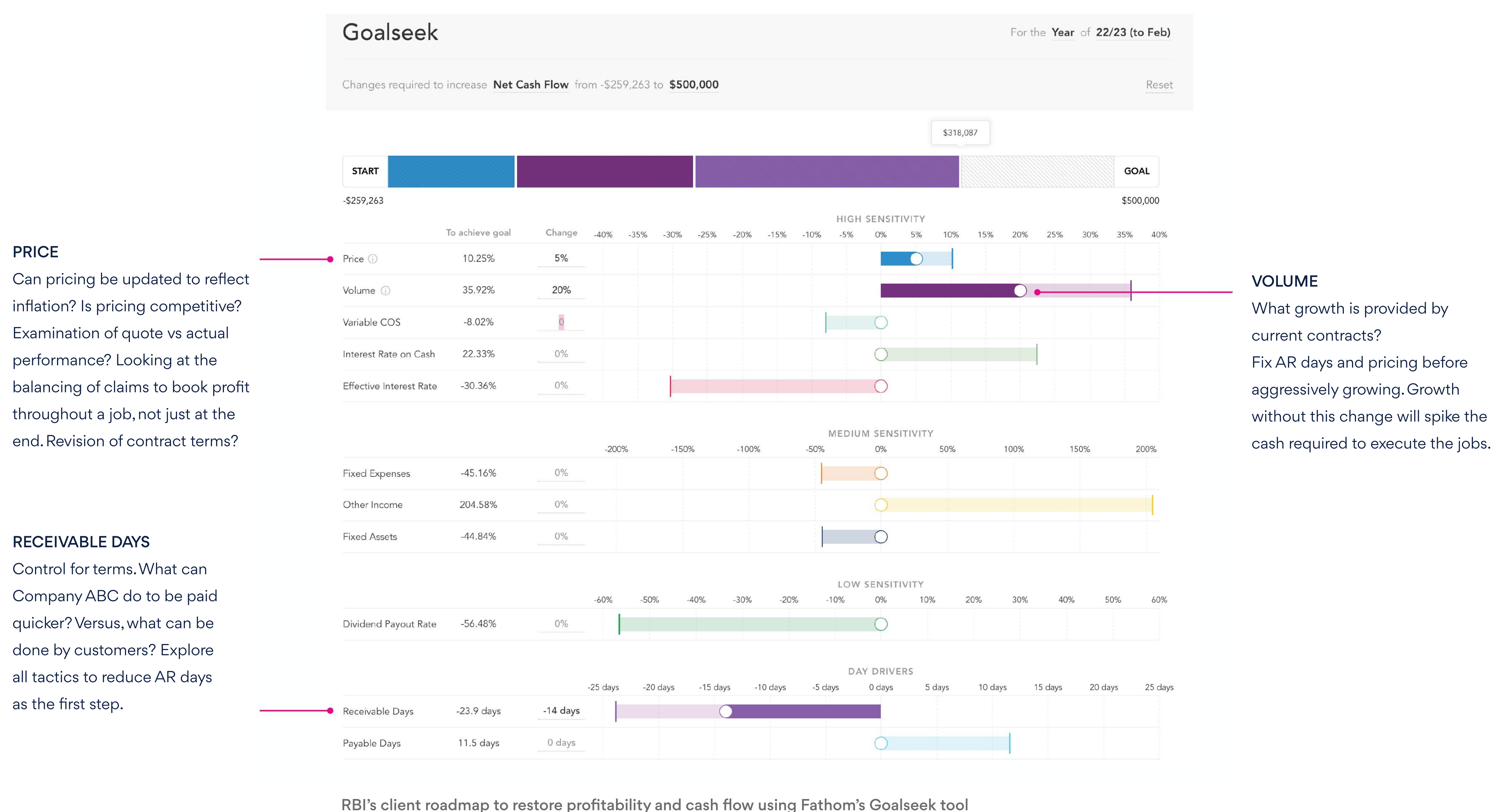
RBI provided this client with a high-level assessment of where to act and invest to achieve the client's goals. RBI visually demonstrated to their client how these amended factors directly affected the level of net cash flow generated (see example on the next page).

RBI discussed how to tactically make these amendments to the business (see example illustration, page 8). This helped the client understand the 'strategic levers' to pull to improve financial performance.

Goalseek tool

Fathom's Goalseek tool helps to answer the question, 'How do we get there?'

This scenario analysis tool helps to design strategies to achieve a desired outcome for your selected financial metric. It also helps to identify the sensitivity, or importance, of key business drivers in achieving a given performance goal.



Tip:

"Using the Goalseek tool, we begin playing with the economics of the business to show the business owners how to potentially generate a level of net cash flow to achieve their goals. In this client's case, it was a combination of factors including reducing the cost of goods sold, slimming down overheads, increasing volume, and decreasing receivable days."

Ongoing client advisory

A monthly forecast to set targets

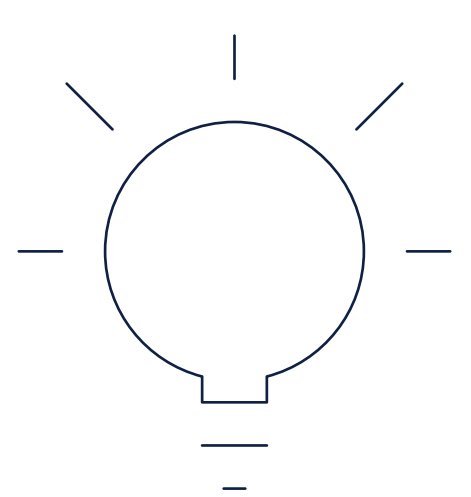
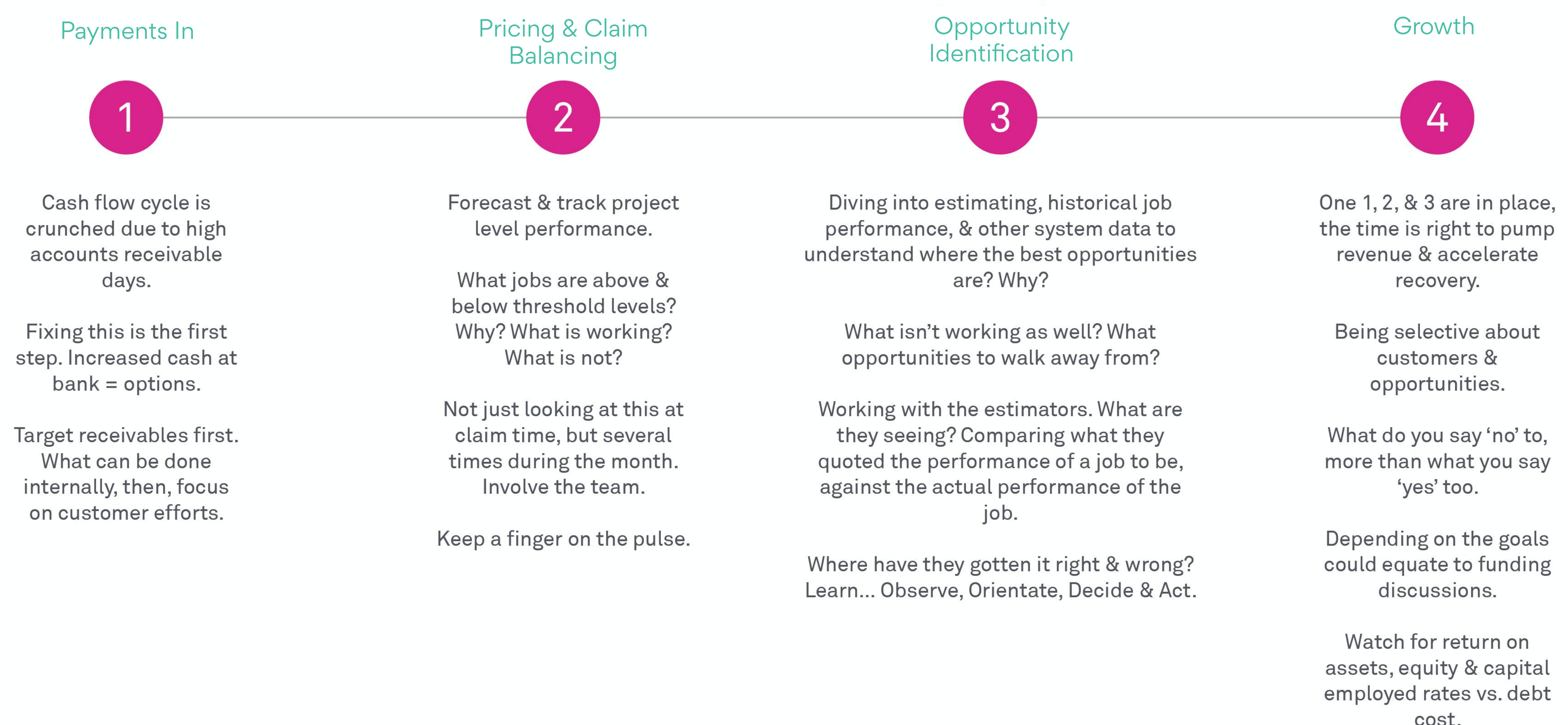
RBI's next step was building a conservative forecast in Fathom using the client's account level detail.

This initial 'conservative' forecast helped establish a minimum level of control, that is, the lowest possible revenue growth with conservative expense and cash assumptions. Once control was established the forecast could safely be reset toward driving capacity and maximum performance.

A monthly forecast provided the client with a target to aim for. This base forecast was tracked and fine-tuned each month for the first three months. For example, the forecast allowed the business to measure whether the cost of sales and revenue were moving in the same direction.

RBI used the analysis tool to show their client the actual result against the target result. The targets were set from the forecast. Building the forecast off the client's historical actuals, RBI determined the business was more profitable than first expected. Initially, revenue was set higher to achieve the cash flow outcome needed. As it turned out, this client was able to run it far more efficiently.

Tactical execution: RBI's client roadmap



Tip:

“Each month we were updating the assumptions behind the forecast. This ensured the numbers the client was seeing remained relevant to them. The forecast was the way we could begin to see what is working for the client’s business and what is not.”

Results

In one month, RBI was able to help their client gain financial control. This business rapidly went from losing money to making money.

Results included:

- Fivefold improvement to the current ratio.
- Client able to maintain market share with month-on-month profitability for 10 consecutive months.
- Halved accounts receivable days.
- Instantly enhanced level of financial oversight and control.
- Able to properly assess acquisition offers.
- Reduce stress for the business owners and more control over their lives.

RBI says that the most important outcome through this process is the client knowing what they have to do to move the business's financials in the right direction. A base level of financial health has been established. The business owners can link their decisions and their actions back to a plan.

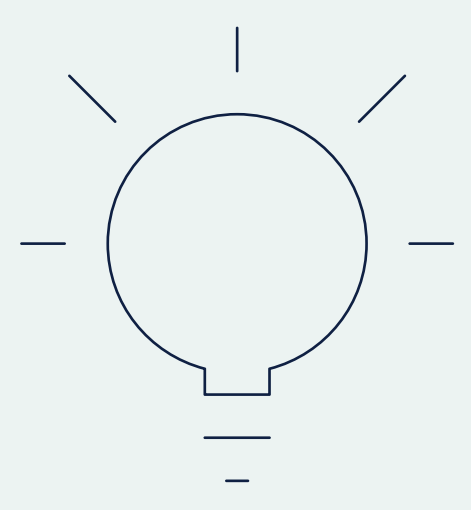
For example, the monthly forecast shows the business's costs are now well below the original forecast. Revenue is yielding the results the business was expecting. This client is now in control. David says: "My client is now able to inform their decisions, and understand the impact their decisions make on their business and their life. Seeing them gain clarity, conviction and confidence to move forward is why we do what we do."

Results

A ‘standout result’: Client understanding through data visualisation

In David’s words, a “standout result” for RBI is helping this client understand and know what is happening inside their financials by seeing the data visualised on screen. This client could understand the health of the financials as it was presented in Fathom.

In this case, data visualisation facilitated conversations with the client about the business's balance sheet and factors impacting performance. For example, RBI could show the client that the business was spending too much on travel. Within a week, the client was able to cut their travel expenses by two thirds.



Moving in the right direction

“As an outsourced CFO providing help to business owners, I see that what happens in the business affects their personal life; so that really matters. This client is not out of the woods yet, but they know they’re moving in the right direction. It’s been ten months and they’re coming out of the survival phase now.”

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