

# BusinessPlus+ Newsletter



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## Issue No 113 – March 2015

### The Economic Picture Is Mixed Across Australia

The low interest rates have caused a “boom” in house construction, particularly in Sydney and Melbourne. Reports have indicated that local councils are approving plans for new houses and apartments at a record rate of more than 220,000 a year. This is great news for a whole range of industries relating to new house and apartment construction – from builders to appliance sales businesses!

The weakening Australian dollar versus US dollar is also leading to some optimism within the tourism industry that more overseas visitors will holiday in Australia. This will be particularly evident in Queensland. The lower currency is also beneficial to every exporter. However, every imported product is costing a lot more when landed in Australia.

On the downside, the mining industry has retreated and has suffered substantial price reductions for iron ore, coal and other minerals. This downturn is having some significant effects in some cities and towns around Australia that are heavily reliant on the mining industry.

Businesses will need to be vigilant on the amount of money that’s invested in debtors, stock and work in progress during these difficult times, until consumer confidence improves.

If you would like to have a discussion relative to your forecast for 2015, please don’t hesitate to contact us.

### Developing Succession Planning Strategies

Developing a list of questions to consider, as part of a succession plan review, will assist in the determination of a succession planning strategy for a business.

The key questions to be answered could include:

- What do you want to achieve from the business?
- Are you building the business for a lifetime of activity for yourself or for an exit in the near future?
- Have you identified your fears relative to succession planning?
- Have you thought about options for the existing business?
- Could a partner buy you out?
- Could you introduce a new partner into the business and then exit?
- Could you hand the business on to a family member?
- Could you appoint an external CEO/General Manager to run the business on behalf of the family, especially if you want to “skip a generation” and retain the business within the family?
- Do you think the business is “exit ready” or “succession ready” at this stage?
- What are the greatest concerns you have for the operation of the business?
- Can the business survive with less reliance on “you”?

These are some of the questions you should be considering in detail, in planning a succession strategy for the owner or senior manager of a business.

If you would like to have a discussion relative to the development of a succession plan, please don’t hesitate to contact the accountant with whom you normally have dealings.

## Rejuvenating A Business

Businesses need to regenerate “start-up energy” to unlock growth, to rejuvenate the business. Businesses that have “planned growth” can be great places for managers and team members to work at grasping the opportunities for personal development and growth that a growing business presents.

In Australia there are 2million businesses, yet only:

- 300,000 have \$1million+ sales;
- 10,000 have \$10million+ sales; and
- 2,000 have \$20million+ sales.

Does your business have a business growth culture to grow to a new turnover milestone?

Changes are occurring everywhere at a fast pace. Where do you start at rejuvenating a business?

- Renovate your business’ systems. This is the quickest way to get a competitive edge.
- Identify the important Key Performance Indicators (KPIs) that you require – hourly, daily, weekly and monthly – and ensure your system can deliver these KPIs.
- Analyse debtors, stock, and work in progress – can the systems be improved to reduce investment in these items?
- Analyse creditors – are creditors being paid in accordance with the negotiated payment terms? In some instances, a team member may be paying the creditors faster than what management negotiated.
- Expense analysis – can costs be reduced? Are quotations being sought from alternative suppliers?
- The key strategy should be to tackle one project at a time.
- Determine the business’ health:
  - sales per full-time equivalent person
  - gross profit percentage, preferably divided into products or departments
  - net profit percentage
  - debtors’ days outstanding
  - stock days
  - creditors’ days outstanding
- Compare these figures to benchmarks for your industry – how does your business compare against your peers?
- You need to be receiving regular departmentalised financial accounts and regular cashflow forecast reviews on a monthly basis.
- Customers:
  - Do you have a CRM (Customer Relationship Management) system to record all details relating to your customers?
  - Have you identified “A-class” customers?
  - Do you communicate with your customers regularly?
  - For your key customers, do you measure:
    - frequency of transactions;
    - average size of transactions; and
    - gross profit earned per transaction,to determine ways and means these key items could be increased?
- Marketing:
  - Do you have a CRM database for prospects?
  - Does the business have a social media policy?
  - Do you have a website?
- Team training:
  - Do all team members participate?
  - Do you need technology upgrades?
  - Do you need skills upgrades?
  - Should you apply for an Industry Skills Fund grant?
- Management training – is further training needed in corporate governance, business management and company directors course?
- Risk management:
  - Are insurance covers adequate?
  - Have you instigated strategies to protect intellectual property?
  - Are the business assets and transactions protected on the Personal Property Securities Register?
- Location:
  - Is the location still suitable for the business?
  - Can your customers park their vehicles in close proximity to your premises?
- Exporters/Importers – are you taking currency covers to protect against currency risks?
- Government assistance for exporters – have you thought of applying for an Export Market Development Grant?
- Government assistance – have you thought of a Research and Development Rebate, Accelerating Commercialisation Grant and a Business Growth Grant?

Every business will eventually run out of “gas”, unless a regular program of rejuvenation is incorporated into the business’ culture. If you would like any assistance in rejuvenating your business, please don’t hesitate to contact the accountant with whom you normally have dealings.

## Culture Building Is Important For Success

There are many attributes to creating a successful, long-term business. Whilst no one attribute makes a business successful, culture is very important in bringing various components together. The business needs to develop loyalty from team members, suppliers, customers, management, directors and owners.

There are marketing tools which can assist in the creation of a caring culture within an organisation, including:

- Use of customer database.
- Surveying customers on what they like and don't like about the products and services supplied by your business.
- Keeping websites up to date, containing interesting articles.
- Testing the market and getting feedback on customers' perceptions on new products and services.

The development of culture can also be enhanced by successfully developing alliances to other businesses. This might be businesses in different geographic locations or even businesses that are generally in the same industry, either suppliers or individual businesses offering services that your business doesn't offer.

The development of an appropriate culture of courtesy and prompt response to enquiries is vital to developing long-term, strategic alliances for the benefit of the business.

You cannot measure culture and it's difficult to identify what it is. However, it definitely comes into consideration when preparing a valuation of a business. It's an integral part of the business' goodwill. Some businesses can be valued at 3.5 times after tax profit. Others at 4. Some others get valued at higher multiples (eg 6 or 7). The businesses that get valued at a higher value normally have a very strong "culture" operating within the business.

## How Well Do You Know Your Business?

It's a good idea to periodically review key aspects of the individual components of your business.

### Customers

- Who are your customers?
- How well do you know their preferences?
- Do you know your "A-grade" customers?
- Are you solving your customers' problems with your products/services?

### Marketing

- Is your website user-friendly?
- Have you asked your customers whether they obtain the information they're seeking from your website?
- Do your team members understand your growth strategy and your plan for positioning the business?

### Performance Management

- Have you identified Key Performance Indicators (KPIs) that apply to your business?
- Do you share the KPI information with your team?

### Cashflow

- Are credit terms clearly explained in writing to new customers?
- Are tax invoices prepared and dispatched promptly to your customers?
- Do you continually analyse your cashflow position?
- Have you calculated the "cashflow shortage" due to debtors not paying on time?

### Team Members

- Have you identified team members' strengths and weaknesses?
- Have you identified special training for development that individual team members may require?
- In this regard, have you considered making an application for assistance under the Industry Skills Fund?
- Are all of your team members on the "same page" of the "same book" when it comes to understanding what business you're in, who your customers are and the products/services you really want to sell?

If you wish, we can assist you with a review of your business. Please don't hesitate to contact us if you wish to do so.

## Government Grants For SMEs

### Research and Development Registration

If your company undertook research and development in the financial year ended 30<sup>th</sup> June 2014, you spent more than \$20,000 (irrespective of the number of projects) on research and development, your turnover was under \$20million and you wish to claim the research and development rebate of 43.5% of expenditure (for turnovers over \$20million, a rebate of 38.5% applies), the registration deadline is the 30<sup>th</sup> April 2015 or the date that the company's income tax return is lodged, whichever is the earlier.

The registration form has to be lodged with AusIndustry.

## Reducing Wastage

The "5 S" system (a structured, systematic approach to housekeeping and a cornerstone of any world-class manufacturing) can assist a wide range of businesses, not just in manufacturing.

"5 S" involves creating an organised workplace, incorporating the following:

- SORT – sorting and removing unnecessary items.
- SET IN ORDER – a place for everything and everything in its place.
- SHINE – cleaning the work area.
- STANDARDS – establishing the rules and standards for the business.
- SUSTAIN – maintaining the standards in a disciplined way.

The "5 S" system can assist businesses to improve efficiency, which should then flow through the profitability.

If your business operates in one of the Australian government's "priority industries", your business could be eligible for a Business Growth Grant, which could assist in the implementation of the "5 S" system to improve efficiencies within your business.

## Shrinkage – Control Is Important

Shrinkage occurs primarily in retail businesses, but can also apply to trades and manufacturing businesses.

Shrinkage occurs when the business fails to sell an item at its full price. The difference between a potential selling price of a product and the actual selling price is shrinkage.

Shrinkage can be caused by:

- damage;
- theft by an employee;
- theft by a customer;
- errors in recording product details;
- not adequately checking goods when they're received in the business;
- poor handling techniques leading to damage in stock;
- leaving perishable products out of refrigeration;
- over-ordering a product, thus, having product that needs to be discounted to sell it; and
- stock going out of date (this can be caused by poor stock rotation).

If you would like us to conduct a review of your stock procedures, please don't hesitate to contact us.

## You Can Talk To Competitors

In these difficult times, it can be beneficial to have a discussion with your competitors on general economic matters affecting your business. As long as you're not discussing price or entering into any type of price collusion on a tender, you're able to have a discussion with your competitors, to look at market forecasts, how you're handling negotiations with unions, government relations and government grants that might be available, etc.

You can even establish a small benchmarking group, within some of your competitors, to compare your Key Performance Indicators (KPIs), to give you a better indication as to how your business is travelling.

We can assist in the establishment of a benchmarking group of businesses.

### An Important Message

*While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.*



**Our business, is understanding *your* business.**

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