

BusinessPlus+ Newsletter



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Economic Update

Economic Data – What's Relevant?

There's a lot of economic data available to business people. Therefore, you need to be selective in utilising economic data, to help you to manage your business.

Some of the key items of which small/medium enterprise operators should be aware include:

- The Reserve Bank Cash Rate – this is an interest rate that no one ever pays, not even banks, however, it's the benchmark rate from which other rates are then calculated.
- Currency Exchange Rates quoted in the media – are rates that no one ever actually pays. These are normally the middle rates, not the ones the bank will pay you.
- The Crude Oil Prices quoted – no one actually pays these. These are the book entries in major international companies that set the price indicators that are quoted in the Australian media.
- Consumer Price Index (CPI) – it's not a price that anyone pays. It's a numerical scaling device referred to a base figure. The quoted figure is the movement from an earlier period to the current period.
- Unemployment Percentage – this is the percentage of the labour force unable to obtain a job.
- Housing Starts – the number of housing starts and the comparison to housing starts in one period to previous periods can be an indicator of business activity.
- Foreign Debt – this is more for academic interest than being something about which a small/medium enterprise operator should worry. It's mostly what international companies, operating in Australia, owe overseas.

The key is to focus on what matters to you in your business operations.

Chinese Decisions Will Affect Many Businesses

If you're importing products from China or exporting products to China, you need to factor into your calculations the recent developments.

The Chinese government's decision to devalue the Yuan by 1.9% is going to cheapen Chinese exports to Australia and increase the cost of Australian exports to China.

What Business Issues Are Worrying You?

As part of our ongoing commitment to improving our services to our clients, we're interested to know what business issues are worrying you. Your worries might include:

Cashflow Management

This is a huge problem in Australia. In fact, the ATO has recently indicated that 60% of the recoverable debt owing to the ATO (\$20.3B) is from small/medium enterprises. This is an increase of 9.7% from the previous year.

Debtors' Management

According to Dun & Bradstreet, the average debtors' days outstanding is 51.6 days. This is considerably longer than the traditional 30-day payment terms.

If your turnover is \$2M per annum and your debtors' days outstanding is 52 days, this would mean that your business had \$284,931 in debtors. For every one day that debtors' days outstanding can be reduced, this would generate \$5,479 to your business.

There are procedures and processes that can be implemented to improve a business' debtors' management.

What Business Issues Are Worrying You? (cont'd)

Succession Planning

Succession planning is important for businesses for all of the key personnel within the business. Who is trained to take someone's place in case of resignation, sickness or death?

It's very important to have succession planning strategies implemented for senior management, the owners and also for the other positions in a business. This highlights the need for ongoing training.

Business Plans

Business plans are like "maps for tourists". If you don't know where you're going, how are you going to know when you get there?

However, business plans shouldn't be prepared and then left in the bottom drawer. They need to be utilised as a "living document", so that actual performance and actual achievements can be compared to what was stated in the business plan at set periods during the year (eg at least 3 monthly), to measure your business' performance against the targets that were set in the business plan.

Benchmarking

The ATO has now introduced the type of benchmarking they're utilising as a form of verification for about 100 different types of businesses.

There are commercial benchmarking organisations available who have assembled actual data on over 120 different types of businesses, which enables an individual business to compare itself against others operating in the same business category.

A wide range of data can be compared, including:

- Sales per Employee
- Gross Profit Percentage
- Productivity Percentages
- Sales per Square Metre of Premises

Personal Property Securities Act

The Personal Property Securities Act (PPSA) was introduced in 2012, along with the Personal Property Securities Register (PPSR).

This legislation has caused a lot of problems within many businesses, both small and large, primarily because owners were not adequately trained as to how non-registration on the PPSR could have a significant financial effect on the business.

The government recently reduced the fee for a registration on the PPSR. However, there has been no major education program offered by the government.

The problem with this legislation is that you can lose an asset for which you've paid or on which you owe money, through no fault of your own, other than not registering on the PPSR.

Surveys Conducted

We're aware that, over the last few years, there have been a number of surveys conducted on what services small/medium enterprise operators want to improve the operations of their businesses.

The results of the CCH survey¹ indicated that the 1,343 businesses included in the survey identified that they would like greater service on:

- Management of Costs
- Management Monitoring
- Business Plans
- Assistance in Raising Capital or Loan Funds

MYOB undertook a survey², which asked the question: "What type of advice would you like to receive from your accountant that you're not currently receiving?"

According to MYOB, the answers were:

- Future Planning
- Business Analysis and Interpretation
- Raising Finance
- Succession or Exit Planning

If you would like assistance in any of these items, or indeed, any other issues that are causing you concern in the operation of your business, please don't hesitate to contact us for a review of your business.

¹ SMEs - the fine line between failure and success, CCH, April 2013 – <http://bit.ly/cch0413>

² MYOB Australian Small Business Survey, MYOB, August 2004 – <http://bit.ly/myob04report>

People Buy From People They Trust

Many people believe that the key to being able to consistently sell, on an ongoing basis, is to establish “channels of trust”. What could channels of trust relate to?

Channels of trust could include:

1. **Authority** – In the sales process, it’s best if you’re considered to be an authority-type person who is trusted instinctively. You might establish your “authority” by your qualifications, experience, knowledge and relationship with your customers.
2. **Affinity** – A lot of people prefer to do business with people with whom they have a shared affinity. This might be based on membership of a religious organisation, sporting organisation, location or political affiliation.

With what types of community groups do you have an affinity? Can you improve your affinity relationships?

3. **Credibility** – In the sales process, the salesperson needs credibility. This basically relates to having “walked the walk before you talk the talk”. What’s your profile in your industry? Have you established yourself as a credible person?

You might be able to improve your credibility by ensuring your LinkedIn profile is current and regularly updated. It’s also a good idea to regularly publish articles on what’s being achieved in your business.

4. **Longevity** – Years in business and experience in an industry are great credibility factors in business. Don’t be afraid to refer to the number of years you’ve been involved in the business.
5. **Celebrity** – It’s great if you can be known for something important. This might have come about because of your standing in the community, articles you’ve written, speeches or presentations you’ve made, conference, seminars and workshops in which you’ve participated and books or articles you’ve written.
6. **Familiarity** – Are you consistent in your communications, telephone calls, meetings, relationship with people, showing empathy and becoming a friend?
7. **Frequency** – Do people regularly see or hear from you? This is not always possible in a wide-spread market. You might be able to achieve this by:
 - writing regular blog articles
 - conducting webinars
 - communicating with your target audience on an ongoing basis
 - updating your website with interesting information
8. **Testimonials** – Testimonials are powerful tools because they’re independent persons’ commentary on you or your business. Testimonials should be placed on your website and on your LinkedIn page because these endorsements are very powerful in communicating a comment relative to your business and your personal attributes.
9. **Place** – Are you well-known in your geographical or target market? Do you attend conferences and seminars, sporting events, or events your customers and prospects go to, so that you can be seen, observed and spoken to?
10. **Demonstration** – It’s very difficult to be a force in a business if people don’t see or hear from you. Businesses need to ensure the key people are involved within the business and they are seen to be involved. Seeing is believing.

Each of these channels is a channel of trust. If you could coordinate your activities so that your business is working to the best of its ability in each of those channels, you will have an amazing 10 channels of trust to drive your business forward.

Building Business Partnership

Many small/medium enterprises aspire to develop business relationships through “business partnerships” with larger organisations.

The first thing to do is to look for businesses that are complimentary to yours. You will then need to develop some clear objectives as to what you wish to obtain from a business partnership. This can be a great way to build your brand and add-value to your current business. However, it takes confidence and enthusiasm to develop business partnerships with larger organisations. Smaller businesses need to get the larger businesses engaged with the enthusiasm for the overall concept.

You need to be mindful of what your vision is and the vision of the larger business. You need to be keen, energetic, enthusiastic and follow some golden rules to achieve a great business relationship with a business partner.

These rules include:

- Having a “win-win” intention – there’s got to be something in it for both parties.
- The target markets need to align – there needs to be a valuable alignment.
- Both parties need to believe that there’s a sense of trust, one to the other, that you both understand the critical success factor for each partner.

Building Business Partnership (cont'd)

In the first instance, you need to have clarity as to your objectives. Be very clear on what you want to achieve from a business partnership. Also, be aware of your potential partner's objectives.

What assets do you have in your business, both fixed assets and intellectual property assets, that you will be able to leverage to achieve success from a business partnership?

- Small/medium enterprises need to clearly identify the type of business they're seeking as a potential partner.
- How do you obtain referrals to talk to larger businesses? What's your approach?
- What type of offering is suitable to secure appropriate meetings with a potential business partner? Perhaps you can arrange for a third party to introduce you to them and then have a meeting with them, to give an overview of your product, process or service.
- It's very important to appropriately seal the deal. Enter into a written agreement only after all the issues have been discussed, probably over more than a cup of coffee or a drink.
- You then need to continue to manage and leverage the business partnership on an ongoing basis. It's very important that you don't set it up and leave it to the team to operate, without any ongoing involvement from senior management. It takes a long time to establish an appropriate business partnership. It can easily fall apart through senior management's neglect.

Don't assume that you will achieve the results to which you aspire, unless you're prepared to contribute management expertise to achieving the shared vision.

If you would like our assistance on the development of a strategy for a business partnership vision for your business, please don't hesitate to contact the accountant with whom you normally have dealings.

Using Benchmarks To Add Value

Benchmarking is a comparison of a business operation's Key Performance Indicators (KPIs) and financial ratios with best practice and average performance data relating to similar businesses.

As you know, it's very difficult for a small business operator to find authentic data against which to compare their performance to that of their peers, as this information is generally not known or released. It makes it very difficult for small/medium enterprise operators to know where they stand relative to:

- revenue generated per employee
- gross profit percentage per department
- labour to turnover percentage for each department
- net profit percentage to turnover for each department
- other performance data as compared to the overall industry performance figures

Benchmarking is important. Some people do it without realising that the task is called "benchmarking". Many businesses look, compare and then change the way they do things. Other people do it also. For example, sportspeople do it. Our cricketers are a great example. They use baseball players to teach cricketers how to throw and how to speed up their ground fielding.

Other sportspeople set and monitor their actual performance against "personal best" or national or world records and change part of their technique. They understand the importance of diet. They use the most efficient equipment possible. They visualise future performances. They then measure progress towards their targets, as these steps involve improving one aspect of their performance or technique, in an effort to improve overall performance.

Benchmarking can achieve the same results for your business. If you would like to have a discussion relative to a benchmarking analysis on your business, please don't hesitate to contact the accountant with whom you normally have dealings.

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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