

BusinessPlus+ Newsletter



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Business Conditions Still Difficult!

The difficult trading conditions in most areas of Australia have obviously continued in the last month and are expected to continue for, at least, a few more months. Some commentators believe that there will be a strong recovery in 2013, irrespective of the ongoing problems in Europe. Part of the rationale of expecting stronger growth in 2013 is that many larger businesses have deferred equipment replacement decisions and there is an expectation that these replacements will need to be made in 2013.

Whilst some commentators are expecting interest rates to decrease further, others believe that, with their prediction of economic recovery in 2013, interest rates will start to rise again.

Unfortunately, there is a lack of confidence by many consumers (caused by terminations, worries about economic conditions) and this is placing large pressures on many retail businesses, especially when the effect of internet sales is also taken into account.

If you believe that the economy is likely to recover in 2013 and that there will be a corresponding increase in interest rates, it would be desirable to consider locking in interest rates in the near future.

Another problem that many Australian businesses are encountering is that many consumers don't trust businesses. To counteract this, operators should consider the beliefs and attitudes that they're bringing to their business. Some questions to consider include:

- *What is the purpose of your business? - Is your business adding value and making a meaningful contribution to consumers?*
- *Is your business encouraging your team's talent?*
- *Are you encouraging innovation from your people and your customers?*
- *Is the performance of your business satisfactory?*
- *What are you doing to enhance the planet? - Does your business involve itself in the broader community through philanthropy or being involved in community organisations?*
- *Do you accept that profit is important, but it's not the only reason for being in business?*

Profit is a result of doing other things correctly, including:

- product development;
- innovation;
- encouraging and developing team members;
- training team members;
- offering great customer service; and
- encouraging customers in their pursuits, thus improving your business' performance.

A good place to start in this type of evaluation is a "Business Evaluation" workshop. We'd be very happy to have a discussion with you as to how to organise such a workshop.

Do You Offer Legendary Customer Service?

“Legendary customer service” will set you apart from your competitors. One of the key aspects of “legendary customer service” is to offer consistency. You are not offering consistent customer service if your business’ reaction with customers is outstanding one day and average the next. The key issue is that your customers should know what they can expect from your business - a “**consistent outstanding service**”.

Management has a very important role to play in the development of the cultural environment within the business, whereby legendary customer service will be offered. The senior people in the business need to behave how they want the frontline staff to behave and how they want their customers to be treated. Management and sales people need to get closer to customers in order to understand their needs.

Recruitment is a very important aspect of offering “legendary customer service”. Businesses need to choose people with the right attitude. Attitude is more important than skills as skills can be taught, whilst it is very difficult to teach attitude. Businesses need to clearly identify the ideal service they want to supply to customers which will meet the customers’ needs. You then need to develop the right culture within your organisation to ensure that an outstanding level of service is supplied every day. All team members need to be attentive to customers’ needs and focus on the customers’ requirements.

You should empower the front line staff to make decisions to ensure the business is able to offer outstanding service every day, so that the business does indeed offer “legendary customer service”. This will set your business apart.

Business Plans

Questionnaire – Company Administration

Questions to be considered when utilising the company administration questionnaire as part of a business plan workshop include:

- Are minutes prepared for all Board of Directors meetings?
- Are there procedures to ensure that if a director changes his/her home address, that notification is given to Australian Securities Commission within one month?
- Are there procedures to check that the company’s annual return is lodged on time?
- Do the directors understand their corporate governance responsibilities?

Cashflow Management Is Important - continued from last month

If we were undertaking a Cashflow Management Review (other than Debtors), these are some of the items we’d review:

- Stock review:
 - Examination of procedures for stock turn calculation
 - Written procedures for effective control of the business’ investment in stock?
 - Does your business utilise a “stock matrix” to assist your staff in identifying the “Star” stock items?
- Work In Progress:
 - Review of Work in Progress System to identify whether you have procedures to monitor the investment in Work in Progress
 - Is there regular monitoring of the profit/loss for each completed job?
- Banks:
 - Has your business prepared a detailed schedule of your bank’s covenants (i.e. conditions) for each loan, hire purchase agreement, leasing agreement or debtors’ financing facility (in other words, what does the bank require from you; either on a monthly, quarterly or annual basis and upon what financial parameters [KPIs] is the continuation of the bank loan/facility conditional).

If you would like to have a discussion with us in relation to a cashflow management system operating for your business, please contact us.

Cashflow Cycle Calculation Chart

A cashflow cycle calculation chart can assist businesses to understand the amount of “lock up” that a business will have. Debtors, stock, work in progress, are the key areas of the “lock up”. The amount of “lock up” for your business will depend on:

- the negotiations that your business has had with suppliers of stock, etc;
- when invoices have to be paid;
- the frequency of payment of wages – weekly, fortnightly or monthly;
- the period of time that the product will remain in Work in Progress; and
- the average time that debtors take to pay.

Utilisation of this chart will give your business a good indication as to the amount of “lock up” of cash you have in financing your business operations.

If you would like to receive a Cashflow Cycle Calculation Chart for manufacturers, retailers or professional firms, please contact us.

“Phantom” Customer

A good way to check whether your business is offering “legendary customer service” is for senior management to act as a “phantom” customer.

- Why not phone your business with a product enquiry?
- Review your business’ website as if you are a customer. Does the website supply all the information a customer needs?
- Is your business communicating to customers the products and services you're offering and not just relying on recording all of this information on the website? Word of mouth communication is very important.

The important issue is that not everyone will study every page of your website. Is important information communicated directly to your customers?

Do You Want An Introduction To Supply Chains?

The Australian government has a very unique organisation known as the “Industry Capability Network” (ICN), whose role is to introduce Australian businesses to the “supply chains of major projects”.

ICN works with procurement and project managers to help them identify competitive local suppliers, whilst at the same time, ICN opens up new opportunities, for Australian and New Zealand businesses, with major projects both in Australia and in New Zealand.

The ICN has been operating for 25 years and has collected an enormous database on the capabilities of businesses, both small and large, who have registered with the ICN. The ICN data indicates that it has assisted in generating \$15B in orders for Australian & New Zealand companies which otherwise may have gone overseas.

If you wish to be placed on the ICN database so your information can be made available to the developers of major projects planned for Australia or New Zealand, it is recommended that you complete the application form for “Supplier Access to Major Projects” (SANP) available to download from the ICN website at www.icn.org.au.

If you have any queries on the operation of the ICN, please contact us.

Remember To Ask

Surveys indicate that many small business operators do not ask questions of their customers. When negotiating with customers, or potential customers, ask them questions about “*who they are?*”, “*where they come from?*”, their “*interests?*”, why they are “*interested in your products?*”, how will they “*use your product?*”, etc. This is all part of the “discovery process” for you to find out as much as possible about your customers.

Marketing experts claim that another big problem is not enough businesses “ask for the order”.

- “The great way to close the sale negotiation” – After supplying all the answers to the questions raised by the customer or prospect, ask for the order.
- “Ask for written endorsements/testimonials” – Many businesses do not ask for endorsements/testimonials. In this day and age, where you may not have face-to-face contact with many of your customers (i.e. dealing with them over the internet), testimonials can be a great way of giving some comfort as to your business' bona fides. Testimonials should be listed on your website and refreshed every few months.
- “Ask for referrals” – Many of your customers will know other people who are also interested in similar products and services. Therefore, why not ask your current customers for referrals to other people they know who, they believe, may be interested in your products and services. Perhaps you can include a reward to your current customer for a successful referral. You could hold a “referral function”, inviting both the prospect and the referring customer.

Payroll Preparation Problems

The Fair Business Ombudsman, appointed under the Fair Work Act, has conducted thousands of audits. Many prosecutions have eventuated from allegations of employers not complying with the Fair Work Australia Regulations.

The Fair Business Ombudsman can impose the following fines for an offence:

- individuals - \$6,000
- businesses - \$30,000

Some of the areas with which a number of small businesses have not been fully complying include:

- not calculating personal day leave based on 10 days per annum with the balance accruing from year to year (this replaced the previous sick leave regulations of 8 days per annum, which did not accrue)
- not providing employees with a pay slip within one day of an employee being paid.

Some commentators have indicated that approximately 70% of businesses are not fully compliant with the Fair Work Australia Regulations.

If you'd like us to review your payroll preparation system, please do not hesitate to contact us.

Phases In Business

There are, at least, four phases in any small/medium enterprise. These include:

- establishment
- growth
- stabilisation
- continual expansion

As businesses pass through the first three phases, the difficult question is do you continue to expand? The problem is that, if you do not continue to expand, you're probably going to lose market traction as the market grows and your competitors start outperforming you. One of the key ways to ensure that your business can continue to expand is to conduct business reviews, on an annual basis, to ensure that all segments of your business are performing satisfactorily and continuing to expand. This requires an examination of the processes within your business which could include:

- procurement
- production
- inventory control
- marketing
- sales
- administration
- management
- succession planning at shareholder, senior management and team member levels

Questions to be asked could include:

- *What can be improved?*
- *What new knowledge do we need to obtain?*
- *Are we continuing to rely on internal knowledge?*
- *Should we be importing new skills and knowledge to enable the business to continue to expand?*
- *What strategies should the business be setting for achievement over the next 12 to 36 months?*
- *Has a recent business valuation been prepared?*
- *How does this valuation compare to your expectations as to what your business might be worth?*
- *How much is the gap between your valuation and the valuation prepared by an external adviser?*
- *Have you developed strategies to bridge the valuation gap over the next 12 to 36 months?*

These are some of the issues that businesses need to consider as they progress through the phases in business, especially when the stabilisation phase has been reached. We can assist you with this planning.

What Does It Mean?

Productivity – A measure of the firm's output generated from resources (people, wages and premises).

WANT TO KNOW MORE?

Additional information on the articles contained within this issue of **Business Plus+** is available by contacting our office on 1300 35 22 35 or simply email mail@lewistaxation.com.au.

You might be interested in the following additional informational papers:

- **Paper 014-015 - Industry Capability Network**
- **Paper 018-001 - Customer Service**
- **Paper 018-020 - Customer Knowledge & Service**
- **Paper 570-036 - Business Evaluation Workshop**
- **BAS126 - Cashflow Cycle Calculation Chart - Retailer**
- **BAS126-1 - Cashflow Cycle Calculation Chart - Manufacturer**
- **BAS126-2 - Cashflow Cycle Calculation Chart - Professional Firms**
- **BAS177-01 - Stock Analysis Chart (Stock Matrix)**

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.



growing your business with you.

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