

# BusinessPlus+ Newsletter



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## Issue No 89 – May 2013

### Confirmation 'Business Operations Are Difficult'!

The Reserve Bank's decision to reduce the prime interest rate to 2.75% (the lowest for 50 years) confirms the difficult environment in which businesses are operating. Hopefully, the interest rate reduction will encourage consumers to spend more money within Australia.

To survive in difficult times, SME businesses need to continually review and make adjustments where necessary to their business operating environment including reviews of:

- Marketing
- Digital communications with customers and prospects
- Cost control
- Innovation
- Productivity
- Waste management
- Cashflow control
- Planning of business operations

Superannuation returns are up with an expectation that the return for 2012/13 will be about 12%. The European economy appears to be performing a little better; thankfully it is out of the headlines!

Commodities are performing a little bit stronger. Housing has picked up in some areas, particularly Sydney and Melbourne. Manufacturing in the main is performing poorly, except for niche manufacturers, because of unique products or patents, they are able to withstand the high competitive pressures that have been compounded by the high Australian dollar.

The Australian dollar is expected to remain high until other countries have improved their overall performance.

There is uncertainty about the Federal Budget and what will be included which will affect SMEs, with the recent announcements about superannuation changes causing considerable uncertainty.

The drawn out 'unofficial' Federal Election campaign is also adding to the uncertainty in the marketplace.

Now is the time to start planning your own budgets for the 2013/14 financial year. In this edition, we have included some commentary on cost control as part of the preparation for the drafting of budgets and cashflow forecasts for SME businesses.

'Failure to manage costs and anticipate rising costs' has been identified as the main reason why businesses fail according to SME operators, based on the survey conducted by CCH\*. Other areas of concern identified by SME operators in the survey included:

- inexperienced management
- poorly designed business model (eg. no business plan)
- insufficient capital or inadequate access to capital (borrowings)
- poor marketing
- too much expansion, too quickly
- not enough time on managing the books of the business
- failure to seek professional advice

If you wish to have a discussion with us about your business' current performance, preparation of budgets and cashflow forecasts for 2013/14, or improvements to the business management strategies within your business, please do not hesitate to contact us.

*\*SMEs – the fine line between failure and success', a national research study commissioned for CCH, April 2013.*

### Survival In Difficult Times

Now is the time to take steps to ensure that your business will survive these difficult times. Suggestions on implementing planning for survival in difficult times include:

- Review costs – can any business cost be reduced or eliminated?
- Review labour productivity – talk to your team members to see if agreement can be reached on improving productivity.
- Review management of:
  - Cashflow
  - Debtors
  - Stock
  - Work in Progress
  - Creditors
  - Bank relationships
  - Debtors factoring or financing
- Review debtors' management – are you checking applications from new credit costumers to ensure that you are not inheriting someone else's problem? Are you receiving director's guarantee documents? Are these being appropriately filed so they're available when needed in the future?
- Does your system ensure there are follow-ups on customers – at the due date of payment of invoices – to ensure prompt payment, or if a customer has a query so you can resolve this query as soon as possible?
- Prompt follow up action against problem debtors.
- If you are an importer or an exporter, consider locking in currency contracts.
- Contact suppliers and try to negotiate improved payment terms.
- Prepare monthly financial accounts.
- Review Key Performance Indicators (KPIs) with your team members.
- Review your marketing expenditure.
- Are you targeting the most profitable customers for your business?
- Are you creating 'urgency' in marketing?
- Are you providing a 'problem/solution' sales message?
- Are you using customer testimonials to enhance your relationship with your customers?
- Monitor stock holdings – can stock be reduced?

We can assist you in implementing strategies for the present difficult business environment. Please do not hesitate to contact us.

## Know Your Unique Selling Proposition

Have you articulated your business' 'unique selling proposition'? Have you developed a strategy, which will enable you to deliver the 'unique selling proposition' to your customers/clients each time you are dealing with them? This means by each person working within your business.

Consumers are looking to deal with businesses that they can trust. Is your business creating a feeling of trust with customers? Are you obtaining testimonials, preferably on video, and using them on your website, so your prospects can see some of your individual customers endorsing your products and services?

Why not survey or sample your customers to find out what they like and dislike about your business? This will give you some clues on how you might be able to fine tune your business model.

Customers are looking for a 'memorable experience' when dealing with a business? Are your customers receiving a 'memorable experience' in their dealings with your business? Are you encouraging staff to show passion and enthusiasm when dealing with customers, thus highlighting the business' 'unique selling proposition'?

If you would like assistance from us in articulating your 'unique selling propositions', please contact us.

## What's It Mean?

**Times Interest Covered By Profit** – This is a test carried out by banks and financiers, to ascertain the ability of a borrower to service the interest cost of the loan out of the business' profits. The calculation is:

$$\frac{\text{Profit before tax} + \text{Interest}}{\text{Interest}}$$

For Example:

Profit before tax = \$115,000

Interest = \$35,000

Times interest covered by profit will be calculated as follows:

$$\frac{115,000 + 35,000}{35,000} = 4.2$$

In many loan agreements, there will be a stipulation of the minimum number for the number of times that interest needs to be covered by profit.

## Grants For SMEs

### REMINDER – Coal Industry Research Grant

Applications for the Coal Industry Research Grant close with the Australian Coal Association Research Program (ACARP) on the 15<sup>th</sup> May 2013.

## Cost Control Is Important

The new financial year commences in less than two months. Now is an appropriate time to consider key components of budgets and cashflow forecasts for 2013/2014. Last month, we started this process by considering 'sales planning'. This month, the emphasis is on 'cost control'.

While sales growth is very important for a business, management should also be just as diligent in the control of costs. A dollar saved as a cost goes directly to bottom line profitability. Many businesses have found that by embarking on a strict cost control review, they have achieved the same profitability improvement that would otherwise have had to come from a substantial increase in sales, which might not have been available to the business.

How can you reduce costs?

- Requesting three quotations for the supply of product or service.
- Selecting the best quotation from your business' point of view – this may not necessarily be the lowest, but at least you will have the option of reviewing what other businesses might have been prepared to offer.
- Negotiate prompt payment discounts from suppliers, especially if you are utilising debtors' factoring or financing.
- Negotiate for a 'package' of additional services that you can use in your business.
- Consider the appointment of cost consultants to review your utility costs such as water, electricity, gas, telephone, internet connection, travel and other similar costs.
- Check bank statements for bank fees, interests, etc.
- Check to ensure that credit cards are being paid on time so you are not incurring late payment charges.
- Check suppliers' tax invoices to ensure that there have been no other charges, and that all goods and services are received.
- Costs need to be reviewed on an ongoing basis. You also need to keep a close eye on what is happening in the marketplace. Is there a new supplier opened up for business in your location? Are they offering improved services and prices?
- A good question to ask is, "Why are we incurring this expense?" Sometimes a particular service signed up for few years ago, while it was absolutely necessary, might not be necessary today?
- Is the product or service being properly used within your business to generate bottom line profitability?
- Have you reviewed your use of electricity? Could improved 'housekeeping' be introduced to reduce electricity costs?
- Could the cost of telephone usage be reduced by availing yourself of services such as Skype?
- Have you reviewed labour rosters? Do you require all of the staff that you currently employ?
- Could you benefit by employing more persons on part-time work arrangement (eg. 9am to 2.30pm to fit in with school hours so that employment opportunities could be offered to persons with schoolchildren)?

Cost control monitoring is an ongoing activity that businesses should be conducting each week to ensure that costs and every activity of the business are being minimised as far as possible. If you would like us to undertake a cost review of your business, please contact the accountant within our firm with whom you normally deal.

## Marketing Is Essential For SMEs

Good marketing is a very important component of the overall package to attract new clients and increase revenue within a SME. Many businesses ignore, at their peril, the appointment of a competent marketing professional to assist with the delivery of ongoing marketing services for a SME.

Many of the components of an outstanding marketing strategy can be implemented by a business itself, without ongoing reliance on the external marketing professional. These strategies include:

- Building a database of clients – can be done by asking for business cards or the names and contact telephone numbers of customers, or if need be, conducting a small raffle each week based on customers submitting their business cards or entering their details into an entry form. The key thing for the business is to then record the details contained on the business cards or entry forms into a database of their customers.
- The 80/20 rule applies in virtually every aspect of business (80% of the profit from 20% of customers). It is important that SMEs do not ignore their most profitable customers. These are the customers at which key marketing strategies should be directed (eg. invitation to special events, early advice about sales), or other promotions (eg. invitation to special events such as sporting events or theatre).
- Offer a loyalty program to key customers.
- The key strategy of marketing is obtaining customer testimonials, and then placing these testimonials on your website and utilising the testimonials within advertising.
- How good is the business' 'story telling' about real services rendered to clients that are conveyed to prospects in promotional emails, newsletters, blog articles and website?
- Can the business position itself as a key adviser to customers, so the customers will contact the business, not just to obtain the product or service, but because they believe the business is offering an 'expert service'?
- How would you achieve this 'trusted adviser status'? One way to do so is to continually communicate to prospects and to your current customers the activities that your business is undertaking – the problems that have been solved – you obviously need to respect the customer's confidentiality. There are many ways you can communicate a story about the problems that you have solved for your customers/clients.

## Action Plan Prior to 30<sup>th</sup> June 2013

### Tax Planning

- Have you reviewed your stock to ensure that any obsolete and unusable stock is scrapped prior to the 30<sup>th</sup> June?
- Have you scrapped any unused plant and equipment and recorded the details within the business' depreciation schedule?

There might be more items relative to tax planning that you should be considering after the Federal government announces the 2013/14 Budget next week.

### Cashflow Management

- Have you factored in the possibility of increased interest rates applying later in 2013? Should you be considering trying to lock in a long-term fixed interest rate at this stage?
- Have you reviewed your debtors' days outstanding? Can strategies be introduced in an attempt to reduce debtors' days outstanding by the utilisation of a debtors' reduction program?
- Have you considered the stock turn being achieved from individual products, sections or departments, within your business?
- Are the stock turn rates acceptable? If not, what can be done to improve the stock turn rate (eg. relocation of the stock to a better display area, price adjustment, ceasing to handle this type of stock, better promotion)?
- Does your investment in work in progress exceed 30 days of WIP? Does this mean that progress claims are not being raised regularly?
- Are some jobs not being deliberately finished, so there is a 'delayed management review' on the performance of a particular job?

## Knowing 'Break Even' Helps

Do you know what the 'break even' figure is for various operations being conducted in your business?

'Break even' sales are the level of sales necessary to cover all fixed (does not vary relative to production) and variable expenses (relate to production/sales) within your business. This gives the point of no profit or no loss. To calculate your business' 'break even', you need to know the gross profit percentage for the individual operations within the business for which you're trying to determine the 'break even' amount.

For example:

Fixed cost - \$235,000          Variable cost - \$622,000  
This will be a total cost, at that level of operations, of \$857,000.

If the gross profit being achieved by that operation or the overall business was 47%, the calculation would then be:

Fixed Cost + Variable Cost

Gross Profit Percentage

$$\frac{\$235,000 + \$622,000}{\$857,000} = \frac{\$857,000}{47} \times \frac{100}{1} = \$1,823,404$$

Therefore, at this level of operations, the 'break even' is \$1,823,404.

To prove the calculation:

Sales \$1,823,404 x 47% = \$857,000

Less:

Fixed Cost                      \$235,000

Add Variable Cost            \$622,000

\$857,000

\$    NIL

If you would like our assistance in calculating 'break even' figures for your various operations or your overall business, please do not hesitate to contact us.

### WANT TO KNOW MORE?

Additional information on the articles contained within this issue of **Business Plus+** is available by contacting us on 1300 35 22 35 or simply email [mail@lewistaxation.com.au](mailto:mail@lewistaxation.com.au).

#### 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.*



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