

# Business Plus+



## INDEX

Business Outlook .....	1
Have You Been Affected By Natural Disasters? .....	1
Customer Loyalty Ladder .....	2
Business Plans - Questions To Consider .....	2
Keeping Customers Is Important .....	3
Selling Your Business Requires Preparation .....	3
Research And Development Registration .....	4
What's It Mean? .....	4

## Issue Number 61 - March 2011

### Business Outlook

#### The Natural Disasters May Affect You

The recent spate of natural disasters in Queensland, New South Wales, Victoria, South Australia and Western Australia, (floods, cyclone and severe winds) will have some impact on the business outlook for the remainder of the 2011 calendar year. Natural disasters will have an incredible effect on the building industry as the building industry sets about repairing what nature has destroyed. This will lead to higher skills shortages, particularly for tradespeople. This is likely to lead to increased pressure on the government to allow higher levels of skilled migration into Australia.

The government has announced a disaster tax to commence from 1 July 2011. Economists are now indicating inflation is stronger than what was first thought and there is an expectation that interest rates are just about at their peak levels. There are some expectations that a "*stinker of a budget*" will be announced by the government on the 10 May 2011. The other debate that will ultimately affect SMEs is the government's announcement of a carbon tax to be introduced in approximately 12 months time.



**What does all this mean to SMEs?** There will be strong pressure for skilled labour, particularly in the building industry. Inflation is forcing up prices of many key components within a business, therefore businesses should be continually reviewing selling prices so as to maintain the margin relationship between costs and selling prices. Businesses which achieve product differentiation are more likely to be successful.

As we approach the end of the financial year, it is an opportune time to review all aspects of your business' operations and to perform a business health check.

If you would like to have discussions with us relative to a review of your business, please do not hesitate to contact us.

### Have You Been Affected By Natural Disasters?

There are government assistance packages, which vary from state to state, for small businesses and primary producers who have been affected by recent disasters - floods, cyclone and severe winds. The assistance packages include:

- grants for eligible small businesses and primary producers
- loans or interest subsidy for loans available for eligible small businesses and primary producers.

Federal/state government grants are available to small businesses, primary producers and workers affected by declared natural disasters in Queensland, New South Wales, Victoria, South Australia and Western Australia.

If you have been affected by any of these disasters and need assistance in preparing the disaster claim forms, please do not hesitate to contact us.

## Customer Loyalty Ladder

To have a great business, you need to establish a customer loyalty ladder. The ultimate aim then is to develop evangelists for your business, but where do you start?

In the first instance, a viewer is someone in the market place who could buy from you but is currently not a prospect or a customer.

Prospects are people who are not yet customers but who have shown some sort of interest in the products or services offered by your business. They might have responded to advertising or may have requested a quotation. The greatest cost every business has is attracting prospects and then getting them to take the next step to become customers.



Customers are people who buy from your business once, but you shouldn't stop your marketing/promotional activities once someone becomes a customer. In fact, you have only just started because you need to utilise systems, staff attitudes or your business' knowledge to take customers to the next level.

Clients are people who buy from your business more than once, so you need to continue to promote and market your business to them – show them you care!

Member – a member is a client who has dealt with your business a number of times who you then offer a “loyalty card” or offer “other inducements” to make them feel they are an important component to your business.

Advocates – Advocates are different to members because, when asked, they will recommend your business. Advocates need to be people who are well recognised by your team as being people who are prepared to be pro-active to viewers and prospects, in their support of your business.

Evangelists – the highest level of customer recognition is where an advocate becomes an evangelist. An evangelist openly promotes your business through things they say to other people, comments they make on your website, facebook and blogs. To develop an evangelist in your business, you need to make communications very easy and encourage members to become advocates and then to become evangelists for your business.

The team needs to understand that the first sale to a customer is the beginning of a relationship which will hopefully culminate in a customer becoming an evangelist for your business.

Then you have a loyalty ladder.

## Business Plans - Questions To Consider

### Budgets and Cashflow Forecasts

- Do you prepare budgets on a monthly basis to cover the next 12 months?
- If you are in a manufacturing type business, do you prepare production budgets?
- Do you prepare sales budgets?
- Do you calculate the required investment in stock at the end of each month?
- Do you prepare a wages budget analysing every aspect of the business including production, sales, distribution, marketing, administration management?
- Expense budget - has each expense item been examined to determine the likely cost for the next 12 months?
- Are all of the expenses necessary in the business?
- Are individual expenses subject to review, quotations etc, in an attempt to reduce the costs of that particular expense item?
- Have you prepared a debtors' budget based on the sales forecast?
- Have you reviewed the projected debtors' days outstanding to compare to previous debtors' days outstanding achieved?
- Have you analysed the projected stockturn to see whether this would be satisfactory?
- Have you prepared a cashflow forecast which incorporates the items from the various budgets and then incorporates other key information, such as loan payments, lease payments, taxation payments etc.? The cashflow forecast can be significantly affected by changes in debtors' days outstanding, stockturn rates, creditors' day outstanding etc.



There are over 50 questionnaires relating to the preparation of a business plan. In the next issue we will consider taxation.

## Keeping Customers Is Important

Consumers are looking to deal with businesses they can trust. Is your business creating a feeling of trust with the customer? It is a good idea to obtain testimonials, preferably on video, from happy customers and utilise these videos on your website. Do you conduct customer surveys to discover customers' likes and dislikes regarding your business? This might mean you need to fine tune your business operation.



Staff should be encouraged to show passion and enthusiasm when dealing with customers highlighting your business' unique selling proposition. You can encourage loyalty from customers by focusing on providing them with superior service, and by offering specials to regular customers. A good customer attraction and retention system should make significant contributions to the small business' cashflow. If you would like us to review your customer attraction and retention system, please contact us.

## Selling Your Business Requires Preparation

A large number of "baby boomers" are getting ready to sell their businesses. If you are in this category, or you would like to sell your business in any case, taking your time to do some planning should enable you to attract a higher price for the business than what you would get if the decision to sell is not planned or is rushed.

The first thing "baby boomers" need to consider is whether they are hopeful of passing their business on to their children (or one of their children).

Succession planning needs to be planned and some basic questions answered including:

- Do your children want to take over the business?
- Are they happy to do so?
- Will you get enough money out of the deal to retire with dignity?

If you do decide to have a family succession, it is desirable to implement a training program so the next generation understands how the business is run.



The problem with trying to sell a business at present is that, with the "baby boomers" approaching retirement age (or what is generally accepted as being retirement age); there will be a significant rise in the number of businesses on the market. If you are going to maximize the sale value of your business, businesses need to be prepared. You need to get the business in the best possible state to enhance the sales value. Normally this process will take 1-2 years and in this time you should ensure that appropriate robust systems and controls are in place (if not already).

A business plan should be prepared outlining how you envisage the business would operate for the next 3 years, system manuals should be updated, the business should appear to be stable and confident in its future operations and be able to accommodate a new operator.

You may need to hire a mentor/consultant to assist you in the sale of the business/succession planning (especially if you are undertaking family succession). The expert could look at key activities and identify any gaps that may exist so that work can be undertaken to improve the business' performance in these areas.

Items to be checked include:

- systems control;
- best practice implementation relative to key performance indicators;
- business operational issues;
- human resources systems;
- financial account preparation and interpretation;
- debtors' aged analysis;
- inventory level; and
- physical fitness of buildings, plant, motor vehicles etc.

The key thing is to identify where any gaps exist and use the 1-2 years to fix the problems so that the business can exhibit adherence to best practice. Unfortunately, if you do not have these items fixed, in most cases you will be offered a much lower sale price than what you expect to receive. In some instances this is driven purely by the large number of businesses that are already on the market and ones that are expected to be placed on the market over the next decade. The key thing is to understand where the gaps are between the present state of the business and best practice, and then fix these gaps so that the business will stand out from others being offered for sale. Our key advice is to dress the business up now so as to maximize the price.

If you would like assistance on a due diligence review of the readiness of your business for sale, please do not hesitate to contact us.

## Research And Development Registration

If you are operating a company with a turnover under \$5M and with expenditure on research and development from \$20,000 to \$2M in aggregate, then the company can claim a tax rebate of 37.5% (or possibly 52.5% on some component) of the R & D expenditure incurred during 2009/10.



If the company's turnover is over \$5M and the company has undertaken research and development projects exceeding \$20,000 in aggregate during 2009/10, the company can claim a tax deduction of 125% (or possibly 175% on some component) of the R & D expenditure incurred during 2009/10.

To claim these benefits the company must register with AusIndustry prior to 30 April 2011 or the date of lodgement of the company's income tax return.

To be eligible to claim the research and development expenditure, the company should have prepared a research and development plan for each research and development project and to have kept costs and manpower allocation records to substantiate the research and development claim.

If you would like any further details regarding the operation of the research and development laws, please contact us.

## What's It Mean?

### Debtors' Days Outstanding

Debtors' days outstanding is one of the most important key performance indicators available to a business manager. The calculation should be prepared on a monthly basis and the resulting figure compared to budget estimates. Debtors' days outstanding is calculated as follows:



$\text{Credit Sales} \div 365 = \text{average daily sales}$

The actual debtors' balance is divided by the average daily sales to give debtors' days outstanding.

#### Example:

Credit sales    \$2,382,000  
                  365            =    \$6,526

Debtors' days outstanding    \$327,000  
Divided by average daily sale    \$6,526    = 50.1 days

If your business is trading on 30 days payment terms, this means you are making available to your customers an extra \$131,173 worth of credit.

If you would like to have a discussion on how to reduce the amount of money owed to you by your customers, so you are no longer acting as the banker, or a copy of a debtors' days outstanding chart, please contact us.

### 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.*

