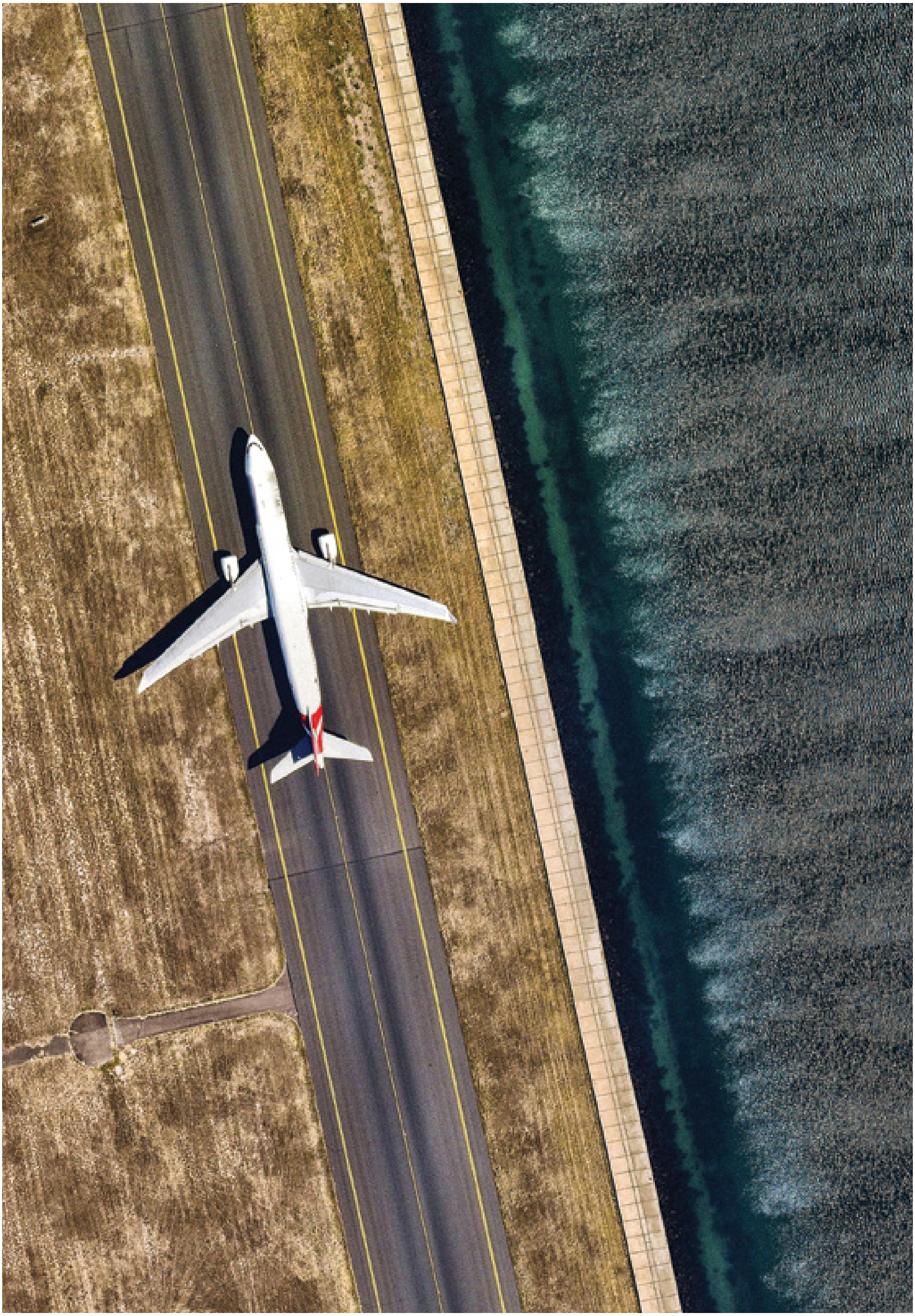
Your Future
Beyond
Numbers

bonsella



01 Our Financial Climate

The best way to predict your future is to create it.

All industries, countries, and people have been affected by various changes in the local and global economies, as evidenced by history. Starting back in the Great Depression in 1930's, we then experienced an Australian economic recession in the 1990's followed by a global financial crisis in 2008. In 2020 we experienced an unprecedented market destabilization across the globe as a result of COVID-19. History tells us there will be more of these downturns to come. How do you prepare for them, or ride the wave when they're here?

Problems

- Decreased consumer demand
- Tightening of cashflows
- Inventory build-up
- Over/under utilised workforce

Solutions

- Marketing strategies
- Review all financing arrangements with lenders
- Review debtor collection system
- Move stock quickly
- Diversify products/services

02 Your Success

The efficiency, and success of your business can be measured by the return received vs the input required.

Areas of your business that must be considered in terms of efficiency are as follows:

- first impressions
- business structure
- assets
- document management / filing
- system standardisation
- bookkeeping
- IT capabilities
- controlling your debtors
- budget
- cashflow
- stock control
- borrowing (gearing)
- staff analysis
- compliance obligations
- green technologies

First impressions

The first impression anyone has of your business can affect whether or not they become a customer/client.

Subtle factors like:

- Physical appearance (cleanliness, décor etc);
- Location and ease of access;
- Your social media presence and following potentially all contribute to generating good impressions with your customers.

The "little things" do count, and most of your customers will form an impression within minutes of your first meeting, or if you're operating within an online platform, with the first click on your page. Therefore, it is imperative that your workplace reflects your brand.

If something stands out make sure it's for the right reasons.

Business structure

Have you considered the most efficient structure for your business? Too often a business structure is started without appropriate thought and planning. This can lead to:

- Lack of asset protection;
- Restrictions in utilising lower marginal tax rates;
- Difficulty with succession.

When your business structure is in place, continuous analysis of its effectiveness ensures your structure remains appropriate.

Succession planning is the process of enabling you to get into or out of a business. This process differs depending on the type of structure the business is owned in, as well as the appropriateness of estate planning. There are two main options available to business succession planning:

- Retention Planning: Keeping the business in the family; and
- Buy-sell Planning: Selling the business (premises, name, stock etc) to external parties.

Assets

Consider the upfront and ongoing costs associated with ownership of your business assets when deciding whether to own or lease them. Some questions to consider:

- Is equipment available that can increase your productivity?
- Is each item of equipment you currently hold useful in actually generating income?

  (i.e. Does your business have more than one work vehicle, and is this necessary? How many computers do you have and how many do you need? Would a combined printer/ copier/scanner suit your business better than 3 separate machines for each function?)

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Document management and filing

This is a basic administrative procedure that will ensure your business is organised and your documents are stored correctly & efficiently.

Whilst the concept of filing may seem menial, the importance cannot be overstated. The time saving of being able to access documentation quickly is immeasurable.

In most cases this is achieved through a usable (cloud based) document management system with robust business procedures and systems in place to ensure standardisation.

System standardisation

Creating standardised procedures is paramount to an efficient business. Some of the benefits of standardisation include:

- accuracy
- timeliness
- professionalism
- consistency

Business systems such as:

- answering phones
- greeting customers
- processing sales
- ordering stock
- banking
- job completion
- closing the premises daily
- complaint resolution
- customer query responses

can all have standardised and documented procedures. Where an owner works in the business, it is also important to spend time working on the business.

Bookkeeping

It is very important that you as the business owner have up to date, accurate and reliable financial data so that you can make informed business decisions.

Timely and accurate accounting information ensures that profitability can be measured, cashflow analysed and appropriate decisions made.

To not have appropriate accounting information can mean unknowingly overpaying (or underpaying) your tax obligations and/or making inappropriate business decisions. If you use a bookkeeper, make sure they are familiar with your accounting software and hold the relevant bookkeeping accreditations. Bonsella offer bookkeeping services if you need assistance.

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Budget

A budget is a financial tool that forecasts income and expenses for a future period.

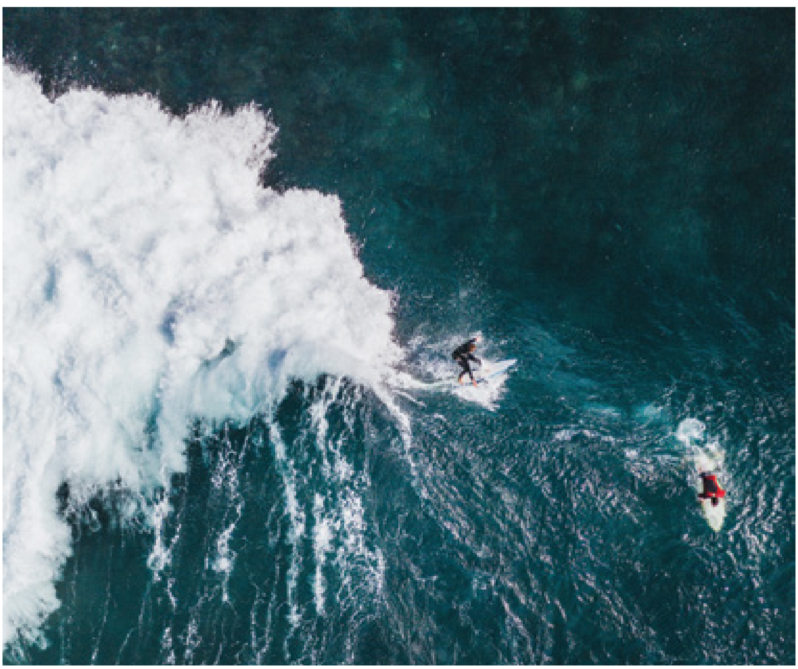
A budget should be prepared annually at the beginning of the financial year and is best set out on a calendar-month basis. Your budget should be agreed/acknowledged by all business stakeholders. Once the budget has been agreed, it should not be changed.

An agreed budget allows all stakeholders to have an understanding of what financial results are trying to be achieved. A simple budget vs actual report at any stage during the course of the year, will assist in explaining why results are not being achieved.

Cashflow

A cashflow forecast is a financial tool that should be used to assist in monitoring and planning the flow of cash in and out of your business. It differs from a budget in that it should be updated regularly (we suggest at least monthly). A cashflow forecast will help you focus on specific objectives such as debtor collection or prioritising supplier payments.

Profit is often misunderstood as available cash but they can be different. Profits do not guarantee cash in the bank. Many profitable companies fail because of cashflow problems.



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IT capabilities

Technology has become essential to conducting business. An innovative and efficient IT ecosystem can allow you to tailor your products and services to suit each of your customers.

With capability comes reliance and dependence. Modern business has come to rely upon IT systems for everyday tasks - from customer details, supplier contacts, financial records, marketing material and everything in between. An unreliable IT system not only causes frustration but can prove costly in terms of lost time and money.

Once you've embraced IT as integral to your business, it's important to continue monitoring hardware and software updates and developments. Always look for better ways to achieve the same result. In doing so, you increase the likelihood of maintaining a competitive edge over your industry peers and the potential to lead the market in product offerings and service.

Controlling your debtors

Management of your debtors is crucial to maintaining cashflow in the business.

Sales growth is often analysed in isolation. All too often a new business places all its focus on sales growth without the same level of concern for collection of debts.

Without active debtor control at a time of growing sales, it can be a struggle to meet supplier invoice terms and other costs of generating these sales. Without payment, investment opportunities may be lost and profit margins diminished.

It is therefore appropriate to review your trading terms:

- against industry standards;
- against your knowledge of your own customer base; and
- in relation to outstanding and ageing debtors.

Also consider the payment options you are offering your customers / clients. How easy are you making it for them to pay you?

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Stock control

Efficient management of your stock or inventory will assist in:

- reducing levels of obsolete stock; and
- more frequent stock turnover.

Market analysis and demand should define the type of stock and service that you provide. In considering where you wish your business to hold its competitive advantage, it is important to distinguish between the highest quality and the cheapest costing stock – attributes that rarely exist together.

If your business focusses on obtaining the highest quality of stock, a price premium is often expected by the market. Greater quality of stock will also help build customer confidence in your business' brand.

If your focus is obtaining the cheapest stock available, your competitive edge may become your ability to sell at a lower price to that of comparable businesses.

Borrowing (gearing)

As a general rule, debt reduction should first be made on non-tax effective debt followed by business and deductible debt. Similarly, where borrowing is required, it is better to borrow money where the interest will be an allowable tax deduction.

Borrowing should always be considered closely with the likely cost of the finance. When used to fund business activity, these costs of finance should be factored into your pricing and rate of return analysis.

The use of an overdraft may be appropriate to 'smooth out' your cashflow, but the profitability of the business should be questioned if it needs to be continually overdrawn.

Your business and personal banking structure should be periodically analysed to ensure the most efficient use of your money.

Specifically, consider:

- removing excess cash from business bank accounts;
- consolidating debt;
- re-financing from or to fixed/ variable interest rates;
- use of mortgage offset accounts;
- use of credit cards.

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As the age old saying goes, "you're only as good as your team".

Staff analysis

So how do you recruit and then retain the right staff for your business? Here are some considerations:

- Improve your recruitment process by listing ads on online recruitment platforms (Seek, Indeed etc). Alternatively, utilise social media pages and the power of your followers (LinkedIn, Instagram, Facebook etc). If appropriate, you may also consider using professional recruitment firms to assist your search.
- A job description is a list of general tasks, functions, and responsibilities of a position. Typically, it also includes to whom the position reports, specifications such as the qualifications needed by the person in the job, and the salary range for the position. You should ensure that staff members are fully aware of their job descriptions.
- It is crucial that your staff members embrace and reflect your brand.
- Analyse your staff and roster to ensure their most efficient usage. Wages expense is often one of the largest expenses of a business, so constant and critical analysis is vital to profitability.
- Studies have shown that as little as two months without feedback, being left out of decision making or having ideas ignored can result in staff losing motivation.
- Consider the impact of providing incentives to staff. Some options may include:

  - increased responsibility;
  - flexible working arrangements;
  - cash bonuses;
  - gifts and rewards;
  - social functions;
  - time off; or
  - a promotion.

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Compliance obligations

The ATO's systems for analysing BAS and tax returns are increasingly becoming more sophisticated. They are frequently finding errors and have the ability to penalise and impose interest charges. In business, you have a responsibility to ensure that this compliance work is done as accurately as possible.

Superannuation guarantee contributions on behalf of employees are mandated by the Government. The superannuation guarantee is set to a specific percentage of the employee's gross wage and are payable by the 28th day of the month following the end of the reporting quarter. It is very important that these contributions are made by their due date. Where this due date is not met, the superannuation amount paid becomes non-deductible and is payable to the ATO (not the super fund). It can also attract penalties and additional interest charges.

Are you fully aware of all the potential benefits to your business resulting from the numerous Government incentive programs and stimulus packages? We are and can help you make sense of it all.

Green technologies

We are in the middle of a green technology revolution with climate change and sustainability being top of mind for many individuals and business. Make sure your business is not left behind and start making positive changes today. Embrace paperless transactions that occur in the daily running of the business (i.e. arranging all invoices/bank statements to be made available electronically).

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03 Management Tools

Working on the business is every bit as important as working in your business.

Working on a business requires taking a step back from operational aspects and analysing the business from a management point of view.

Common tools used and areas for management review include:

- Benchmarking;
- Profitability ratios;
- Marketing strategies;
- Pricing analysis;
- Brand awareness;
- Networking;
- Diversification or improvement of products and services;
- Customer knowledge;
- Customer database and analysis;
- Tax planning;
- Business plans and goals;
- Sensitivity analysis;
- Risk analysis;
- Break even analysis; and
- Due diligence.

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Benchmarking

Business benchmarking is a tool used in analysis to help answer questions such as:

- Does your business achieve the same level of profit as other businesses in your industry?
- Does your business spend too much (or too little) on rent, advertising, wages, or other expenses?
- Is your business performing as well as it should be?

Benchmarking data can help you to:

- Calculate financial ratios;
- Analyse business performance;
- Compare the results achieved by your business with other similar businesses; and
- Conduct a "what if" analysis.

Using a benchmarking approach, you will be able to:

- Find out how well your organisation is performing by comparing it to other similar organisations;
- Measure and improve the performance of your business in key areas such as sales, profit and expenses;
- Identify the strengths and weaknesses of your business;
- Highlight opportunities for making your business more competitive.

Marketing strategies

It is important to improve the image of your business as well as finding and maintaining new markets and customers. Marketing experts commonly refer to the '4 P's'; being:

1. **Price** – what is the best price for your product/service (this is discussed in further detail below)
2. **Product** – what is the product/service you are selling
3. **Place** – within what demographics is your business placed
4. **Promotion** – what are your business' strengths

Review the 4P's against all marketing strategies and proposals.

Pricing analysis

Pricing is an area that should involve careful financial analysis. You should consider both the costs involved in producing your product or service together with market expectation.

Price sensitivity analysis can be used to predict how changes in the price of your product or service will affect the amount of income your business can earn (i.e. if you increase your price by 10% and lose less than 10% of your customers in dollar terms, you may be in a better position).

Ultimately, being able to sell your product or service is what provides income.

Key Performance Indicators (KPIs) are quantitative and qualitative measures used to review an organisation's progress against its goals.

Brand awareness

Advertising is designed to generate increased consumption of your products and services through the creation (or possibly reinvention) of a "brand". You should analyse which major mediums are used to deliver these messages and how they will assist your business achieve "awareness". Available options include:

- Social media platforms;
- Website;
- Online advertising;
- Print advertising (magazines, newspapers, billboards).

You may also consider the use of a marketing/advertising agency to ensure the maximum possible exposure. Word of mouth is the cheapest and easiest form of advertising for your business, and this can be accomplished by exceeding your customers expectations.

Profitability ratios

Key Performance Indicators (KPIs) are quantitative and qualitative measures used to review an organisation's progress against its goals. They can be broken down and set as targets for achievement by the business, and should be reviewed at regular intervals. KPIs should be individually created by the business owner and tailored around specific business objectives. In deriving KPIs to benefit your business, ensure they meet the "SMART" criteria:

- Specific
- Measurable
- Achievable
- Relevant
- Timely

Profit improvement is achieved through an analysis of the interaction between your business' existing practices and the realities of its internal and external environment. This requires a multi dimensional approach that includes the basic elements of gross revenue, margin, and costs.

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Networking

Networking is a marketing method where business opportunities are created through networks of like-minded people in business. It can allow you to gauge how other businesses are surviving, build new business relationships and generate business opportunities. Networking can also introduce you to future customers of your business. It can really pay to say "yes" to as many of these opportunities as possible.

A strong value proposition will increase your competitive advantage in the market.

Diversification or improvement of products and services

When a slowing of business activity occurs, it may be appropriate to look for new income streams and new profit potential to replace declining and lost revenues.

Many business owners diversify their products and services to allow their company to create new customer value and a new and stronger value proposition. A strong value proposition will increase your competitive advantage in the market.

The employment of this tactic kept many small businesses afloat for longer during the COVID-19 pandemic. For example, some bars and restaurants facing immediate shutdown began offering takeaway and delivery options to the public (where these offerings had not previously been part of their operating practice).

Customer knowledge

Customer knowledge is an emerging priority - a recent study of business failures concluded that the collapse can, on many occasions, be put down to complacency. Quite often, a gap exists between what business owners think customers want and what customers actually want.

Customer knowledge can be approached from two perspectives:

1. **Capturing and organising** your existing data to allow it to be shared and discussed throughout the organisation.
2. **Identifying gaps** in your knowledge of your clients. You may need to establish a process/system to gather more information and data about who your customers are, what they do and how they think. This will help you provide the service or product your clients want and need.

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Customer database and analysis

A customer database (CRM) is an important tool for storing customer information such as:

- contact details;
- sales history;
- industry;
- likely usage of product/service; and
- referral source.

This is used to strategically focus your marketing and sales efforts to achieve greater efficiency.

A customer analysis should include:

- the total number of customers;
- the total number of active customers;
- a classification of your customer type;
- past sales to best customers in dollars and as a percentage of total sales;
- past sales to best customers in dollars and as a percentage of profit margin.

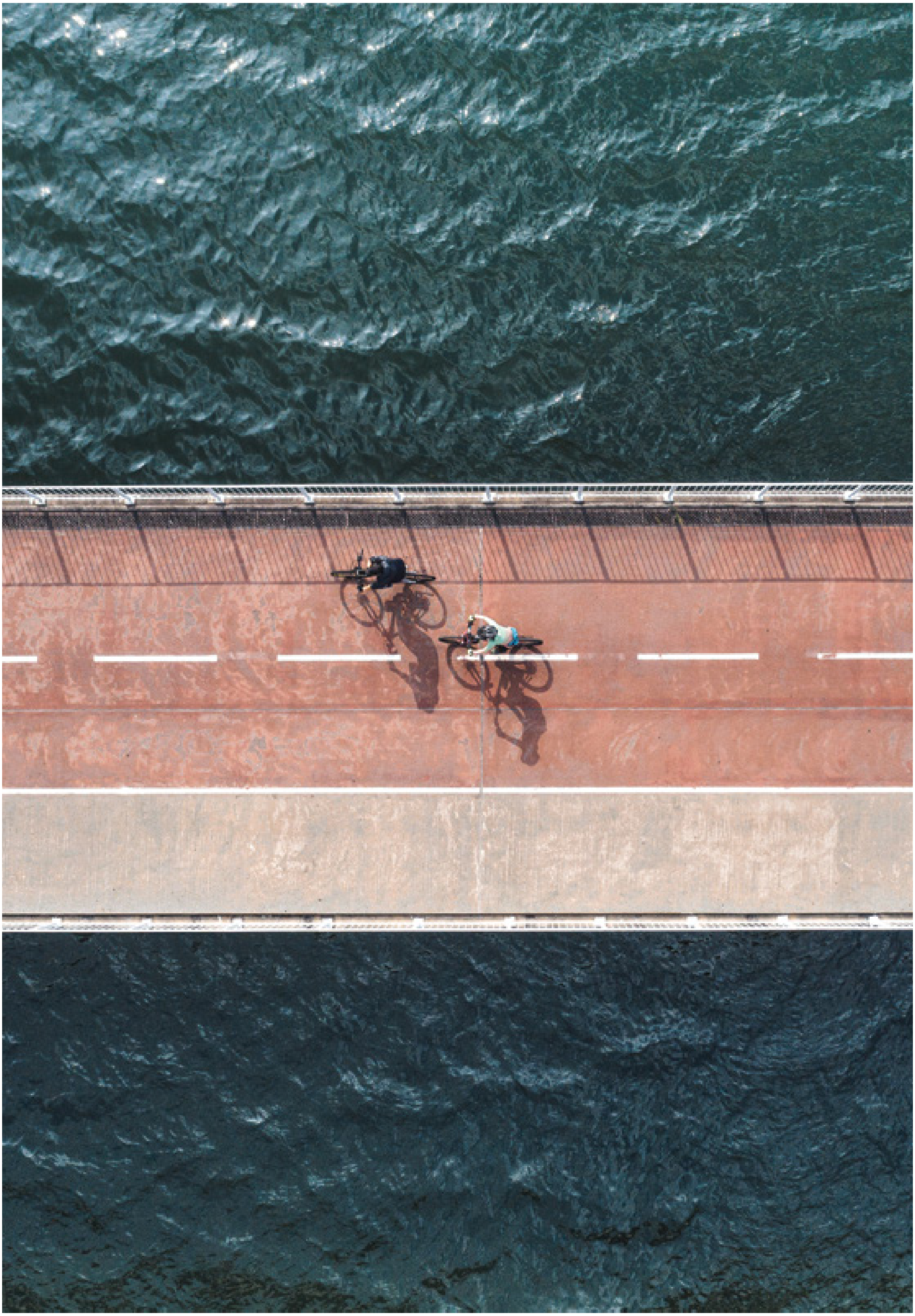
Tax planning

Tax planning is a process of reviewing year to date figures and exploring options to reduce the amount of tax that you are likely to pay at the end of the financial year. It is also a process of understanding and planning for your likely taxation obligations.

It is important that the tax planning process takes place BEFORE the end of the financial year to ensure appropriate tax strategies can be implemented before 30 June.

In tax planning, the following are commonly considered and addressed:

1. Utilise marginal tax rates;
2. Purchases of goods and services prior to end of year;
3. Prepayments;
4. Borrowing money and gearing strategy;
5. Superannuation contributions;
6. General wealth creation strategy;
7. Retirement goals;
8. New business opportunities;
9. New investments;
10. Tax effective investments;
11. Self-managed Superannuation funds; and
12. Salary sacrificing



03 Business plan and goals

A business plan is any plan that helps a business to:

look ahead

↓

allocate resources

↓

focus on key performance indicators

↓

prepare for problems and opportunities

Most people think of business plans when starting a new business or applying for business loans, but they are also vital for maintaining the desired direction of your business. Businesses need plans to optimise growth and develop according to priorities.

In drafting your business plan, the best place to start is with a SWOT analysis – this should outline what your primary strengths, weaknesses, opportunities, and threats are.

SWOT analysis

Strengths	Weaknesses
• Excellent reputation • Loyal customers • Market leader	• Small business/vulnerable industry • Profit margin too low • Losing too many employees
Opportunities	**Threats**
• Expand to new, larger location • Buy local competitor to increase revenues • Sell business & start new career	• Competitors expand to new, larger location • Competitors attempt to buy your business • Competitors under-cut your prices

Simple business plan outline

1. **Executive summary** – highlight all your main points including type of business, business history, financial objectives, management overview, products and services, then (if applicable) funds requested and an exit strategy.
2. **Vision and mission statement** – short overview of business' vision for itself.
3. **Business history** – background of the business, its past successes and what it has developed to facilitate future plans.
4. **Business and industry profile** – the key factors of the industry in which the business operates.
5. **Business strategy** – the proposed strategy for achieving the business' goals and objectives.
6. **Business products and services** – details of all the products and services that the business will offer.
7. **Marketing strategy** – builds on product and service description by identifying what your target market is, characteristics of your market, and the strategies to implement to gain market share.
8. **Location and layout** – continues the marketing strategy by outlining the location and layout of the business premises.
9. **Competitor analysis** – identify the main competitors within and outside the industry (using Porter's five forces or SWOT analysis).
10. **Management team** – identify each person in the business' management team, including their education, competencies and overall skills.
11. **Plan of operation** – set out how the business will operate, including methods of staff retention, ownership structure and decision-making authorities.
12. **Financial forecasts** – highlight the equity requirements to establish or continue to run the business, and the returns that can be expected.

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Sensitivity analysis

Sensitivity analysis highlights the impact a change in a variable (e.g. selling price, quantity, purchase cost, etc.) will have on your business.

By creating a given set of scenarios, the analyst can determine how changes in one variable(s) will impact the target variable.

Variable expense amounts are just one of the important underlying factors in the level of profits; you can incorporate the optimal level of output into the analysis, or even decide between differing investment opportunities. You will get a better idea of how your business will be affected by expense changes, by incorporating sensitivity analysis into your annual budgeting.

'BIGGER IS NOT NECESSARILY BETTER'

Risk analysis

To a large degree, some level of risk is unavoidable in almost any business process. Identifying and managing risk therefore, is an essential and fundamental aspect of management. All too often, analysing risk focusses almost exclusively on financial evaluation. While this is certainly important, it leaves many issues unresolved. Financially acceptable or even low risk situations may well be fraught with danger when other critical parameters are applied.

Keep in mind that even with rigorous risk analysis, the unexpected can still occur. Think about how quickly the COVID-19 virus spread and the resulting repercussions on businesses globally. These impacts could never have been predicted, however, a thorough risk analysis may have identified options for your business in the circumstance of a widespread "shutdown".

Break-even analysis

The break-even point for a business is where: **Total costs = total revenue**

That is, an analysis of the total fixed and variable costs will determine what level of income is required to generate profit.

Due diligence

If you are looking to start a new business, or purchase an existing business, it is prudent to analyse all aspects of the business as well as the ownership structure that you may establish. A 'due diligence' process is where a detailed analysis and valuation of a business is conducted. Due diligence is usually completed by your accountant / adviser. It is important to ensure impartiality when completing the due diligence process.

Bigger is not necessarily better

Bonsella

bonsella.com.au
info@bonsella.com.au
(02) 6257 4144

Unit G10
Quayside
50 Eastlake Parade
KINGSTON ACT 2604

Australian Financial Services
Licence Number: 485049

44 163 754 498