

BusinessPlus+ Newsletter



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Issue – May 2019

Knowing Your Business' Break Even Sales Helps

Do you know what the break-even amount of sales for the various operations/activities being conducted in your business?

"Break-Even Sales": are the level of sales necessary to cover all fixed and variable expenses. This shows you the level of sales that your business needs to make to generate neither a profit nor a loss. The overall gross profit percentage that your business achieves has a significant impact on the calculated amount of sales to achieve break even.

"Fixed Expense": is an expense that does not vary relative to production or turnover within reasonable production or sales levels. Rent would normally be considered to be a fixed expense and would not vary until such time as it was necessary to obtain larger premises. Management salaries would also normally be considered as a fixed expense. Some component of staff salaries could be considered a fixed expense, but in the main staff salaries that relate to production or sales would normally be termed a "variable expense" because variable costs normally move directly in relation to increases in production or sales by the business. To calculate the break-even sales you also need to know the gross profit percentage for that particular operation within the business.

To determine your break even for a particular operation within your business, you need to prepare a list of the fixed expenses relating to the business or to that particular activity and then prepare a list of the variable expenses which relate to that activity and add the 2 totals together. Example: if the fixed costs were \$195,750 and the variable costs were \$392,000, the total would be \$587,750. If the business was achieving a gross profit percentage of 32%, then the calculation of the breakeven sales would be as follows:

$$\frac{\text{Total of Fixed and Variable Costs}}{\text{Divided by Gross Profit Percentage}} \times \frac{100}{1} = \text{Break-Even Sales}$$

e.g. \$587,750 divided by 32% x (100 divided by 1) = \$1,836,718.

Proof

Sales \$1,836,718

Gross Profit Percentage 32%

Gross Profit \$587,750

Total of Fixed Costs and Variable Expenses \$587,750

Result – No Profit/No Loss = Break Even Sales

If you would like to have a discussion with us relative to the establishment of the break-even sales for your business or operations within your business, please do not hesitate to contact the accountant in our firm with whom you normally deal.

Planning Vital For All Businesses

You wouldn't go on a cross-country holiday without looking at a roadmap to plan where you are going to stop and what sightseeing activities are available on the way, would you?

Planning a business, irrespective of the age of the business, is no different. You need to find some quiet time and sit down and think about what your business wants to achieve for the owners, management, team, customers, suppliers and the community in which you operate.

To undertake the preparation of a business plan you need to consider:

- How the business is going to operate.
- What is happening in the marketplace?
- Who are the potential customers for the products or services that your business is going to produce or is already producing?
- What marketing strategies do you utilise?
- The sales strategies that you will need to utilise.

There are a number of key items to be considered in the development of a business plan including:

- Current business situation.
- Financial position of the business.
- Resources that are available for the business to utilise.

- The products or services that your business is producing – Is your targeted market aware of them? Do you need to employ significant marketing strategies to inform your target market about your products or services?
- What is happening in your industry?
- Who are your customers/clients – Do you understand why your customers/clients might be interested in your products/services?
- Is the location of your business suitable for your current customers and prospective customers?
- Who are your competitors? Have you prepared a SWOT (Strengths, Weaknesses, Opportunities and Threats) Analysis on your competitors?
- Have you developed a marketing strategy, including social media, internet?
- Are you a manufacturer? If so, has your business invested in state-of-the-art manufacturing plant and equipment?
- Have you had discussions with suppliers relative to their terms and conditions relative to the products that you're going to purchase from them?
- Do you subject your costing processes to regular review?
- Have you reviewed your business' approach to setting prices?
- Are you exporting or do you have the potential to export product or services? If so, have you had discussions with Austrade and reviewed your eligibility for the Export Market Development Grant?
- Have you implemented appropriate staff training for your team?
- Has your debtors' management system been reviewed so that you can reduce, as far as possible, your debtors' days outstanding?
- Do you benchmark your business against industry averages or against a group of similar businesses?
- Do you need to review your business funding including the relationship with your bank, and the possibility of raising capital as a Crowd Sourced Funding Equity Raising Company?
- Is your company undertaking significant research and development activities? If you are, is your company claiming the research and development rebate? If your company is developing new products, services or processes? Have you implemented procedures to ensure that the intellectual property that has been developed is being protected?
- If your business is a new business – under 3 years of age and you are developing new products, processes or services, have you researched the possibility of your company being deemed to be an "Early Stage Innovation Company"?
- Is your management team aware of the challenges that are going to be facing all businesses over the next few years? Has your management team developed policies to assist your business to navigate the problems that some commentators are forecasting are going to affect all businesses in the next couple of years?
- Has your management team and board of directors analysed the risks that could potentially affect the ongoing performance of your business, including Personal Property Securities Register non-registration potential problems, adequacy of insurance covers, succession planning within your business?
- Are you contemplating "scaling up" your business? If so, what do you envisage your business will look

like in 3 years' time? What strategies do you need to implement so that your vision for 3 years' time can be achieved?

These are some of the items that we would assist you to consider in the preparation of a business plan for your business. In future editions of Business Plus we will supply additional information on each of these items to assist you in the analysis of your business and in the preparation of your business plan.

If you would like to have a discussion with us relative to the preparation of a business plan for 2019/20, please do not hesitate to contact the accountant in our firm with whom you normally deal.

Do Your Customers Recommend Your Business?

Every so often it's a good idea to undertake a review of your approach to your customers/clients.

- Do your customers say "wow"?
- Do your customers recommend your business to their friends and associates?
- Do you acknowledge long-term customers/clients for their continuous support of your business?
- Do you send letters to new customers thanking them for their patronage?
- Do you encourage customers to give you referrals to their friends and associates?
- Do you ask customers for testimonials which you can post on your website?
- Do you give customers guarantees on your products or services?
- Do your team members understand the "value of a lifetime customer"?
- Do you have a prospect/customer database known as a Customer Relationship Management system (CRM)?
- If you have a CRM, are you using the system to maximise your communications with prospects and also your customers?
- Do you have procedures in place for handling customer complaints?

We can assist you in reviewing the services that your business is offering to your customers.

Succession Planning - Have You Reviewed Your Plan Lately?

Succession planning is one of those items that many business people know is important but it tends to get put off as it seems to be something in the future and there are always pressing current issues that demand attention. Does this sound like you?

Succession planning is a very personal activity for most business operators. Most of us would prefer not to really have to think about it.

However, a succession plan that is continually reviewed can assist in identifying issues that need attention, can assist with the motivation of the team in that they can gain an understanding of what the future within your business might look like for them and will assist in the professional development of many of your team members as they prepare themselves for future roles within your business.

There are many questions to be considered in the development of a succession plan that you're happy with. These questions could include:

- What type of business do you want to pass on to the next generation?
- Are you more interested in being able to sell the business? If this is your strategy, are you ensuring that your business is in an “investment ready status” at all times?
- Would you like to “scale up” the business before you cease your day-to-day operations with the business? If so, have you articulated your vision for the business in 3, 5 or even 10 years' time?
- What is your preferred timetable for your personal succession within the business?
- Have you identified persons currently employed within the business who should be groomed for senior executive roles in the future? Do these persons need to undertake some specific additional professional development activities to prepare them for the responsibilities that you envisage them assuming within the business? e.g. Institute of Company Directors Diploma Course to give them a better grounding of corporate governance and corporate law, an understanding of business financing – dealing with banks and the opportunities that are now available for small companies and medium-sized enterprises to raise capital direct from the public, leadership training, training to understand the concepts of “scaling up”?
- If you are unable to identify suitable persons to fulfil senior executive positions in your organisation in the future is it time to commence internal team training and professional development activities to upgrade the skill level of your team members?
- If you envisage that your organisation will have to identify potential new executive members from outside your organisation have you developed a strategy to assist in this executive identification process including identification of outstanding talent working for one of your competitors, identification of talent working in other specific organisations?
- Are there family members who could undertake a wider range of responsibilities within your organisation? If so, should a personal development program be implemented for each of these persons to develop their skills and their knowledge of “business matters”?
- What do you envisage your role will be in the first phase of the implementation of your succession? Do you wish to still be involved on a regular basis with the company for example as a director?
- At this stage, is the business heavily reliant on your reputation, knowledge and skills and, if so, what are the strategies that you will include within your succession plan as to how to ensure that others in your organisation gain a complete understanding of your knowledge and skills and contacts so that they can ultimately gain a genuine reputation for their personal skills within the marketplace?

These are some of the questions that need to be considered in planning a succession strategy for business operators. If you would like to have a discussion with us relative to your succession planning, please do not hesitate to contact us.

Crowd Sourced Funding Equity Raising Update

Last month we commented on Shebah Rideshare,

which had raised \$3 million and, in so doing, broke the Australian record for the largest crowdfunding deal to date.

The crowd sourced funding intermediary for Shebah, Birchall has noted on their website that Shebah had been “dismissed by Australia's Angel and VC Investors”.

The success of Shebah in raising capital highlights to company directors and senior management the opportunities that Crowd Sourced Funding Equity Raising is now presenting, even though the company may have been dismissed by other segments of the Australian capital market.

Crowd Sourced Funding Equity Raising Scorecard

The updated scorecard as at 23 April 2019 reveals that \$28.9 million has been raised by 36 companies

ESS BIZTOOLS - CROWD SOURCED FUNDING EQUITY RAISING							BAS5027
SCORECARD AS AT 23 APRIL 2019							
Intermediary	Progressive Capital Raise		Completed Fund Raising		In Progress Raising		Location
	Number	\$	Number	\$	Number	\$	
Equitise	8	\$ 7,905,220	7	\$ 7,795,420	1	\$ 108,800	Sydney
Birchall	12	\$ 7,281,373	12	\$ 7,281,373	0	\$ -	Melbourne
Enable Funding (Global Funding Partners Pty Ltd)	2	\$ 870,300	2	\$ 870,300			Adelaide
OnMarket Bookbuilders Pty Ltd	6	\$ 5,048,262	5	\$ 4,631,568	1	\$ 416,694	Sydney
Billfolda	1	\$ 4,200,000	1	\$ 4,200,000	0	\$ -	Sydney
Pledge Me Pty Ltd	3	\$ 2,478,561	2	\$ 2,352,760	1	\$ 125,801	Sydney
Crowd 88 Limited	4	\$ 1,142,711	2	\$ 1,098,440	2	\$ 44,271	Sydney
Big Start Pty Ltd	0	\$ -	0	\$ -	0	\$ -	Perth
Capital Labs	0	\$ -	0	\$ -	0	\$ -	Sydney
AG Crowd	0	\$ -	0	\$ -	0	\$ -	Sydney
Crowd Funding AFSL Pty Ltd	0	\$ -	0	\$ -	0	\$ -	Gold Coast
Galaxy Crowd Funding Pty Ltd	0	\$ -	0	\$ -	0	\$ -	Melbourne
Pulse Markets Pty Ltd (BIR Financial Limited)	0	\$ -	0	\$ -	0	\$ -	Sydney
Venture Crowd	0	\$ -	0	\$ -	0	\$ -	Sydney
Total	36	\$ 28,926,427	31	\$ 28,230,861	5	\$ 695,566	

If you are interested in exploring the potential for your company to be able to utilise Crowd Sourced Funding Equity Raising to raise capital of up to \$5 million in a 12 month period, please don't hesitate to contact us.

A free information webinar “Female Based Company Shows the Way” is being presented by ESS Small Business on Thursday, 23 May 2019 at 12:30pm AEST. If you wish to attend please [click here](#).

Which Trends Will Impact Your Business The Most In 2019?

By Andrew Geddes - AndrewGeddes.com.au

We just attended a Harry Dent seminar in Adelaide to learn what demographic based trends he reckons will impact business in Australia.

Is your senior leadership team ready to manage and lead your business through these predicted changes? Here's a summary of Harry's research and predictions...

Two factors drive economic health more than anything else...consumer demand and urbanisation.

The continuing urbanisation of SE Asia and India will help Australia's economy through the 2020's. Australia and NZ have immigration to thank for a higher percentage of Millennials in their populations than say Japan where growth has been stalled for decades. We will do better into the future than them re growth

because of better consumer demand from young people having families. Short term pain will occur later in 2019 when both housing price and share price bubbles burst both here and in the USA.

China's economy is not sustainable with its present focus on building apartments in which no-one lives!!! Hence the switch to the Belt and Road focus. There will be another major technology influenced change over the next ten years...biomedicine and Artificial Intelligence (AI) will drive this.

Over-priced assets (shares and real estate) will have a correction as governments and central banks try to manage debt into the future. This will cause economic chaos in the short term...are you ready for the worst? Will your business survive several years of reduced demand? Have you done a risk review of this possibility? Do you have various cost reduction strategies planned and cash reserves ready? Is your Senior Leadership Team ready?

If you would like us to assist your leadership team to review your business' preparation for challenging business conditions, please do not hesitate to contact the accountant in our organisation that you normally deal with.

Experienced Public Company Director Endorses Crowd Sourced Funding Equity Raising

Andrew Geddes, a public company director and for 11 years the chair of Greencross Ltd, has endorsed the availability of Crowd Sourced Funding Equity Raising for the benefit of small companies and medium-sized enterprises in answering some questions that were submitted to him.

Question 1: Traditionally private companies had only section 708 of the Corporations Act or IPO (Initial Public Offer) that they could utilise to raise capital. What do you think of the opportunities for capital raising that are now available for small businesses and medium-sized enterprises with turnovers up to \$25 million?

Andrew Geddes' answer: *"Traditionally SMEs could have found support from angel investors, but their investments usually came at quite an expense in terms of equity required and for the fees charged. Smaller companies have had difficulties in obtaining finance."*

"Now we have a process with Crowd Sourced Funding Equity Raising and the appointment of Intermediaries by ASIC."

"I particularly like the requirement for companies, which wish to raise capital, to have:

- business plans that are well documented*
- budgets and cashflow forecasts*
- identified a structured business*

- identified a senior management team that have been allocated functional responsibilities*
- goalsetting has been a priority*
- documented their vision, purpose and goals*
- looked at what will happen in their business in the next 3 to 5 years*
- documented their strategies*
- identified who their ideal customer is*
- thought about brand, promises and guarantees*
- established how they are going to execute the pattern of meetings and who will be involved*
- identified the targets that they are going to set*
- utilised the process to plan and document"*

"All of this forces directors and senior management of companies, seeking to raise capital, to have identified what they have done about these matters if they are going to be able to raise capital."

Question 2: As a former top 200 ASX company chair what impact do you expect Crowd Sourced Funding Equity Raising will have on the number of companies seeking to utilise IPOs in the future?

Andrew Geddes' answer: *"It costs about \$500,000 minimum but more likely \$1 million to do an IPO. There is a heavy emphasis on:*

- due diligence*
- special accountant's reports*
- auditor's reports*
- and there are significant costs each year to remain a listed public company"*

"Too many small companies have done IPOs because they didn't have alternatives to raise capital – but now they do, they can utilise Crowd Sourced Funding Equity Raising which is considerably cheaper. This might be a first step – later on, if the company wishes, the company could move into the public environment and they will be better prepared to do that efficiently as they have been through the Crowd Sourced Funding Equity Raising process."

"I think there will be a lot less IPOs and more companies using Crowd Sourced Funding Equity Raising because of the cost differential and the amount of work that is required to become a public company and then to remain a listed company."

"Some listed companies have been taken over by private equity and removed from the Stock Exchange. I think there will be more Crowd Sourced Funding Equity Raising companies and a lot more companies will remain private because they are in control and there is a lot less cost and scrutiny from institutional investors, proxy advisors and shareholders. For these reasons I think Crowd Sourced Funding Equity Raising is going to grow."

If you would like to discuss with us any aspect of Crowd Sourced Funding Equity Raising, please do not hesitate to contact the accountant with whom you normally deal.

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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