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Issue – December 2020

Merry Christmas and Best Wishes for 2021!

Our theme for this month is “Setting the Scene for 2021”.

For most of us, 2020 has been a very difficult year. Many businesses are still suffering and unfortunately will probably be trading in difficult conditions for the next few years until all State border restrictions are removed and International tourism recommenced.

This is a time when consideration can be given as to the current state of your business and you can start contemplating strategies to improve your business performance during 2021.

Some of the issues which we would like to suggest to you include:

Sales Review

What are your top 5 sales lines? What quantity of these products do you purchase each year? What average markup do you achieve on these products?

What are your bottom 5 sales lines? What quantity of these products do you purchase each year? What is your average markup on these products? Is it worthwhile persevering with these items?

What percentage of your gross profit do the top 5 sales lines represent? Are you satisfied with this amount of gross profit being generated by these key products?

Do you discuss with your team the components of your products and what each team member can contribute to your business by improving their product knowledge?

Do your team members know your “Star” products? – These are the items that you sell a lot of and have a high markup. Are your top 5 sales lines included in these “Star” products?

If not, where do your “Star” products rank in your product ranking?

Every business has “Cash Cows” – These are the items that you sell a lot of but they have a low markup – Does your team know to try to sell complimentary products whenever a customer wants to purchase a “Cash Cow” item?

Do you know what your “lock-up” is? – This is the period of time from when you pay to purchase a product until the time that you receive payment for the sale of that product and it shows you the period of time that you have funded that purchase. Could this time be reduced by:

- trying to negotiate extended payment terms with suppliers?
- ongoing promotion of products to try to generate more interest in a particular product perhaps by social media?
- monitoring the level of purchases of various types of stock to ensure that you are not “overstocked” with

slow-moving stock?

- monitoring computer systems that automatically re-order stock as sales are being made (this might be a very slow-moving stock item and you have decided not to restock it and then suddenly you discover that you have a further supply of the stock arrive courtesy of an automatic reorder)?
- if you are selling on credit, review your debtors' system to reduce debtors' days outstanding, because delays in receiving payments from credit customers can be a significant contributor to "lock-up's".

Many retail businesses can achieve improvements for their business by undertaking a "retail analysis" where we evaluate the volumes of various product categories and mark-ups to determine a product mix combined with predetermined mark-ups which will generate an overall sales figure and gross profit which is sufficient to pay the business' overheads and generate the targeted profit for the year.

Know The Financial Impact Of Decisions Before You Implement Them

This is a strategy that many businesses are starting to implement and it is generally known as "predictive accounting".

The process starts with examining the physical number of units to be produced and the calculation of the direct costs that will be involved in that process.

The calculation of stock holdings can be made based on manufacturing/purchase estimates and the unit sales based on estimates from salespeople. These estimates should be checked to determine the level of investment in stock to determine whether that level of stock is going to be required.

From the sales department estimate of sales a calculation can be made as to what the debtors' balance might be based on targeted debtors' days outstanding.

Consideration could be given as to how debtors' days outstanding might be able to be reduced through quicker dispatch of tax invoices to customers, highlighting the due date for payment on the tax invoice, ensuring that any other information that the customer has requested is sent to the customer with the tax invoice so that there is no excuse for payment delay, prompt preparation and dispatch of the debtors' statement and the ongoing follow-up of customers whose payments are outside the negotiated payment terms for that customer.

The cash effect of these purchase decisions and receipts from customers for both cash sales and credit customers can then be shown in the Cashflow Forecast for the business.

If you are contemplating a major expenditure item such as business expansion, or a major research and development project (where, whilst you might be entitled to a Research and Development Incentive Rebate you will not receive the benefit of this until the next financial year), scaling up your business so that you can increase your turnover - this normally involves additional investment in stock and debtors and perhaps in additional premises.

All of these costs need to be examined and factored into your financial projections.

What is the result? Do you have the financial capability of funding these extra activities?

What is the shortfall? Will you be able to borrow the shortfall from a bank? Will you have sufficient security available for the bank to secure the extra loan? Are you and your colleagues happy to sign personal guarantees and to commit to monthly principal and interest repayments?

Are you interested in exploring the opportunities for your business to be able to raise capital direct from the public?

Companies can raise capital as follows:

- Under Section 708 of the Corporations Act, a private company can raise up to \$2 million from a maximum of 20 investors in a 12 month period.
- Crowd Sourced Funding Equity Raising was legalised in Australia about 3 years ago by amendments to the Corporations Act to enable a private company to be able to raise up to \$5 million in a 12 month period.

Young companies (normally under 3 years of age, but in some cases up to 6 years of age) that have been involved in the development of a new product, process, service, marketing or management methodology can raise capital from investors who can obtain a tax offset on their personal taxation debt and possibly avoid paying capital gains tax.

To raise capital from the public, companies need to produce a Business Plan, Market Position Report, Marketing Plan, Budgets and Cashflow Forecast and Business Valuation.

This has been a brief overview of knowing the impact of financial decisions before you implement them. If you would like to discuss this type of analysis for your business, please do not hesitate to contact the accountant in our organisation with whom you normally deal.

SWOT (Strengths, Weaknesses, Opportunities and Threats) Analysis

As part of the preparations for 2021 it's a good idea to take some quality time and sit down, either alone or with your team, and consider the key areas of your business. As you consider those areas complete the items into the SWOT Analysis.

- What are you doing well?
- What are you not doing so well?
- What improvements need to be made?
- What is your vision for 2021?
- What is your mission?
- Can you enter the key items into your action plan?

If you need assistance on the preparation of your Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis, please do not hesitate to contact us.

Fine Tuning Your Service Delivery And Marketing Messaging

On a daily basis, seek 5 minute feedback from "customers facing team members". Ask:

- *"What went right today?"*
- *"What went wrong today?"*
- *"Any suggestions from our customers?"*

Then be nimble... allow changes to be made by team members immediately. Give them permission to change things.

Do your customers know you're still in business? There has been a lot of changes over the last 10 months. Keep marketing and let your customers know you're still here and appreciate them. Spend more than your competitors or make more "noise" on social media. Anticipate the next "normal" (hopefully in 2021), by testing different scenarios with customers and asking them what they think. What will be the new customer "touch points" that will be acceptable to your customers - especially now that many of the restrictions are being eased - what opportunities do these create for your business?

Does your business have a social media policy? Are you uploading regular posts? Are you producing regular short videos via Zoom?

Is Your Business Culture Appropriate For 2021?

Company culture shapes employee motivation and attitudes. Customer satisfaction is linked to positive culture.

What is "company culture"?

The atmosphere in a place?

The vibes?

The attitudes of the people?

Have you ever walked into a business and wondered why on earth you were there?

Have you established “Core Values” for your business?

What do you think of the Core Values that were established by a company that went from one veterinary surgery in a regional city in Queensland to be a Top 200 ASX company 35 years later with the same Chief Executive Officer?

“Our Core Values”.

“Our purpose is to share our love and passion for animals through the pursuit of veterinary excellence”.

Teamwork delivers exponential outcomes. (We will create an environment that promotes collaboration and harmony among our teams. We will demonstrate a caring attitude that respects and values our clients’ and teammates’ beliefs and opinions).

Integrity is our being. (We will always be authentic in the way we conduct ourselves, in the way we express ourselves. We will always be honest with our clients and our teammates).

Our level of professionalism sets us apart. (We will be fair and ethical in all our interactions. We will deliver confident, competent and conscientious care for our clients, patients and our teammates).

Consciously pursue excellence. (We will always do our best. We will deliver uncompromising standards of care).

Innovation is our foundation. (We are willing to challenge the status quo. We are willing to seek out and develop new ideas).

Succession Planning – Have You Thought About It?

Succession planning is not something that should only be thought about when you’re old and ready to retire. It is a process that should be thought about in every segment of your business journey.

Who would take over from you, if something happened to you? What is your vision for your business?

If someone walked in now and asked whether you wanted to sell your business, how would you respond?

If you said that you are interested, is your business in a position to be able to be subjected to a “Due Diligence Review” by a potential purchaser or their representative within the next 2 weeks?

This means that you have a documented process on how your business operates relating to:

- Team Members
- Job Descriptions
- Team Training and Development Policies
- Supply lines that hopefully will not lead to stock shortages
- Suppliers and Agreements with them
- Premises Occupancy Agreements
- Patents, Trademarks, Trade Agreements finalised
- Distribution Agreements with Customers
- Terms of Sale Agreement with your Customers
- Major Agreements all documented and not just left in your head
- Business Plan

From this review, is your business ready for a “Due Diligence Review” if need be?

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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