

# BusinessPlus+ Newsletter



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## Issue – May 2021

***Our theme for May 2021 - “Implementing Business Advisory Services To Add Value”***

### **Avoiding The Pitfalls In Starting A Business**

There are many people currently considering starting or acquiring a business. To avoid the pitfalls, you will need to seek advice from an accountant who has experience in supplying advice to start-up businesses. You'll also need advice from a commercial solicitor. It is very important that you do not sign any agreements or leases before seeking advice from a commercial solicitor on the documents that may have been presented to you by a vendor or agent.

The key items you need to be considering relative to a business are:

- What is the market?
- What is your strategy to be able to successfully trade in this market?
- You will need a realistic business plan that has been reviewed or prepared by an experienced accountant.
- Honestly review your management skills – have you worked in this type of business previously? If not, perhaps you should seek paid employment in this type of industry for 6 to 12 months before trying to buy a business or start a business in this industry.
- You need to assemble a “leadership guidance team” which includes an accountant, marketing advisor, web design consultant and technology consultant, unless you are an expert in one of these skilled areas.
- Review your skills or ask one of your advisors to review your skills and clearly identify the areas that you have some deficiencies in and then undertake some training courses.
- Unfortunately, a majority of new businesses fail within two years. It's important that you plan and act like a winner from the commencement of your business career. This means negotiating with your accountant for your accountant to establish systems which will enable the prompt preparation of weekly estimates of profitability and accurate monthly financial accounts for you to review, together with key performance indicators being prepared daily, weekly and monthly, as is appropriate.
- Ask your accountant for advice on the establishment of a “meetings’ strategy” for your business, including a daily meeting for all team members (daily huddle), weekly team meeting within teams and monthly business review meeting, including the leadership team, to review actual business performance for the month.
- Invite your accountant to be the coordinator for the monthly business review meeting, so as to ensure that minutes of the previous meeting are available, together with an agenda for this meeting, the required performance reports are submitted and that a set of minutes of the meeting are prepared, together with an action plan and distributed to all of the leadership team members promptly after the meeting.

This type of approach will give a new business operator a great chance to overcome the pitfalls of starting a business and hopefully leading to a successful business career.

If you are contemplating starting, or acquiring, a business, we recommend that you contact us before making any decisions on acquiring or commencing a business so that we can assist you to establish an appropriate system for the business.

## Business Health Checks Help

A business health check is very similar to a medical check-up with your GP. It requires some “digging” into the business operations – far more than what would normally be undertaken in the preparation of annual financial accounts and income tax returns.

Some of the matters to be examined include:

- team member allocations
- production information dissected into individual products
- cost of production including electricity, gas
- labour costs measured against the number of units produced
- marketing:
  - hit rates within a marketing campaign
  - effective cost of each lead
  - social media performance – regular posts? – replies to posts?
- sales department performance:
  - value of sales per employee
  - gross profit earned from individual products
  - gross profit percentage on sales for individual products
  - gross profit earned by individual salespeople
  - gross profit percentage earned by individual salespeople
  - analysis of charge out rates for team members for manufacturing and tradie businesses
  - analysis of the determination of professional fee rates for professional service providers
  - will the charge out rates cover the labour cost, overheads and generate the targeted profit for the business?
- analysis of product mix and individual product mark-ups to determine whether a retail business has the right components within the product mix to achieve the targeted profit
- analysis of debtors’ days outstanding – what improvements could be made?
- analysis of investment in stock – what is the stock turn rate? – how does this compare to budget?
- analysis of work in progress – are progress claim invoices being raised each month?

Some of the other key information to be incorporated into a business health check includes:

- days worked, lost
- number of customers
- method of payment
- analysis of financial predictions relative to Budgets and Cashflow Forecast – will the business have sufficient funding to fund its operations, especially if the business is growing?

At the end of this review, a report could be prepared showing a comparison of the business in this month to previous months and a comparison to the budget and a comparison to industry benchmarks so that you can see how your business is performing when compared to your peers.

If you would like us to submit a proposal to you to undertake a business health check of your business, please do not hesitate to contact us.

## Stock Mix Can Be A Problem

Businesses that have an investment in stock (inventory) need to ensure that their team has a clear understanding of the individual characteristics of different types of stock which can be segregated into at least 4 key categories:

- **“Stars”** – these are the products that have high sales volume and a high mark-up. These are the key products that every business hopes to have, but it will be very rare where “Star” stock completes the complete inventory of what is available within the business.
- **“Cash Cows”** – these are products that have high sales volume and a low mark-up. These products are normally necessary in a business because this is what customers come to the business looking for – the secret is to clearly identify the “Cash Cows” and to distribute them around the business, preferably in close proximity to “Star” stock lines so that a customer will notice the “Star” stock line when they are selecting a “Cash Cow” product.
- **“Problem Lines”** – uncertain sales volume with lower mark-ups than what they may have previously attracted – could be last year’s fashions – colours or designs that are not fashionable this year – if you have these you should market to sell them as soon as possible.
- **“Disaster Lines”** – low sales volume and low mark-ups – you probably regret buying these products – the quicker you get rid of them the better!

Analysing the stock mix within a business and continually “tweaking” the composition of the sales volumes and the mark-ups is an ongoing challenge for businesses that are selling stock.

It’s a good idea to have an analysis of the composition of the gross profit that the business has earned at the end of the month to determine strategies for the following month relating to clearance sales etc.

If you would like to discuss the implementation of regular stock analysis for your business, please do not hesitate to contact the accountant in our firm with whom you normally deal.

### **Monitoring Productivity Is Important**

If your business sells labour, whether it’s a manufacturing business, a tradie business or a professional services firm, it is important to set realistic productivity targets at the beginning of the year and to then monitor the actual productivity being achieved by all team members, including working owners and partners, so as to assist the business to achieve its overall profit target for the year.

The determination of a charge out rate for an individual category relies on the following information:

- Labour on cost that relates to this classification, which includes holiday pay, training or professional development time, personal leave, study leave, apprenticeship training, workers’ compensation, payroll tax (if applicable).
- The annual salary/wages payable for each individual classification.
- Annual work hours for each classification for which the business needs to pay.
- Productivity percentage estimate – this is the estimated number of hours that it is expected the business can charge to customers, that customers will pay for, at the charge out rate determined for that classification.
- The business’ overhead costs for the expected activities during the year.
- The profit target that has been set for the business.

All of this information is then included in a calculation to determine charge out rates for the individual classifications of team members. One of the major factors that can affect the amount of income that is generated from the labour charged to clients, is if the productivity for individual team members has varied from the percentage that was utilised in the calculations.

The leadership team should monitor the productivity of individual team members each week and it is a good idea to prepare an analysis of the revenue generated for the month, as compared to the revenue budget, to determine whether there should be any changes made to the charge out rates (if possible) to recover any shortfall that has occurred because of a lower than expected labour productivity figure.

If you would like us to discuss with you the implementation of a charge out rate review throughout the year, please do not hesitate to contact the accountant in our organisation with whom you normally deal.

### **Contingency Planning Necessary When Preparing A Business Plan**

Preparation of a business plan requires the leadership team to contribute their thoughts on what they expect is going to happen in the business, but it is also important to think about what might go wrong and to document strategies that could be implemented if different circumstances emerge – this is contingency planning.

You need to consider these “left-field conditions” e.g. COVID-19 coronavirus when developing a business plan. Some of the potential contingencies include:

- losing key management
- influenza pandemic
- new competitor opening a business in close proximity to your business
- supply problems – a supplier unable or unwilling to continue to provide products or services to your business
- extortion
- security of all aspects of your business
- website – is it secure?
- cyber security – have you had a cyber security audit?

The start of a new financial year is only a few weeks away. If you would like to have us facilitate the preparation of a business plan for 2021/22, please do not hesitate to contact us as soon as possible.

## COVID-19 Special Loan Application Closes Soon

The special loan facility that the Australian government and the Reserve Bank have made available for lending by banks and financial institutions that was first announced in June 2020, will be accepting its final applications by 30th June 2021.

The loan applications have to be made with a bank or a participating financial institution.

The loans are for an amount of up to \$250,000 with 50% of the debt guaranteed by the Australian government and are available for businesses with turnovers under \$50,000,000 for working capital purposes.

Loan applications will be enhanced if the application includes:

- Financial accounts of the year ending 30th June 2020.
- Interim financial accounts for the 9 months ended 31st March 2021.
- Budgets and Cashflow Forecast for the next 5 years.
- Business plan which outlines your business' vision for the next 5 years.

If you intend to submit an application for a loan that is 50% guaranteed by the Australian government and you will be seeking our assistance in preparing the loan application, can you please contact the accountant in our organisation with whom you normally deal as soon as possible so that we can commence the work process for you?

## Protecting Intellectual Property In Research And Development

When a company is undertaking a research and development project there needs to be an awareness that the company is investing funds in this process in the hope that a new product or service will be produced which will have real commercial value. This new asset needs to be protected.

There are a number of legal issues relating to the protection of intellectual property that need to be considered. Some of these matters include:

- Intellectual property protection checklist for research and development activities.
- Assignment of Intellectual Property Agreements for employees.
- Assignment of Intellectual Property Agreements for contractors, consultants, experts.
- Confidentiality Agreements for employees, contractors, consultants, experts.
- Joint Venture Agreements for the development of intellectual property with other organisations.
- Discussions with patent attorneys.
- Patent applications.
- Trademark applications.
- Drafting of Trade Secret Agreements.

If you are planning the commencement of a research and development project, our recommendation is that there should be a full review of these matters and many others so as to ensure that the correct information is prepared to satisfy the requirements of the Australian Taxation Office and AusIndustry which are responsible for the monitoring of Research and Development Tax Incentive Rebate activities for the Australian government. If you wish to have a discussion, please contact the accountant in our organisation with whom you normally deal.

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## Thinking of Expansion? – You Need A “Scaling up Strategy”

The Australian government revealed a very positive budget and financial plan for 2021/22 a couple of days ago. If this document and the financial forecast have inspired your leadership team to think about expanding your business, then our recommendation is that you consider implementing a “scaling up strategy”.

The first component of “scaling up” is to ensure that a company has assembled a leadership team that has the ability to continually improve their knowledge and to implement appropriate delegation throughout the company.

The company also needs a team of skilled people who are able to offer enthusiastic contributions utilising their brains and benefiting from a culture of ongoing skill development that is embraced by the company. This is a key strategy for companies to consider. Why not consider the development of 1 or 2 new “champions” each year?

What do your clients require? Have you thought about the types of products or services that you're providing to them? Have you asked them what they would like to receive?

It is crucial in running a business that the leadership team is receiving key data on a daily/weekly/monthly basis. Procedures need to be implemented to ensure that this information flow to the leadership team and supervisors has been implemented so as to provide the required information on a timely basis.

It is also important to ensure that the strategies which have been discussed and agreed to are actually implemented. One way to ensure that this happens is to implement a series of meetings – daily/weekly/monthly to ensure that the strategies that the company has agreed to are in fact being implemented.

The last requirement is to monitor the available funds that the company has to enable it to finance the growth of the business. Most growing businesses need more funds. There are number of ways that funds can be obtained – loans, raising share capital, sale of surplus assets, close monitoring of investment in debtors and stock to see where reductions could be made.

If you would like to have a discussion with us about the implementation of a “scaling up strategy” for your business, please do not hesitate to contact the accountant in our organisation 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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