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Merry Christmas and a Happy New Year

Selling a Business Requires a Plan

Most businesses will require a complete review of a number of key factors, which will contribute towards the achievement of a satisfactory sales value resulting from the sale of a business:

✚ **Why are you selling?**
This is a key question that potential purchasers will ask. You need to be able to clearly state your intentions and openly communicate these to your advisors and the potential purchasers. Otherwise, there could be some doubts in a potential purchaser's mind as to your intentions.



✚ **What are the options?**
Have you considered all of the options that are available to you before you decided to sell the business? You could look at leasing the business for a while so that you could have a break although this will then raise a number of other questions.

Have you thought about a Succession Plan within your family or the business? Is this a viable option for you and your family or team to consider? How long would it take to implement?

✚ **Documents, Documents!**
You need a range of documents to successfully sell a business. These could include the Lease Agreement for the premises – what are the conditions if you wish to sell? What are the “reinstatement obligations” for you?

Are there agreements from suppliers to always supply products to your business irrespective of who owns it? This documentation could be very important in the negotiation of a sale.

Have you received approval from the local council for various aspects of the business that you are operating? If you believe that approval was granted on the basis that the approval related to the site rather than to you as an individual you will undoubtedly require this documentation to be produced as part of the sales process.

If you are hopeful that the purchaser will agree to continue to employ your team have you assembled all of the employment records so that these could be handed over to the purchaser?

✚ **Present**

- Are any changes required to improve team performance and attitude?
- Are your customers happy – are there more products or services that your regular customers could purchase?
- Why don't your regular customers purchase these additional products or services now?
- Do your suppliers assist in supplying promotional support to the business?
- Is the management team functioning at an appropriate level?
- Will the management team be able to maintain the business' performance if you are no longer involved? What type of financial data is available from your system? Will the data be sufficient for the purchaser to complete their due diligence review on your business?
- How does the business compared to industry benchmarks – labour to turn over – average sales – turnover levels?

- What is the “unique selling proposition” of this business?
- Are you making sales on credit? If so, who prepares the Debtors’ Ledger? What are the Debtors’ Days Outstanding?
- Do you register customers on the Personal Property Securities Register? Who is responsible for the registration of customers on the register?
- Who owns the intellectual property that is utilised within the business? If any of the intellectual property is owned by people other than the vendor what arrangements have you made for the intellectual property owner to agree to assign the intellectual property to the new purchasers?
- Will the key staff remain with the business if the sale was negotiated?
- Do you have key skills that you utilise in the day-to-day operations of the business that a potential purchaser would also need to have?
- Have you considered offering a staff retention bonus to retain people for a period of time after the sale so an assurance can be given to a purchaser that, at least for a period of time (say 12 months), that the key people will remain with the business.
- Are all sales being appropriately recorded in the books of account?
- Does the database of customers show names, addresses, email address, telephone numbers, and a record of previous purchases?



If you are contemplating selling your business we suggest that you have a conversation with the person in our organisation that you normally deal with, so that a conversation can be held about the key issues which will contribute to a satisfactory sales process.

Retail Businesses Require a Mix of Products and Mark-ups to Achieve a Profit Target

If you are operating a retail or wholesale business you will know that the generation of a profit is based on a number of variables.

PRICING CORRECTLY

Gross Profit Margin vs. Markup



A variation in one of the components can mean that the bottom-line profitability that you thought you were going to generate will not occur.

You also need to have an awareness of the characteristics of products that you are selling because the quantity of products that you can sell and the mark-ups that customers are prepared to pay can vary significantly.

The variable items are:

✚ Labour On Cost

This relates to a range of matters including training time, holidays granted to individual team members, shift allowance (if this applies to your business), superannuation percentage payable if it varies from the norm – if you make any changes to any of these items it is necessary to adjust the calculation of the charge out rates to reflect these changes.

✚ Wages/Salaries

If there are any obvious changes made to the wages/salary package for a team member there will need to be a new calculation made of the total labour cost.

✚ Business Overhead Expenses

This relates to all overhead expenses of the business excluding the items included within the labour on costs and the direct wages/salaries of team members.

✚ Rate of Return Target

You can determine your targeted profit by identifying the value of the business and then the rate of return that you would like to earn and then calculating what the targeted profit would.

✚ Gross Profit Target

The gross profit target is required to cover:

- the total labour costs including the labour on costs
- the overhead budget costs
- the projected net profit

The total of these three components is the “gross profit” that the business needs to achieve if you are going to generate the “targeted net profit”.

✚ Sales Matrix

To enable meaningful comparisons and analysis to be prepared, it is necessary to allocate stock into product

classifications as follows:

- **“Star Stock”**
These are the items that you are in business to sell. They have high volume and high mark-ups. It would be great if you could sell 100% of “Star stock” but for the vast majority of businesses this is not achievable.
- **“Cash Cows”**
These are high turnover items but with a significantly lower mark-up. You do not want a customer to come to your business and just purchase a “cash cow” stock item. By selective placement of “Cash Cow” stock throughout the store you should be aiming to encourage a customer to buy other goods or companion goods that are hopefully a “Star Stock” item rather than just “Cash Cow” stock.
- **“Problem Stock Lines”**
These are normally discontinued lines or last season’s fashions which might have been profitable at one stage and could even have been a “Star Stock” but now they are difficult to move. The strategy should be to get rid of that stock as soon as possible.
- **“Dogs”**
These are low turnover and low mark-up items that you should be liquidating at the earliest opportunity and then trying to make sure that you do not replace those items.

The chart identifying the stock matrix is as follows:

		MARGINS	
		High	Low
Sales High Volume	“Stars”	“Cash Cows”	
Sales Low Volume	Problem Lines	“Dogs”	

Setting Retail Prices Calculator

We ask our client to supply us with information that we can process in the retail prices calculator as follows: details of the stock categories within the business together with the estimated quantity of purchases for 12 months for that category and the expected average mark-up percentage and the expected average selling price.

We process this information so that for every stock category we are able to determine the value of the mark-up and the gross profit percentage.

We repeat this process for each line of stock and then total the stock purchases and sales columns and then we are able to complete the matrix:

Total sales: \$
 Less product purchases: \$
 Gross profit
 Gross profit%
 Less budgeted overhead costs: \$
 Less labour and labour on cost: \$
 Forecast net profit/loss
 Comparison to targeted profit

MIX ON PURCHASES ETC - SETTING RETAIL PRICES CALCULATOR

Name of Business:

Date:

EXAMPLE ONE					
	<u>Purchase Price</u>	<u>Mark Up %</u>	<u>Mark Up \$</u>	<u>Sales \$</u>	<u>Gross Profit %</u>
			\$ -	\$ -	0%
			\$ -	\$ -	0%
			\$ -	\$ -	0%
			\$ -	\$ -	0%
			\$ -	\$ -	0%

If this combination of quantities of stock purchased and mark-ups and the sales value for the individual stock classifications does not generate the targeted profit it is then necessary to prepare a new calculation based on:

- variations of the type of stock being purchased

- mark-up being applied
- sales price being utilised

To determine whether that mix will generate sufficient gross profit to pay for the overhead costs and the labour and labour on costs so as to generate the targeted net profit.

This type of calculation can assist in the development of strategies for the stock mix within a retail/wholesale business and the mark-ups to be applied that will achieve the level of gross profit that has been targeted as necessary to generate the targeted net profit.

If you would like to have a discussion with us relative to this type of stock analysis please do not hesitate to contact the accountant in our organisation who you normally deal with.

Setting Targets to Nail in the Next Three Months

The next three months is the start of a new calendar year – 2023. What needs to be fixed in your organisation that should be prioritised?

It is a good idea to spend some quality time thinking about what the issues are – you can't fix everything at once. You need to get to a "starting point" and then prepare your list.

Some of the questions to consider are:

- ✚ Have you got a Business Plan for 2023?
- ✚ Is the plan up-to-date or do you need a rewrite?
- ✚ Would you like us to assist you in the preparation of the business plan or the rewrite of the plan you currently have?
- ✚ What are the developments in your industry that are likely to affect your business operations in the near future?



Items to consider could include:

- ✚ Ongoing affect of Russia's invasion of Ukraine
- ✚ Growing tensions with China?
- ✚ Are you importing products from Taiwan what would happen if.....?
- ✚ Are any of the changes proposed by the federal government likely to affect your business?
- ✚ What makes your business valuable to your customers?
- ✚ Are there any changes that should be made to how you deal with customers?
- ✚ Have you reviewed the security issues that relate to your business?
- ✚ Are you keeping up-to-date with technology changes that affect your industry?

Do you have a plan:

- ✚ To overcome the disruptions in your business/industry?
- ✚ To keep up-to-date with changes in technology that affect your industry?
- ✚ For making your business more valuable to your customers?

Our suggestion is, you prioritise these key things that you need to nail so that over the next three months you tackle these issues so that you can then remove them from your "must nail list".

If you would like to have a discussion relative to analysing your business, developing strategies and then knowing key items that need fixing, please do not hesitate to contact the accountant in our firm that you normally deal with who will be able to assist you or introduce you to our Business Advisory Services expert.



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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