10 WAYS TO RECESSION PROOF YOUR BUSINESS

Introduction

Just as evolution in animals dictates that only the fittest survive, in a recession it is generally survival of the smartest. As such, recession presents opportunities to smart business owners.

With recent media attention focusing on the impact of sub-prime lending and the possibility of the current economic downturn turning into a full-blown recession, it's time to spend more time working on your business.

Generally, bad maths or bad marketing can send you broke in a recession.
You can either be great at maths, but not marketing. Good profit margins, everything perfectly costed out, books perfectly balanced – but no customers. Alternatively, you can be great at marketing, and not maths. Loads of customers, always busy and popular, but making no money because you haven't costed anything out.

In good times the weaknesses in your business can be concealed but when the going gets tough, both the strengths and weaknesses will surface. Obviously there is no magic bullet to recession proofing your business but the quality of your financial records and your marketing are two key issues.

As your accountant our role includes identifying those weaknesses and helping you amend the strategic direction of the business. We combine the knowledge of your business with our experience and some 'intelligent' forensic software to detect the early warning signs and then work with you to develop strategies to move forward.

In this country we seem to have a recession-like economy happening every seven to nine years and almost 75,000 Australian businesses were wiped out in the last downturn. While there is no magic bullet to recession proofing a business, the 10 strategies below are characteristics of successful businesses.

The seminar and this handout material is driven by our mission to help grow and protect our clients … ***Small Business is Our Passion***.

1. Improve the Quality of Your Financial Records

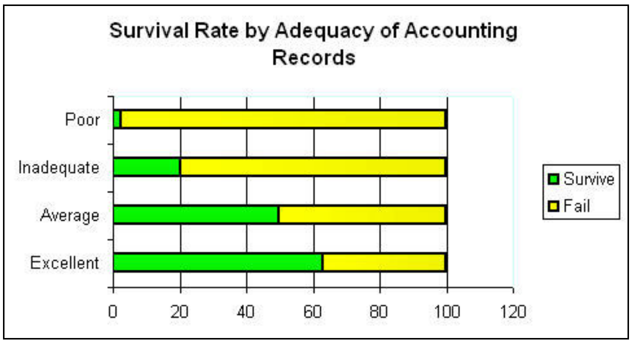
In boom times it's very easy for business owners to ignore the quality of their financial reporting system and turn a blind eye to financial management issues. Unfortunately when these bad habits spill over in to difficult economic times it can have catastrophic consequences.

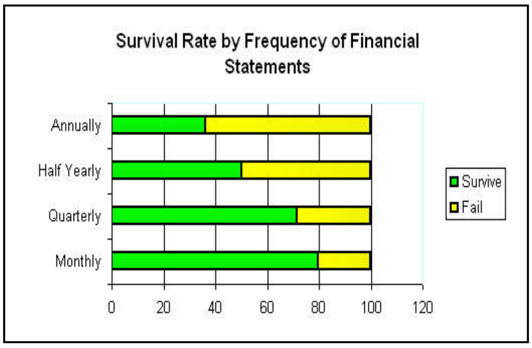
The most basic requirement for a successful small business is good accounting records. Up to date, accurate financial records lets you make informed business decisions. They provide vital management information needed to grow your business and monitor key performance indicators.

Despite the introduction of GST some 8 years ago, the majority of small business owners are still using accounting software beyond their business needs and level of accounting skill. The net result is they generally produce 'computerised shoebox' records that should not be relied upon when making financial or strategic business decisions.

If you don't understand double entry accounting principles including debits and credits, it is time to review your accounting software. As a rule of thumb, you should have financials available within 7 days of the end of each month. This is supported by an Australian survey that suggests that a business' very survival depends largely on timely and accurate records.

You will also need good accounting records to demonstrate your financial position to banks, other lenders and prospective buyers at some time in the future. These parties will want to track your historical performance and will demand current data. The Tax Office also requires you to keep and maintain business records including source documents for at least 5 years.





Well managed businesses produce a 'weekly snapshot report' of:

- Sales
- Debtors & Creditors
- Cash at Bank and On Hand
- Sales Pipeline
- Work In Progress
- Other KPI's

2. Failing to Plan is Preparing to Fail

Historical data is important but you'll 'crash' the business if you drive it by just looking in the rear view mirror. Today's decisions will impact on your future results.

If you don't have a plan in place or prepare an annual budget or you are asking for trouble when the economy turns south. It's easy to get complacent during the good years but a budget creates a blueprint for the future that you can measure your actual performance against. Cash flow is usually the most common client concern, the most visible and therefore the most painful. By identifying all the activities that turn work into cash and then measuring those activities, the results can be immediate.

A budget can identify if and when you expect to need additional finance. While generally we prepare budgets at the start of each financial year, your budget is always a work in progress under constant review. The banks are tightening their credit policy in the wake of the sub-prime lending crisis and planning the finance application is absolutely critical.

Cash is more often than not the reason why so many businesses fail. Profits can't be spent until they are collected. It is obviously important to sell at the right price to maximise your gross and net profit but if you don't focus on collection, the business won't last very long. A positive cash flow is an absolute necessity if your business is to succeed and it just doesn't happen - it needs to be planned. That's why we strongly recommend the preparation of a 12 month cash flow budget. In fact, any business that fails to accurately forecast its cash flow is on a collision course because without realistic cash flow projections, management is unable to identify future cash shortages.

The cash flow budget is based on a number of assumptions regarding the expected future performance of the business. The assumptions must be realistic and supported by research, available data plus known facts such as rentals or forward contracts.
The information in your cash flow budget is designed to:

- forecast your likely cash position at the end of each month
- identify any fluctuations that may lead to potential cash shortages
- plan your various taxation payments
- schedule any major capital expenditure, and
- provide prospective lenders with key financial information including loan serviceability

After you have completed your cash flow budget and you're confident that it actually reflects your predicted position, you should be able to identify if you're likely to need an injection of funds to support the business. Careful planning might let you restructure the timing of certain payments to prevent the cash shortfall occurring or you may need to have finance facilities in place.

Being a financial tool, accuracy is important but this can be difficult with forecasting. We can assist you with the preparation of your cashflow budget using computerised spreadsheets that allow us to produce forecasts based on a number of 'what if' scenarios. If you would like a copy of an 'electronic cashflow worksheet' please contact our office. Our preferred accounting software program, Cashflow Manager can generate a budget using historical data at the click of a button. We can then monitor variances on a monthly or quarterly basis.

3. Unlock the Hidden Cash

Of course, positive cash flow alone is not enough. The business must be returning a profit and the long term trend for both must be positive. You will not only need to make sure your business is profitable, you also need to make sure you have enough cash available at the right time to pay all the bills. In particular, you must be able to pay your suppliers, staff and meet your tax liabilities.

If you do a quick estimate of how much money you have tied up in debtors, suppliers paid too quickly, excess or slow moving stock and work not invoiced you might find it's worth investing some time to address these four areas. It might put some funds back into your account and reduce your interest bill if you run an overdraft.

There are many places your cash can be hidden other than in your bank account:

- Debtors – unpaid customer accounts. Do your statements go out on time? Are you monitoring the customers who don't pay within your terms? Consider printing the actual due date on your invoices rather than the standard 30 or 60 days. Follow up delinquents. Remember, the 'squeaky wheel always get attention'. You are not in the business of 'bank rolling' other businesses or customers.
- Suppliers might be paid too quickly. As you know, the supplier who rings and annoys you for payment often gets paid first when they shouldn't. Worse still, the part time bookkeeper that pays bills the moment they arrive. This can play havoc with your cash flow and you need to use up all your available terms and even negotiate better terms if you can.
- Investigate alternative suppliers and explore their prices and terms. Keep your suppliers on their toes and make sure your suppliers earn your business
- Work in Progress can be a real hiding place for cash. If you have multiple jobs on the go at once it can be difficult to manage and get them to the point of invoicing. There can be all kinds of delays from slow delivery of parts, labour issues, getting access to job sites etc. If you are tracking stock manually or in your head without any process then it could create big cash flow headaches.
- Stock is really cash piled up in your store room. Do you have any methodology behind your stock purchasing? Many businesses buy when the sales rep calls or if they are offered a discount. You should only buy stock when it suits you, not your supplier.

The objective of any retailer or wholesaler is to have your stock on the shelf ready for sale for the shortest possible time. Put simply, stock is money because it absorbs precious working capital that could be used for the other things like advertising, wages and expansion costs. If you have borrowings in your business, excess stock could be costing you interest.

Vital to this objective is to know the sales cycle of your products, i.e. how long does it take from when the goods arrive into stock until when they are sold. You may have historical data upon which to calculate the sales cycle. If not, you need a way to calculate how long goods are sitting in stock so that you can minimize the length of time and maximize your available working capital. This is called 'Stock Days' and is an average of all stock lines. One way to calculate 'Stock Days' by using your financial reports is as follows:

$$\boxed{\text{Stock on Hand} \div \text{Cost of Goods} \times \text{Time Period} = \text{Stock Days}}$$

— Stock on Hand means the dollar value of stock on hand at a given date, e.g. June 30
— Cost of Goods means the direct costs of getting the goods ready for sale, including purchase of the goods, freight inwards, store costs (but not fixed overheads like administration wages or advertising)
— Time Period is the reporting period upon which you are basing the above two numbers.

A business with $150,000 in stock at June 30 and Cost of Goods for the year of $400,000 has 'Stock Days' of 137 i.e. $150,000 ÷ $400,000 x 365 = 137.

This means that, on average, stock in this business takes 137 days from when it arrives until it is sold. Once you know this number you are then in a position to manage the situation and work on shortening the cycle.

Again, a good stock control and record keeping system is required that tells you the following:

- What is selling
- What isn't selling
- What the slow moving items are
- What has become obsolete
- What the trends/seasonal patterns are
- What your margins are on items; and
- What it is costing to store stock.

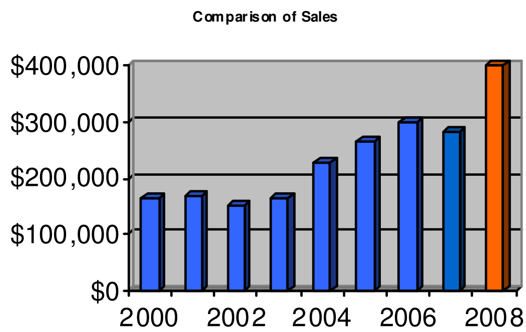
You can determine your minimum and maximum stock level requirement for various items lines. This makes it much easier for staff to know what, how much, and when to order.

Obsolete stock can be a real 'hiding place' for cash. It's tough to sell items at a loss, but if they are going to sit there forever, you may as well turn them into working capital to spend on better selling items. If you have good records you are also in a position to know how much you are purchasing from suppliers. This puts you in a better bargaining position when it's time to renegotiate prices and terms.

Tips for turning stock into precious working capital

- Know you average stock days and work on shortening them
- Sell or dispose of obsolete stock
- Have a purchase ordering system
- Know your sales cycle and manage it
- Purchase stock based on your sales requirements
- Know your minimum/maximum stock levels
- Have a system/computerised stock management; and
- Know your industry average stock days.

4. Measure and Monitor



- The first casualty in a recession is usually your sales and it is important to identify the early warning signs. Review your revenue figures and compare them to last month, last quarter and the corresponding period last year so you can identify negative trends. Again, timely and quality financial data is essential to this strategy.

  The challenge is then to develop a marketing strategy to counter the decline but forewarned is forearmed. Some of the business intelligence software we use can evaluate the impact of the sales downturn on the profit and cash flow of a business.

- A key area to monitor is stock. Are your stock levels appropriate and are you holding obsolete or slow moving stock that is costing you money just to store? A careful review of which products are selling and those that aren't is necessary. If your sales are seasonal you need to be even more vigilant. Don't tie up valuable working capital that could be used elsewhere in the business (i.e. marketing).

- Carefully watch your debtors and make sure all your customers are paying within your credit terms. Early detection can be the difference between getting paid and having bad debts. Get statements out on time and keep in contact with problem accounts.

  Businesses that have been trading successfully for years can be brought to their knees very quickly by a large debtor falling over. As a result of one or two significant bad debts, the Tax Office could be chasing you and the banks won't extend your credit. The assets that have been built up over many years, including your home, could be at risk.

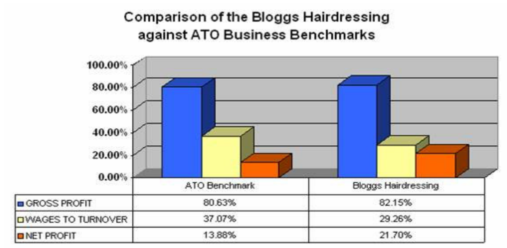
- On the flip side you can put pressure on your suppliers to lower their prices or offer better payment terms. In business, if you don't ask you don't receive. Shop around for alternative suppliers of critical materials for your business to ensure you can complete your obligations in the event a supplier ceases being able to supply you.

- Variance Reports – Preparing a cashflow budget then lets you measure actual performance against it and indentify variances. Analysis then prompts questions such as:

  - Why didn't sales reach budget targets
  - Why have expenses exceeded expectations
  - Why your bank balance is inadequate and what action is required

- **Benchmarking** the business' performance against the competition lets business owners know what is working and what needs working on. It shows how the business stacks up against competitors and measures the business performance against the best and worst performers in their industry.

  The financial data used in the benchmarking process includes performance indicators that largely centre on the profitability of the business. They include profit-to-revenue, gross profit margins and comparing wages to revenue and net profit. They provide a valuable insight into the performance of the business.

  We also benchmark our clients against the industry statistics released by the Tax Office a number of years ago. We specifically look at gross profit margins, profitability and wages as a percentage of revenue. These indicators are used to let clients know if their business is likely to attract audit scrutiny.

- **Analytics** and business analysis used to be a marathon session between the business owner and their accountant with spreadsheets fanned out on a desk and both parties looking for processes and strategies to improve productivity and profits. Business intelligence software has simplified the business advisory process.

  Analysis software can provide information to better manage the business and improve profitability, cash flow and overall business value. The process has been labelled 'analytics' and we can highlight the financial impact of making some specific operational and financial changes in a business. It's easy to say "You need to grow 10% this year," but what does that mean in real terms? How will that growth affect the need for capital? How will improving margins by half or one percent impact cash flows and profitability? What kind of cash flows are needed to accommodate the 10% growth?

  We take the basic financials (balance sheet & profit and loss statements) and transform the numbers into meaningful and understandable graphs, commentary and ratios. We use analytical software to uncover profit enhancement opportunities and the graphs and analysis form part of a regular client report that is in essence a 'financial health' check.

We can help you map out alternative scenarios and highlight the key drivers of your business profit, cash flow and value. This allows us to help you to take decisive action.

5. The Pareto Principle

The Pareto Principle is often referred to as the '80/20 rule' and generally means 20% of something is always responsible for 80% of the results. As a business owner the message is to focus on the 20% of things that really matter. Don't just 'work smart', work smart on the key things that drive results in your business.

Selling products or services? Most likely, 80% of your sales come from 20% of your customers – the ones who make the big purchases and are repeat-buyers. Cherish that 20%. Most of your profit is generated by the top 20% of clients and the other 80% take up most of your time. Be honest about your customers and their value to your business. Remember that there should be no sacred cows in your customer base.

Regularly review your customer data base and don't be afraid to cull. There are different ways of assessing the value of customers. It could be based on their sales value or how often they buy from you. Do they pay within your terms and are they pleasant to deal with? Often you will know which customers will struggle in tougher economic conditions because they are the ones that battle when times are good.

Two important steps are required:

- Identify the customers that contribute 80% of your revenue and
- Identify the customers that contribute 80% of your gross profit

Release the low profit contributors to your competitors who are probably discounting in a recession in a bid to maintain sales. You'll benefit in two ways:

— You'll create capacity because these customers kept you busy but not profitable because they were unprofitable accounts
— You'll ultimately gain market share when your competitors go broke trying to service your bad customers making very low margins.

- Have a product range? Have a look at how much of your profit comes form each item. Put your effort into the 20% that give you 80% of your sales. Gordon Ramsay continually proves that 20% of a restaurants' menu produces 80% of the revenue. Do 80% of customer complaints arise from 20% of your products? Should you stop carrying that product because it is not a real producer anyway?

- Have a sales force? Have a look at how much of your profit comes from each sales person. Make sure you reward and retain the 20% that are your winners. Is it only 20% of the team producing the new customers? Is 80% of absenteeism due to 20% of your staff?

- Have an affiliate program? Find the top 5-20% who give you 80% of your income and make sure you support, encourage and reward your referrers.

- Do advertising? Have a look at where the sales come from. Do 20% of your marketing efforts generate 80% of your marketing results? Identify the few ads that really pull, and the few places where you run them that really produce. Then refine your winning ads and run them in those few places that give you the best results.

- Check your web traffic logs. Do 80% of your visitors see only 20% of your website pages? Which keywords are bringing you the most traffic? Which search engines? You'll find that a small number of keywords, search engines and websites give you the lion's share of your traffic.

Pareto's Principle should serve as a continual reminder to focus 80 percent of your effort on the 20 percent of your tasks that matter the most. Those 20 percent produce 80 percent of your results. Identify and focus on those vital few tasks to maximise your return on investment.

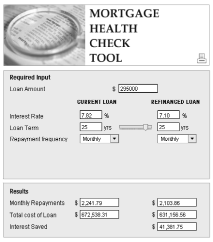
6. Debt Reduction

Recession usually means inflation and higher interest rates so a debt reduction program makes good business sense.

Using your cash flow budget you can plan for the financial 'troughs'. You increase your chances of getting the funding you need, when you need it, if you plan ahead. Too often business owners go to the bank for increased funding at the last minute. With financial institutions taking a tougher stance on credit, planning the timing and level of finance has never been more important.

In times of uncertainty and rising interest rates it is also time to review your business debt. What are your current lending arrangements? Are credit cards being used to provide a constant funding source as opposed to a more temporary option? Are you up to date with the Tax Office? A plan to consolidate debt then work out a debt reduction strategy can not only save thousands of dollars in interest but can also ease cash outflows.

Strengthen your balance sheet and look at the mix of your debt – are you too heavily weighted towards short term debt?



- Are your drawings too high?
- Debtors and Creditors well managed
- Stock Control Monitored
- If you have a mortgage, review the rate by having us perform a 'Mortgage Health Check'. Refinancing can save you thousands of dollars over the term of your mortgage but you need to be wary of deferred establishment/early payout penalties.

7. Marketing

A recession presents opportunities and the reality is that the world is not going to stop. The knee jerk reaction for most businesses operating in a challenging environment is to cut advertising and marketing immediately.

It is common for businesses to adopt a negative approach in recessionary times and cut expenditure. Your competitors might be cutting back at the same time you are ramping up your marketing efforts. It might be expensive and eating in to your profits in the short term but when economy turns you will potentially have greater market share and enjoy years of higher profits.

This will create opportunities including:

- Some competitors will 'trim their so called, marketing fat' which in reality is 'trimming their muscle'
- Your marketing will stand out, as there will be less clutter around.
- You will be able to keep your customers loyal, as well as grab some of the customers that are not being looked after or contacted.
- In the last recession, the internet was not nearly as advanced as it is now. Today you have a lot more affordable marketing opportunities
- There may be less of your traditional style customers, but the web has given you a bigger (and possible global) marketplace
- A recession will weed out the poor performing competitors, leaving more business for you
- A recession will weed out those businesses not keeping up technology and trends.

Some basic marketing rules during a recession include:

- You need to pamper your clients because your competitors will be circling them like sharks in a bid to maintain their sales. Look after your loyal clients because they are the source of your referrals and you need to let them know you appreciate their support. Keep in regular contact and provide them with awesome service
- Only undertake marketing that works and is measurable. This is no time for experimental advertising
- You will get 5 times better response with your advertising dollar if you contact the customers you already have, rather than trying to get new customers. (It costs up to 6 times more to win a new customer than it does to have an existing client do more work with you and that directly affects your profit potential)
- Focus on gaining customers and keeping customers. When the dust settles you will have a larger market share and a leaner operating business
- The fastest way to grow your customer list, with the least amount of money is through strategic alliances and joint venture partnerships
- Find the hungriest crowds, or the low hanging fruit. Promote and market what is popular and profitable to the customers that are around at the time
- Always have an offer in your advertising. If you are going to spend money on marketing give the customer a great offer or incentive to contact you. Branding does not put money in your register during tough times
- Negotiate on everything. During recessions and tough times, a lot of people are really hungry for business. Don't be afraid to negotiate or make an offer
- Most businesses generate 80% of their sales from 20% of its customers and 20% of its products. Focus on these products and customers – see the 'Pareto Principle' section.

Your conversion rate of closing sales from prospects is one of the strongest indicators of marketing and sales success. Every lead will cost you something, whether it be a direct mail piece, a telesales call or an advertisement. You need to measure the cost of getting the lead and then the cost of converting it to a sale. Remember, it costs up to 5 times more to attract a new customer than sell to an existing customer.

Too often, businesses spend far too much getting in front of people who have no interest in buying instead of working out how to get in front of the prospects who have the highest need for the product or service. A high growth company will have a very well defined target customer and use target marketing programs to pro-actively get in front of the customer with the problem or need they can solve. They typically work off prospect name and address lists so that they can be very targeted with their marketing spend. They go after 100 prospects and close 50 rather than 1000 prospects and close 10.

Where you have an existing product or service, go back to basics and ask yourself which customer group has the highest need for it. Now take the time to focus on better methods of getting directly to that group. Do they have a special place they shop, meet or specific journals they read? Are they members of an association, club or business program? Who else sells to them with better access to them than you? Can you partner with the other provider to gain access?

If you can better define your target customer and improve your “fit”, you can potentially increase your price and decrease your marketing spend. High growth companies devote additional resources to their target customers to increase account penetration and referral sales. As a result they typically spend much less on marketing compared to low growth companies.

Try refining your product/customer fit. You will be surprised at how much this improves your focus and ultimately your growth.

8. Keep Control Over Expenses

As you battle from the front by maintaining control over your sales and clients, you should also firm up the rear end of your business by keeping your expenses on a tight leash. Banish your credit cards if you are using them for the wrong purpose because the interest charges will hurt.

Try to save on all business related expenses by browsing around until you find the right combination of price and quality. A recession accompanied by high inflation will mean that your monthly expenses could increase. Can you reduce your expenses by cutting down or splitting them? Unnecessary expenses should be totally avoided

9. Use Technology & Systems

There’s no better money-saver than modern technology. This includes using accounting and inventory software plus up to date hardware and machinery. You may have seen businesses that have remained unchanged for decades, still using outdated equipment and methods. Don't be afraid to change with time and technology - you don't want your business to be left behind.

10. Hold On To Your Best Employees

In recessionary times, your best employees have financial problems of their own and they will probably look for a salary increase to cope with the rising cost of living. If you don’t deliver they might look to change jobs (to one of your competitors) to satisfy their needs.

Losing well-trained quality staff is something that you cannot afford to let happen. The ‘Pareto Principle’ tells us:

- 80% of sales come from 20% of your sales team
- 80% of new business comes from 20% of your team
- 80% of absenteeism is from 20% of your staff

Remove the deadwood from your payroll, and let go of any employees who are not up to the task. You can always hire new employees during an economic upturn - but your best employees should remain with you during bad times. Consider employee bonus schemes – but make sure that they are tied to performance. After all, if your business does better through their efforts and makes more money, then you can afford to give them more.

Invest in the development of staff skills to reduce your exposure to the risk of recession. A company's workforce is an essential tool in the business armoury when the going gets tough. Making productivity a focal point and rewarding those who rise to the top will help reduce exposure to the risk of recession.

4 WAYS TO GROW YOUR BUSINESS

It may sound simplistic but basically there are four ways to create a more profitable and valuable business:

1. Increase the number of customers (of the type you want)
2. Increase the number of times customers come back
3. Increase the average value of each sale you make
4. Increase the effectiveness of each process in your business.

These 4 fundamental strategies will help you win more customers, motivate them to come back to you more often, prompt them to spend more when they do and improve the processes in your business to ensure that you can manage the growth.

Theoretically, it's that simple. If you could increase each one of these 4 factors by just 10% the combined effect would be an incredible 46.4% increase in your sales. Is it possible? We believe it is achievable and we can provide the tools and experience to make it happen.

We are not your average accounting firm that just keeps the 'score'. We aim to work with you to build a better, more profitable and valuable business by combining our consulting tools and expertise with the knowledge of your business.

1 Increase the Number of Customers (of the type you want)

Most business owners focus on winning more new customers through advertising. This can be expensive and there are numerous other strategies that you should consider including:

- **Develop Referral Systems** –Thank your clients for any referrals and consider a reward system to encourage additional referrals.

- **Develop a Unique Selling Point (USP)** – What makes your business unique? Think about what you do differently from your competitors. You need to find ways to differentiate your business and communicate these points to your customers.

- **Research your Market** – You need to understand your customers needs and preferences so you can market to their needs. Focus on benefits you offer. It is vital that all of your advertising and marketing material focuses on the BENEFITS customers will receive rather than just the features of your products and services.

- **Target your Advertising and Marketing** – Identify your ideal customer and direct your advertising and marketing strategy to reach those potential customers.

- **Review your Phone Manner** – Many marketing 'experts' consider the phone to be the single most underutilised selling resource in business. Why spend money advertising if the customer's first contact with your organisation turns out to be a negative experience? With proper training and follow up your team can learn to have the skills to handle any call and convert the sale. Use phone scripts to alleviate anxiety, engage conversation and increase sales.

- **Develop a Sales System** – A systemised approach to selling based on an effective sales method is a must-have for increasing your customer base. To motivate consumers to make a purchase it is usually important to educate them. Ask new customers, ‘how did you hear about us?’ It’s a simple question that can tell you volumes about the success of your advertising.

- **Be a Problem Solver** – If a person inquires about something you do, they’re asking for help in solving a problem. If you fail to do everything possible to solve their problem you are doing them a DISSERVICE. Identify their problem. Direct them to the proper solution.

- **Create Sales Forecasts** – Mapping your sales forecasts is also crucial to increasing sales. It’s much easier to get to your destination – if you know where you are going! Sales forecasts help you find that direction and give you a target to achieve.

- **Follow Up** – Statistics show that 80% of sales are made after the 5th contact. Think about other ways to promote your business. There are so many! Create reciprocal referral agreements with a non-competitive business with the same type of client base.

2 Increase the Number of Times a Customer Comes Back

Increasing the ‘transaction frequency’ - or the number of times someone deals with you is an important step to increasing your profitability. In fact, some would say this is the most important ingredient of all. Studies suggest it costs up to 6 times more to win a new customer than it does to have an existing customer buy again. So how can you encourage repeat business?

- **Inspire Customer Loyalty –**Motivating your customers to come back to your business more often is vital to the long-term health and profitability of your business. The more frequently your customers purchase from you, the greater your profits. The most important customer list in the world is the one you already have. Loyal customers will not only return to your business, they will become walking advertisements for you. They will refer their friends and family to you. The easiest way to get new customers is through your current customers.

- **Know Your Best Customers** – This can be done by simply classifying your customers into A, B, C and D categories. This means that your on-going communication and marketing approach will be more appropriate for each group. Gather information about your customers. The more you know about them, the better service you can provide.

- **Provide Awesome Service** – Creating a team commitment to service can keep your customers returning and referring. You need to train your team so they deliver consistently outstanding service. Be exceptional and exceed customer expectations. Make sure your service is better or quicker, provide longer or stronger guarantees. Your team also need to have clear guidelines for problem-solving, how to ‘think outside the box’ and be empowered to do so.

- **Nurture Your Customers** – Nurturing is the most cost effective way to make customers feel valued and motivated to keep purchasing from you. The more you stay in touch with them the more likely they are to remember you. Newsletters, special offers, service reminders and thank you notes are all effective strategies. You could establish a loyalty programme with rewards for frequent purchases. Your current customers are your most important as they are your walking/talking advertisements for your business and will refer their friends and family to you. Offer on-going support, education or advice about your products or services.

- **Use Customer Comment** – Asking for feedback lets customers know that you are truly interested in them and their opinion – something other businesses may not even bother about. Most customers will not tell you about their negative experiences but will simply 'vote with their feet'. Follow up and make sure they're happy and THANK THEM for their business and referrals. The feedback can also be extremely valuable for your strategic planning. Make sure feedback has been actioned to ensure customers can see their suggestions are valued.

3 Increase the Average Value of Each Sale

Increasing your average sale makes every transaction more profitable. Since the cost of winning a new customer is already covered in the original purchase, additional sales are a plus – profit for you. There are a number of ways to do this:

- **Cross Selling** – Look at your major product or service and ask what else could you offer that would go with that item that would add value and help the customer make the most of their purchase.

- **Up-Selling** – Educate and make suggestions. Customers often do not know about other items or services that might add to their original purchase. You need to tell them! After all, customers come to you for help and guidance. Every time you fail to explain all their options, you can be missing opportunities. Offer your products or services in three or more tiers. You can explain that one level is good, the next level is better and the third level is the best. Statistics show that most people will select the second tier item but many will also be happy to spend a little more for more value.

- **Bundling** – Packaging items or services together adds value to the customer. Take a look at your full range of products and services and see if they can be packaged together. For example, a beautician might offer a discounted manicure with a facial. This practice makes purchases more attractive to customers and can increase average sales.

- **Smart Merchandising** – Signage, ticketing, presentation and packaging can all increase your average sale. Testimonials and brochures can help educate customers and build confidence in your business.

- **Work your Margins and Pricing** – We can assist you with looking at the direct relationship between the 4 key variables in your business – price, volume, fixed costs and variable costs.

- **Maximise your On-Hold Message** – Your phone's on-hold message can spark a customer's interest in more products or services, especially if it is useful and educational. An effective message can turn down time into profits.

- **Consider Raising your Prices** – To increase your average sale, you must have a full understanding of your margins and what they really mean to your bottom line. Avoiding discounts and price wars is critical to maintaining and increasing your average sale. Oddly enough, sales can sometimes increase with a price increase. Your products or services may seem more valuable. This is particularly true if you create sales and marketing tools to educate customers about the value they'll receive.

4 Increase the Effectiveness of each Process in your Business

The fourth way to grow your business is more of an all-encompassing strategy. Increasing the effectiveness of the way you do business is central to everything. The quality of the processes defines and determines the quality of the outcomes.

Develop functions, systems and manuals. Build your business on functions rather than the people in the roles. Good systems clearly spell out how each single business task is carried out and will ensure easy handovers, training and delegation. Many businesses are built around specific people rather than the jobs or functions those people perform. Changing your business to one that identifies functions first then slots the right people into those functions will help your business grow.

Systems clearly spell out how to do every single business task and make it easy to train team members and delegate work, leaving you more time to develop your business.

Work **ON** your business not **IN** it. The business owner stuck handling day to day tasks will only achieve slow growth if at all. You need to step outside these activities and look at the business objectively with our help.

Measure your current performance. You must have an understanding of your strengths, weaknesses, opportunities and threats to grow your business.

Train team members. Training is another pivotal area for improving the processes within your business. Regardless of whether it's customer service, phone answering techniques or computer skills, training your team members properly is extremely important to ongoing development of your business.

Potential Sales Increase Worksheet

To illustrate the compounding effect of these 4 profit drivers lets assume you have 1,000 customers and look to increase that by 10% to 1,100. Next, increase the number of times your customers come back to you by 10% (1 time to 1.1 times per annum). Then, increase your average sale to the customer by 10%.

Number of Customers x Number of Dealings x Average $ Sale = Total Sales

Now:	1,000	x	1	x	$250	= $ 250,000
Plan:	1,100	x	1.1	x	$275	= $ 332,750

Sales have grown by 33%. If your profit margin is just 30% your profit has increased by $24,825 and the value of your business has also grown.

Small Business is Our Passion and our goal is to help you build a better, more profitable and valuable business by combining the knowledge of your business with our consulting tools and expertise.

How to Increase Your Profits – A Checklist

1. Increase Revenue
    - Increase Selling Prices
        - Increase Selling Prices
        - Change Special Deals.
        - Lower Discounts Allowed.
        - Revamp Entire Price Structure.
        - Prune Product/Service profile.
    - Improve Product Mix
        - Weed out loss-making products/departments.
        - Concentrate efforts on high margin products/services.
    - Invoicing
        - Ensure all deliveries are invoiced.
        - Check invoicing accuracy.

2. Reduce Variable Costs
    - Improve Productivity
        - Better Controls.
        - Enhanced Incentives.
        - Improve Training and Morale.
    - Improve Yield
        - Eliminate Waste.
        - Introduce Quality Control.
        - Improve Formulae and Mixes.
        - Use Computer Controlled Devices.
    - Reduce Direct Costs
        - Substitute with Cheaper Materials.
        - Improve Price Negotiating Performance.
        - Use Volume Bargaining.
        - Pool Purchases with associates.
        - Challenge Price Increases.
        - Spend to Save.
        - Update and Change Methods.
        - Ensure greater care and clearer instructions.
        - Avoid throwing away money.
        - Employ better quality staff.
        - Subcontract if Cheaper.

3. Increasing Sales Volumes
    - Increase Marketing Activity and Advertising.
    - Make Special Offers.
    - Identify and follow up lost sales.
    - Offer Sales Commissions.
    - Appoint Sales Agents.
    - Clear Arrears Back Orders.
    - Cold Canvass.
    - Show at Exhibitions.
    - Improve feedback regarding services.
    - Hold Stock on Consignment.

4. New Business
   - Enter New Markets
     - ► Sell in new areas.
     - ► Export.
     - ► Create new markets.
   - Introduce New Products
     - ► New products in current markets.
     - ► New products in new markets.

5. Reducing Fixed Costs
   - Occupation Costs
     - ► Find smaller premises.
     - ► Sublet.
     - ► Change locations.
     - ► Clear obsolete stock, plant and equipment.
   - Staff Costs
     - ► Improve efficiency.
     - ► Remuneration based on Performance.
     - ► Reduce Labour.
     - ► Use Specialists where cheaper.
     - ► Employ Casual / Part-time / Contract Labour.
   - Advertising
     - ► Measure Performance of advertising effort.
     - ► Eliminate or redirect under-performing advertising.
   - Repairs and Maintenance
     - ► Practise Preventative Maintenance.
   - Sundry Costs
     - ► Improve general efficiency.
     - ► Systematic Review of all overheads.
     - ► Eliminate unnecessary costs.
     - ► Improve negotiating performance.
     - ► Raise buying performance.

6. Improve Fixed Asset Performance
   - Existing Fixed Assets
     - ► Rectify or modernise inefficient Plant.
   - Investment in Fixed Assets.
     - ► Select Projects with high projected returns.
   - Control Investment Costs
     - ► Enforce proper pre-investment appraisal disciplines.
     - ► Insist on submission of alternatives.
     - ► Deny pet projects that are not sound.
     - ► Insist on alternative quotes.

Business Health Check

1. General Business Efficiency

There are a number of general areas that are indicators of the level of business efficiency. For example:

- Do you always deliver on time?
- Are your goods and services up to standard?
- Are your marketing and advertising campaigns focused and well directed?
- Are your gross profit margins protected against inflation?
- Are your terms and conditions of doing business complete and unambiguous?
- Are your levels of wastage and scrap low?
- Does your plant and equipment operate relatively free of breakdowns?
- Is your plant layout and production flow efficient?

- Are your stock levels efficient (neither too high nor too low)?
- Is your stock obsolescence minimal?
- Can you find goods, raw materials, documents etc. instantaneously?
- Are you adequately and properly insured?
- Do you use/do not use outside consultants effectively?
- Do you analyse returns and complaints by quantity, reason and value?
- How many customers are you upsetting? What is this costing you in forgone profits? If material, how do we remove the cause?
- The physical appearance of the shop floor / offices will tell much about the standards elsewhere.

2. Ageing

- Ageing is an efficiency indicator that should be applied to all areas of the business. For example:
- An ageing and less efficient plant facility.
- Old and dilapidated premises.
- Product profile – no new products for years.
- And outdated attitude to employees.
- Obsolete office equipment and systems.
- Over-used advertising or marketing procedures.

3. **Risk Status**

Scan every business activity from a risk point of view. For example:

- Is the business subject to any special kinds of risks (e.g. fire)? Has avoiding action been taken (e.g. Insurance, water sprinklers)? Have alternative arrangements been made (e.g. Supply strategic customers) in the event of a disaster?
- What would happen to the business if you lost your top three customers?
- Where would you stand if the landlord did not renew the lease? Increased the rent? Changed the terms to your disadvantage?
- What if a strategic supplier went out of business? Blackmailed you on price?
- What if your computer system crashed?
- What if a key staff member was no longer available through death, illness or resignation?

4. **Competitiveness**

The main criteria by which competitiveness may be judged are:

- Quality
- Price
- Delivery
- Innovation and new products

5. Market Intelligence

It is essential to know what is going on elsewhere in the market place.

- What new developments to products and services are afoot?
- Who is building up manufacturing capacities?
- Who is offering special price bargains?
- Who is approaching your customer's etc.?

Start by trying to ascertain the size of the market in which you operate and your market share. Then we would like to know the size of the other main players that affect us. Next will come a review of your product strengths and weaknesses in contrast to your competitors. What do you have that others do not? Keep your eyes open and ears to the ground. Talk to suppliers, customers, sales representatives and service personnel.

6. Business Image

The aim of a corporate image is to attain customer recognition of the business, with the purpose of developing product loyalty and business goodwill. The elements used to build a corporate image are:

- The business name.
- The logo.
- The adopted colours.
- Slogans used repetitively.
- Advertising style.
- Uniformity of product appearance or wrapping.
- The standard of its office / shops.
- The dress code of its staff.

DISCLAIMER

Readers are advised that the purpose of this guide is to provide general introductory information. It does not purport to contain all the information that would be relevant to any particular business opportunity.

Further, the guide is provided to interested persons on the basis that they will be responsible for making their own assessment of that opportunity with the assistance of the information provided.

The information in the guide should not be relied upon in substitution for professional advice and individual investigation.