Linda McGowan Pty Ltd
'the personal touch'

Director: Linda McGowan CPA - B.Bus
Registered Tax Agent
1st Floor, 6-8 Wilson Avenue Brunswick 3056

Phone: 03 9387 2086 | Fax: 03 9387 9473
www.lindamcgowan.com.au

On The Money

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Know Your Key Numbers

A recent article in the Australian Financial Review suggested the three main reasons for small business failures were:

- Poor financial management (28% of failures)
- Poor accounting (16%)
- Lack of management experience (15%)

So how do you recognise the warning signs in a business? Key Performance Indicators or KPIs let you monitor what is happening in the business and the power of KPI's comes from a simple concept - What you can measure you can manage. KPIs let you know where you stand at any given moment so you can adapt or change your strategy to improve your results right there and then. Knowledge is the power that drives better results and the following KPI's are simple to track.

Sales - You would be amazed how many small business owners do not have access to an accurate sales figure. Sales are the first indicator of the business trend (up, flat, down).

Gross profit margin as a percentage of sales - This compares the prices you charge your customers with the prices your suppliers charge you. An increase is good, flat lining could be satisfactory while a decrease is an alarm bell.

Profit before tax as a percentage of sales - Ideally this figure should increase but flat could be acceptable but a decrease is definitively a warning sign.

Cash flow forecast - Calculation = Cash at bank + Cash in over the next four weeks – cash out over the next 4 weeks. This calculation for each of the next four weeks will tell you if you have enough money to pay your bills at the end of the month.

Debtor Days - Calculation = Accounts Receivable / Sales x 365. This tells on average, how many days it takes for the money to reach your bank account after you have issued invoices. A decrease is good sign while an increase is an issue.

Creditor Days - Calculation = Accounts Payable / Purchases x 365. This tells on average how many days you take to pay your suppliers. Monitor that figure and compare it to the debtor days. Ideally, creditor days are equal or higher than debtor days. If it is lower, you need to either improve your collection or negotiate better payment terms with suppliers to avoid a cash flow problem (Danger!).

Inventory Days - Calculation = Inventories / Purchases x 365. This tells you on average, how many days the goods you purchase stay in your warehouse or on your shelves before you manage to sell them to your clients. The lower, the better.

Number of customer complaints as a percentage of number of sales - Your customers will stay with you and buy again if they feel looked after, so measuring the number of complaints and taking action to reduce that number helps to build a sustainable business.

Ideally your KPIs need to be tailored to your business and should track those things that clearly tell you at a glance how your business is performing. If you're not measuring your KPIs how will you know if you're on or off track at any given moment? If you don't know the answer to that question it's unlikely you'll achieve your goals.

The greatest compliment we receive from our clients is the referral of their friends, family and small business colleagues. Thank you for your trust.

Maintaining A Healthy Cashflow

In tough economic times, many small businesses struggle to manage their cash flow. It might be time to undertake what the experts call a 'business stress test' and have risk management strategies in place to ensure the business survives. So what does a 'stress test' involve? Basically it is the analysis of your past, present and future cash flow position. It includes everything from key performance indicators, to cash flow forecasting and drawing up hypothetical 'what if' scenarios to ensure you are prepared for anything. Do this regularly and make it a habit.

More often than not there are warning signs that all is not right in a business and recovery experts suggest the most common questions a business owner should ask when it comes to maintaining a healthy cash flow include:

- What is the new break-even level for the business? How does this differ from the previous level?
- What is the impact to revenue and earnings if you lose a major customer?
- What is your tipping point? For example, how far are you willing to go to maintain earnings and are you prepared to lose customers in the process?
- How is cash flow affected if debtors take extra days to settle their accounts?
- What changes will you require to your banking facilities and what would be your bank's attitude to an increase in lending?
- Are staff cuts needed and how will you deal with this? Do you have the required cash flow to fund redundancies?
- What overheads will you reduce and what measures will you take to preserve cash?
- What non-core assets could be sold to reduce debt and provide additional cash flow?
- What do you have to do to meet ATO tax requirements?

There are a number of things financial experts say you can do to ensure your cash flow remains healthy including:

- Ensuring you have an accurate Profit & Loss Statement and Balance Sheet.
- Ensuring your monthly financial statements are reviewed within two weeks of the end of the month.
- Compare your actual cash flow results against your budgeted results. Is there a difference and what factors have come into play. Have you overspent? When/where did this occur?
- Prepare a list of what went well during the month and what areas need improvement.
- Update your budgets for future quarters in advance so you have a clear idea of where you are going.
- Prepare a report each month that shows key performance indicators (KPIs) and monitor it regularly.
- Examine external factors that may influence the business' cash position. For example, interest rate movements, average debtor days, material and labour cost movements, exchange rates etc.
- Monitor your main 'cash competitors' – e.g. stock and debtors.

Cash flow is the lifeblood of your business. If you see it in distress, it's time to take action and you need to be proactive, not reactive. Most importantly, contact our office for assistance.

Cross Selling Explained

Cross-selling is such a powerful yet easy way of increasing your average transaction value, and in turn, increasing your profits. Cross-selling means recommending other items from your range of products to a customer as they purchase. A well known example is at McDonalds where the cashier always asks, "Would you like fries with that?"

There is no cost to implement this strategy and all you need to do is train your sales people so you can start profiting from cross selling. For example if you are a :

- restaurant you might recommend extra side dishes with the main meal
- mechanical repair workshop you might recommend a wheel alignment with each standard service
- beauty therapist you might recommend a pedicure when clients come in for a manicure

Most business owners focus on generating leads for their business and new customers but increasing the transaction value by cross selling to your existing customers will produce immediate financial results.

Your customers visit your business because they have a problem or want a certain result. They select a product or service because they believe that this product will give them the results they're looking for. They often aren't aware of all the different options and it makes sense to give these customers the advice that helps achieve these results and recommend the add-on products.

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