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BUSINESS ACCOUNTANTS

OPERATING A SUCCESSFUL BUSINESS

SURVIVAL IN DIFFICULT TIMES



Paper 06.85



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OPERATING A SUCCESSFUL BUSINESS

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1. Financially Difficult Times

The economic cycle has turned in many parts of Australia and things are getting tough for many small/medium enterprise operators and a number of larger businesses.

In some parts of Australia, there have been employees laid off in the motor vehicle, mining and insurance industries.

An industry survey has indicated that the manufacturing industry is suffering its worst conditions in more than 16 years with falling profits, orders and production.

The debt collection industry has indicated that there is a notable increase in financial stress among consumers and businesses.

The Chinese government has warned that there will be difficult trading conditions in China in 2009. Some commentators had been predicting that the Chinese demand for commodities, particularly iron ore and coal, would assist Australia to ride out the economic problems, but the most recent reports indicate emerging problems in the Chinese market with thousands of factories having closed in Guangdong Province, the heart of China's export orientated manufacturing sector.

Comments are now being made that there are major redundancies occurring in Asia, as the Asian economy (with countries such as Japan, Hong Kong and Singapore already in recession) faces up to the world-wide economic problems.

The Reserve bank acknowledged the worsening economic circumstances by announcing a reduction of 1% in the cash rate to 4.25% on 2nd December 2008. The Reserve bank has indicated that the rate reduction was in response to the global downturn and the "significant moderation" in domestic demand.

The United States National Bureau of Economic Research has confirmed that the United States of America's economy has been in recession for a year.

Not an inspiring picture, but nevertheless a challenging one for SME operators.

Now is the time to take action! Tough times in business are part of the cyclical nature of business operations, however to survive you need to plan and think through how your business is going to perform. Some suggestions are:

- Review the costs of operation. Can any costs be reduced?
- Marketing is a necessary expenditure in most businesses; therefore you should carefully

evaluate the marketing expenditure and the benefits you expect from it before curtailing any marketing expenditure. One of the things you possibly should be looking at doing now is trying to generate additional business!

- An action plan listing a particular item or project; who is going to do it and when it is to be completed, will assist in activating the plan. Are there any risky activities that you are undertaking that should be eliminated?
- The key message is to be proactive in taking action to steer your business through the troubled economic conditions that are now affecting many businesses around Australia. The problems in the USA and Europe are now being widely felt throughout Australia.
- Interest rates have finally moved downwards with some economists predicting that they could go significantly lower over the next few months.
- As a consequence of the tightening business environment, some economists are forecasting unemployment will rise very significantly over the next 2 years.
- The latest MYOB Small Business Survey has stated that about 50% of Australia's small business owners/managers believe that their business will go backwards over the next year.
- Many small business operators have already found out that it is getting tougher to deal with banks, it is taking a long time to get answers from bankers and some of the banks have tightened up on low document loans by requiring substantially higher deposits.
- Petrol prices are still very high, even when the international value of oil has significantly decreased.
- There has been a significant movement in currencies, particularly the Australian dollar relative to the US dollar, which has imposed substantially higher costs on importers, whilst there have been some benefits for exporters selling products in US dollars.
- Many businesses are indicating that they are having cashflow difficulties primarily caused by payment delays by many customers, particularly big business. The average debtors' days outstanding is now reported to be around 60 days, 100% higher than the traditionally accepted debtors' trading terms of 30 days.
- The Australian government is attempting to "prime" the market by special one-off payments of about \$10.2B in December 2008 to a range of taxpayers.
- The Australian government's Budget Forecast of about \$20B has been substantially reduced.
- The Australian government has acknowledged that the Federal Budget will probably go into deficit.

In summary, we are in a very difficult economic environment - but many experts believe Australia is more "fire-proof" than most countries - but individual businesses need to monitor their strategies to ensure that their businesses remain viable.

2. Business Monitoring

There is a slowdown in the commercial building and housing markets in Australia and some significant mining companies and manufacturers are laying off staff. Two major motor vehicle industry finance companies have announced that they are withdrawing from the Australian market.

Retail trade is down - some major stores ran "Special Sales" in November. We are in tough economic times!

- How does all this relate to your business?
- Are your sales up or down?
- What is happening to costs?
- Are you analysing your gross profit percentage on various products and services?
- What is the wages to turnover percentage in various departments or product lines in your business?
- How does the net profit percentage compare to that achieved in previous years?
- Have you calculated the gross income per employee and compared that to other similar businesses?
- Is your business growing or is the increased activity the same as what is happening in other businesses similar to yours because of the economic activities in your area?
- Do you think you are getting your fair share of new business?
- Is your business creating value that is appreciated by your customers?
- Have you benchmarked your business' performance against others in the same industry?
- Are you able to provide prompt accurate current trading and KPI figures to your bank or lender?

A detailed business diagnostic looking at the various questions that have been raised will assist you to analyse your current performance and to determine how you are going to perform in the longer term, especially in an economic downturn.

3. Steps To Ensure Business Survival

Many businesses have already taken steps to ensure that their business will survive these difficult times.

Suggestions on implementing planning for survival in difficult times include:

- Review costs - can any of the costs of your business be reduced or eliminated?
- Review labour productivity.
- Review waste control in the organisation.
- Review management of cashflow.
- Review debtors' management.
- Review your stock/inventory and have a "promotional sale" to clear out slow moving items.
- Review work in progress investment - can the account be reduced?
- Sell unused (or under-utilised) assets and use the money to reduce debt.
- Contact suppliers and try to negotiate improved payment terms and support.
- If you are an importer or exporter - should you consider locking in currency contracts and building the cost of the currency contract into your quotation?
- Review marketing expenditure - is the expenditure directly targeted to achieving sales in the prevailing market?
- Keep your books up-to-date so you can foresee any cashflow difficulties before they happen
- Prepare monthly financial accounts - examine your key performance indicators and discuss these KPIs with managers and team members.
- Review your unique selling proposition - how can you deliver outstanding service to customers each time you are dealing with them?
- Brainstorm creative ways to increase revenue and reduce costs. Make brainstorming a part of your daily routine.
- Increase the number of hours you work "on your business".
- Be proactive in getting your business in order before you receive an "invitation" to a meeting with your banker.
- Review what is happening in your industry. What are the demands from the market? What

-
- market opportunities are emerging from the downturn?
 - Review the risk management strategies for your business relating to:
 - * reserves for rainy days
 - * team member skills
 - * retention of skilled team members
 - * protection of your intellectual property
 - * contacts with suppliers and other key people in your industry
 - Demonstrate a "can do" attitude to the market. The downturn will not last forever. Can you gain market share in the downturn?
 - Review bank and other finance loans. Can you renegotiate at the lower interest rates now emerging?
 - Review all aspects of your business to ensure that you can weather the downturn, including:
 - * accounting and computer systems
 - * supply chain
 - * suppliers
 - * contractors
 - * business structure
 - * non-viable assets
 - * debtors, stock and work in progress management
 - * capital expenditure
 - * export markets

4. Cost Review

All costs, including fixed and variable, should be subjected to detailed review.

Can any of the costs be reduced?

Is it necessary for travelling expenditure to be incurred? Could business meetings and training be conducted by webinar or other electronic communication?

Is proposed capital expenditure necessary to ensure current productivity or could it be deferred?
Can rents be renegotiated?

5. Team Members

Have you talked to team members about productivity being achieved, as compared to budget targets?

Has it been possible to negotiate an agreement on improving productivity?

Have you empowered your team to make key decisions, so the business not only meets, but exceeds, customers' expectations?

Are you asking your team for their suggestions on improvements that they believe can be made to deliver outstanding products/services to customers?

Have you identified particular skills that could be delivered by a contractor(s) on a short-term contract, so you can turn your labour requirements on and off to meet demand?

6. Wastage

Have you consulted your team on suggestions on how to reduce wastage within the organisation?

Have you implemented systems to measure wastage so the cost can be monitored on a weekly/monthly basis?

7. Theft & Pilferage

Unfortunately, statistics indicate that in difficult economic circumstances, theft and pilferage increase, particularly in retail stores. Have you alerted your team on the very high cost of theft and pilferage of stock?

Have you implemented appropriate security on stock received and monitoring of customers and team members within the store in an attempt to minimise theft and pilferage?

Many retail stores calculate the actual cost of theft and pilferage so the cost can be determined and reported to management and team members. This enables management and team members to try to reduce the significant cost of theft and pilferage to Australian retailers. It has been estimated that stock loss and retail crime cost Australian retailers in the vicinity of \$2B last year.

Commonly stolen items include:

- branded and expensive products such as:
 - * cosmetics
 - * women's clothing
 - * skin care
 - * perfumes
 - * alcohol and designer ware;

and other items such as:

- razor blades
- DVDs/CDs
- video games
- video consuls
- small electrical items and
- fashion accessories

The Global Retail Theft Barometer Report indicated that 45.8% of loss was from disloyal employees through staff pocketing goods or committing fraudulent refunds or markdowns.

8. Cashflow Forecasts And Budgets Are Important

There are a lot of uncertainties at present relating to interest rates; exchange rates; property values; unemployment starting to rise; slower debtor payments; rising cost of fuel; the possibility of tighter lending rules by banks and the Taxation Office's increased scrutiny in the small/medium enterprise market area. All of these uncertainties highlight the necessity for businesses to spend some critical time working "*on the business*" in planning cashflow forecasts and budgets for the next 12 months.

A budget will show the expected income and expenditure for the business and the emerging profit. You can calculate various "what-if" scenarios to factor in potential changed circumstances e.g. lower interest rates; higher fuel costs and if you are an exporter or importer, changes in currency conversion rates.

Budgeting lets you diagnose problems in advance. If the budget you've prepared doesn't provide you with an adequate profit, then you can decide on appropriate action to take to try to achieve your desired profit, rather than waiting for the events to unfold.

When the budgets are completed, it is then possible to prepare a cashflow forecast. This will reflect the figures contained within the budget as well as taxation commitments; loan repayments; dividends or drawings; capital expenditure; receipts from debtors and payments to creditors.

It is possible to prepare "what-if" scenarios for the cashflow forecast on the basis of likely changes in conditions relative to a slow-down in debtors' payments; changed investment levels in inventory, using debtors' finance/factoring, etc. It is recommended that every business should prepare a budget and a cashflow forecast for the next 12-months. If the cashflow forecast highlights that you might need an injection of extra funding, now is the time to talk to your bank/finance company or debtors' financing company or consider trying to raise capital – not later in the financial year when you have a problem!

9. Cashflow Management

It will help your cashflow if you make it easy for customers to pay you. This can include:

- accurate preparation of tax invoices and promptly forwarding these to your customers; and
- making provision for direct payments to your bank account and also offering credit card facilities.

If the business needs additional capital to fund the business' operations, have a discussion with your accountant to determine whether an approach should be made to your bank for an increase in facilities, whether it is possible to raise capital from external investors or whether an external property can be sold or mortgaged to generate the additional capital.

A cashflow forecast is a key diagnostic tool for the health of a business and is even more important during financially difficult times.

When putting together a cashflow forecast it is best to:

- Keep it simple and focus firstly on the items that affect your cashflow the most.
- Compare forecasts to actuals and consider any changes required for preceding months' forecasts.

If you find that your customers are delaying their payments, communicate with them; find out what the problem is and whether you can negotiate alternative arrangements regarding payment. Don't sit back and wait, because it might be too late. Keep an ear to the ground as to what is happening in the market place and, in particular, how you're key customers are trading.

Once you understand how cash moves through your business, you can start taking action to increase cashflow.

In the current economic climate, the key challenge most SME business owners are likely to face is in bringing more cash in the door and getting customers to pay and pay on time.

It is recommended that you prepare a three monthly Cashflow Forecast on a monthly basis. This forecast should be closely analysed to determine whether specific action is required.

The responsible person should then monitor actual performance against the three monthly forecasts and should instigate action to achieve the targeted performance.

10. Customers

.1 New Customers

Communication with customers starts from day one. New customers should receive a notice clearly setting out their payment terms and the consequences if they don't abide by these terms. Tax invoices can also include a Romalpa Clause. ([Refer Item 10.7](#)).

.2 Check the Credentials Of New Customers

New customers are great, but new customers that actually pay are even better! The problem is it can be difficult to tell one from the other until it is too late. Make sure your new customer/client is not someone else's problem!

Measures that can help you avoid taking on risky customers include:

- a standard credit check;
- trade references;
- bank references;
- director's guarantee.

New customers could also be asked for permission to have an external credit check run on them by credit agencies that can carry out checks that provide a range of information, including comments on credit worthiness.

Once payment terms and conditions have been set, it is then important for the business to have a procedure of reminders and updates that encourages the customer to pay promptly. This procedure could be a letter or email reminder in the week leading up to the payment date. If payment isn't received by seven days after the due date, then a phone call should be made to the customer, and then another every week following until payment. A policy should be implemented to forward problem debtors' invoices to a debt collection business for collection.

.3 Keeping Customers

Consumers are looking to deal with businesses that they can trust. Is your business creating a feeling of trust with the customers? It is a good idea to get testimonials, preferably on video, from your customers and utilise these on your website whereby individual customers are endorsing your products and services.

Survey or sample your customers to find out what they like and dislike about your business. If necessary you will then be able to fine-tune your business model. Customers are looking for a "memorable experience" when dealing with a business. SME operators should be encouraging staff to show passion and enthusiasm when dealing with customers thus highlighting the business' "unique selling proposition" to your customers especially in these difficult trading times.

Two ways you can encourage your customers to be loyal are:

- Offer aggressive sales and discounts to your regular customers.
- Focus on providing your regular customers with superior service.

.4 80:20 - Customers

In most small/medium-sized businesses, 80% of the gross profit will come from 20% of customers. Analyse your customer base to work out what percentage of your customers contribute 80% of your gross profit then use this information to customise services provided to these customers.

.5 Spread Your Risk Of Danger

'1' is the worst number in business. Many small/medium-sized businesses have gone bust because of problems with their one major customer or one major supplier. Don't have too

much reliance on 1 customer or 1 supplier which if the relationship changes would cause your business difficulty.

.6 Unemployment Effects

Economists are anticipating that there will be an increase in the number of people unemployed. You'll need to monitor who your customers are, particularly if a large number of your customers are employees of large businesses who may be announcing staff redundancies, because if there are large layoffs of employees within your area of business operations, this could significantly effect the amount of discretionary spending your customers have.

.7 Romalpa Clause

Tax invoices for goods should include a Romalpa Clause. This is a retention of title clause which is a provision in a contract for the sale of goods that the title to the goods remains vested in the seller until certain obligations (usually payment of the purchase price) are fulfilled by the buyer.

"Property in and title to the goods shall remain with the seller and does not pass to the customer until all monies payable pursuant to this contact (including any interest, freight or insurance charges) have been paid to the seller. The goods shall be at the customer's risk immediately upon delivery."

11. Debtors' Management

.1 Systems Review

- Review dealings with a private company - obtain individual directors' guarantees.
- Ensure tax invoices are prepared correctly in accordance with the customer's/client's format requirements and sent to the customer/client promptly by the stipulated dates.
- Ensure follow-up of customers'/clients' invoices from the due date to ensure prompt payment or, if the customer/client has a query, you resolve the query as soon as possible.
- Monitor debtors' aged analysis on a weekly basis.
- Ensure any payment arrangements made with a debtor are confirmed in writing, including details of any key dates and follow up with the customer to ensure that payments are made on those dates.
- If payment is not received, ensure prompt referral of problem debtors to a debt collection agency.

.2 Ensuring Your Big Customers Pay

SME businesses that rely heavily on dealing with a few big customers often find themselves in tight cashflow situations. Small businesses often allow themselves to be too flexible with debtors' payment terms, especially with big customers because they are afraid of losing them.

A useful facility for small businesses that have long standing debtors is debtor financing. ([Refer Item 12](#)).

.3 Give Your Customers A Reason To Pay

Reminders may get the debtors paying in good times, but when things are tight a little something more will often be necessary to bring in the cash.

A tool many cashflow advisers believe is effective, if costly, is the discount for early payment.

There are many different ways an early payment discount can work. Discounts can be

scaled, so the earlier the repayment the bigger the discount, or further discounted over time for selected customers as a reward for prompt payment.

You can also make paying your bills less painful for your clients by allowing them to pay in instalments, helping them smooth out their cash-flow and giving you some increased security.

.4 Follow-Up Your Debtors

When times are good many small/medium-sized business owners become complacent when it comes to their debtors. They don't follow up customers who owe them money.

As finance and cashflow becomes tighter, those that are disciplined in following up customers will have the edge as money supply becomes critical. Ensure you have effective procedures in place for following up debtors who don't abide by their agreed payment terms.

For businesses that want to enforce their debtor management, but don't want to build an in-house accounts receivable capacity, outsourcing can be an option.

There are several firms that will provide businesses with the full range of debtor management services, from credit checks to phone calls and legal debt enforcement.

12. Debtor Finance Can Help

There are a range of finance options available to small businesses that can provide an immediate boost to cashflow.

Debtor factoring, which is sometimes called invoice-discounting or debtor finance, effectively allows a business to borrow against the value of their debtor book.

Businesses in sectors with very long payments terms, such as manufacturing, clothing, wholesale, mining, professional services and printing are suitable businesses for debtor financing.

13. Credit Insurance

If you are selling a large proportion of your sales by credit, consideration could be given to taking out a Credit Insurance Policy. This policy will give you an insurance cover against a pre-approved debtor not paying a legitimate account.

To apply for a Credit Insurance Policy, you'll need to supply the specialist insurance company with:

- forecast sales for the year;
- a copy of your end of month debtors' analysis highlighting any overdue accounts; and
- at the end of the financial year, details of your actual credit sales for the year.

The fact that you have taken a Credit Insurance Policy may assist in negotiating ongoing loans from your bank or financial institution.

14. Work In Progress

A detailed review should be made, at least every month, on the jobs that are still within "work in progress". The management review should determine:

- Can the job be invoiced?

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- Can a progress claim be raised?
 - Is there a problem within the job that is causing a delay in management finalising the work as this may crystallise a loss on that job?

Considerable sums of money can be tied up in work in progress and in difficult economic circumstances, it is important that businesses who conduct work in progress systems try to minimise the investment within work in progress so as to improve the business' cashflow performance.

15. Stock (Inventory)

One of the areas where considerable cash can be invested is in stock.

At any time, it is desirable for management to be monitoring the investment in stock; however it is of significant importance in difficult trading conditions.

Some of the controls that management could introduce in an attempt to reduce the investment in stock include:

- weekly monitoring of the investment in stock
- weekly/monthly reviewing of stock-turns being achieved for individual items or groups of stock
- regular identification of slow-moving or obsolete stock
- relocating stock to try to encourage customers to buy those items of stock
- conduct of sales to try to sell slow-moving stock items

16. Suppliers

Consideration should be given to having discussions with suppliers to determine whether the supplier is prepared to offer support during the difficult trading conditions. Support could include:

- extension of time for payment
- promotional support
- making available specialist staff to train your team members in the use of the products/services
- advertising and marketing contributions

17. Importers

The recent fall in the value of the Australian dollar -v- many of the world's major currencies has significantly increased the cost of imports for importers.

If you are an importer, consideration should be given to taking a Forward Exchange Contract so as to lock in the exchange rate at the date of purchase so as to give the importer some certainty of costs.

18. Exporters

Exporters should also consider purchasing a Foreign Exchange Contract at the date of sale so as to lock in the exchange rate that applied on the date that the sale was negotiated.

If however you believe that the exchange rate is going to devalue further, then perhaps you wouldn't take out a Foreign Exchange Contract, however if you think the currency is likely to rise, then there are good reasons to lock in the rate which applied at the date of sale.

In difficult economic circumstances, a number of businesses will give consideration to commencing export sales. Exporting requires detailed planning and research to understand cultural issues, regulations, types of business models and representatives. Austrade is a good place to start in obtaining information on a foreign market relative to the business environment, regulations, introduction to potential buyers, briefing notes on the market.

It is important that detailed investigations are undertaken and that you don't launch blind into a foreign market.

19. Banks/Lenders

.1 Bank's "Rule Book"

In tough economic times, bankers revert to the "rule book" in dealing with borrowers.

The newspapers are full of stories about massive losses that have been suffered by Australian and International bankers. When a customer doesn't pay a bank, they not only lose the profit, but invariably also lose the capital that was the amount of the loan.

A run of these types of problems certainly puts pressure on bankers to try to restrict losses from any of their other customers.

What this means for SMEs is that bankers will be very difficult to deal with in the next couple of years and it means that for SME businesses in particular, if you wish to continue to access products from banks, including loans, bank overdrafts, leases, debtors' finance etc., it will be necessary for you to ensure that you have complied with the bank's reporting requirements and the various ratios and other financial calculations that that bank may have imposed as part of the loan or facility agreement with your business.

Banks will probably be insisting on receiving principal and interest repayments, rather than interest only payments.

The announced withdrawal from the Australian market of two major motor vehicle industry financiers is going to create competitive problems for car dealers in obtaining finance from banks.

.2 Keep Bank Informed

It is recommended that you keep your bank informed of the current progress with your business and ensure that your financial records are up-to-date so you can quickly supply financial accounts and other business information reports to the bank when required.

.3 Review Debt Covenants

Now is a good time to review your bank loan/facility documents and prepare a summary of any debt covenants included in those agreements. These covenants could include:

- debtor ratio to borrowed funds
- working capital ratio to borrowed funds
- debt to equity ratios
- dates when regular reports need to be lodged with the bank. The reports to be lodged would probably include:
 - * Trading and Profit & Loss Account
 - * Ratio Analysis on Trading and Profit & Loss Account

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- * Balance Sheet
 - * Balance Sheet Ratio Analysis
 - * Aged Analysis of Debtors
 - * Aged Analysis of Creditors
 - * Summary of Investment in Work in Progress
 - * Summary of Investment in Stock (Inventory)
 - * Updated 3-Monthly Cashflow Forecast
 - details of any abnormal or unusual expenditure that has occurred or you anticipate occurring in the next 3-months. This could include:
 - * income tax payments
 - * capital expenditure
 - * dividends
 - * or large amount of drawings for specific purposes
 - * purchase of a new business
 - * establishment of an export business in an overseas country

.4 Are You Living Off Credit?

It is important to make sure your business' debt is structured correctly with short-term debt (e.g. credit cards, overdraft etc) only being used for short-term requirements.

If you currently use short-term debt for long-term assets procurement, look at refinancing. When finance becomes tight, banks are less likely to extend overdrafts and credit limits. If you are offered the opportunity of converting part of your overdraft to a Term Loan, its probably a good idea to accept because overdraft limits can be reduced by the bank at any time.

.5 Build A Relationship With Your Bank

Work with your bank as much as possible to create a strong relationship. If they know you and your business they will be more understanding when times are tough.

20. Marketing

.1 Effective Marketing Plan

Now more than ever small/medium-sized businesses must focus on developing and implementing an effective marketing plan. During prosperous economic times customers are easier to attract, however during financially difficult times effective marketing is critical.

Businesses need to be considering growth options during difficult periods. The most effective way of growing is from inside the business. This is the least expensive way and capitalises on the knowledge, systems and team members the business already has.

The group to concentrate on is the current customers and people who look like current customers.

These are the "low-hanging fruit" that have similar needs and requirements to your present customers.

.2 Inside Advantage

To be able to grow during difficult trading times, you need to identify your "inside advantage". Develop a list of your core customers and ensure that there is contact made with them. Your core customers are the ones which are most likely to buy more products from you at optimal profit rates because they already know your organisation.

You need to market your "inside advantage". Include it on emails, letterheads, business cards, and website. Your inside advantage covers a whole range of areas connected with

your business.

Include your inside advantage with your brand name wherever it's mentioned.

Contact the core customers and explain to them the new products/services that you have available.

.3 Don't Curtail Marketing

Many commentators are saying that we're now in the most perilous trading conditions for the last 50 years. Businesses that curtail their marketing could find it very difficult to survive the difficult trading conditions.

If you plan your marketing activities, linking your promotions to your inside advantage and target core customers and prospects who have the same attributes as your core customers and develop a system that ensures the marketing activity takes place every day, that activity should get results.

.4 Building Your Business

The way to build your business in the current environment is to:

- generate leads from core customers or prospects who look like core customers.
- convert the leads into sales.
- by special promotions, demonstrations, supply of literature and other information, increase the average dollar value of each sale by being very friendly and courteous to customers.
- give them a reason to visit your premises or to contact your business more regularly so they increase the frequency of transactions.
- if you can, adjust your margins so as to improve the gross profit from sales.

Your salespeople should be encouraged to do active lead generation every day and not be mere "order takers". They should be alert to the opportunities to up-sell and cross-sell.

21. Profitability

Profitability is important to a business in any market circumstances, but in difficult trading times, it is very important.

Profitability is far more important than generating sales for the sake of making sales.

Management should be closely monitoring profit by analysing weekly sales, gross profit reports and monthly detailed financial accounts.

Another very important item is to ensure that everyone within the team is conscious of collecting the debt, because a sale is not finalised until the customer has paid.

Unfortunately, there will be some businesses that are trading profitability, which will get into difficulty during these difficult trading times because they have not concentrated on the cashflow for the business. The lack of cashflow can kill a business, even though it is trading at a profit!

The excess investment in items such as:

- debtors;
 - stock;
 - work in progress; and
 - drawing excessive sums out of the business
- can be very detrimental to the business' survival.

22. Property Investments - Negative Gearing

If your business has a property investment, then you should be ensuring that you're obtaining all of the deductions to which you are entitled under the Income Tax Act. These include:

- interest on funds borrowed to acquire the property
- agent's fees
- bank charges
- repairs & maintenance
- gardening
- cleaning
- depreciation

It is a good idea to engage a Quantity Surveyor to list all of the allowable deductions relative to the property, so you can claim these in the business' income tax return.

23. Culture Is Important!

.1 Attributes

There are many attributes to creating a successful long-term business. No one attribute makes a successful business, but a combination of attributes will significantly contribute to long-term successful business performance.

These include listening to team members, customers and suppliers; learning from their comments and making changes if necessary. Virtually every week something is changing in business. To be successful, you need to keep on top of the ever-changing business climate.

.2 Business Loyalty

Business operators need to encourage loyalty from their team members, suppliers and customers. These people will also expect loyalty from management, directors and owners.

The use of marketing tools such as

- databases on customers,
 - surveying customers on what they like and don't like about your business,
 - keeping web pages up to date, and
 - testing the market for reaction to new products and services,
- all help management get important feedback on their products/services.

.3 Strategic Alliances

Most successful businesses create strategic alliances with other people in their industry, either suppliers, similar businesses in other geographical areas that are not direct competitors, or allied organisations. Strategic alliances can significantly contribute to your knowledge base on what is happening in business.

.4 Culture Is The Hidden Success

But all these attributes fade into insignificance if there is no culture within the organisation. Culture affects every aspect of the business, shareholders, directors, management, team members, customers and suppliers. Culture is the hidden success, the icing on the cake, the attitude of team members of "going that extra distance" to satisfy customers' requirements; the attitude of customers who might be prepared to overlook a late delivery because of their overall satisfaction of dealing with your business.

Culture relates to the image that your business creates in the market place:

- How people communicate.
- Is the telephone answered in a professional business manner?
- Are telephone calls replied to?
- Are emails responded to?
- Are products delivered on time and at the required workmanship?
- Is quality a major issue in the business?
- Is your staff pleasant and presentable?

Culture then is one of the major attributes of a business that will help hold the business together and will give the business that extra strength and perseverance to battle through and survive harsher economic circumstances.

24. Selling A Business

The dramatic decrease in the valuation of public companies listed on the Stock Exchange has had a significant effect on the valuations of private businesses being offered for sale. If you are proposing to sell your business in the next two years, it will be necessary to factor in the effect of the credit squeeze which will make it difficult for many potential purchasers to raise the loan funds to enable them to purchase the business.

The problems with raising funds has also contributed to a significant longer period for businesses to be sold. The downturn in the valuation of listed public companies has contributed to a significant softening in yields.

About a year ago, the all ordinaries average price earnings ratio was 15. For the valuation of a private company the PE Ratio used on the after tax profit would have been approximately 1/3 of the all ordinaries price earnings ratio, meaning that a figure of 5 would have been used in the valuation.

The All Ordinaries Price Earnings Ratio at the 25th November 2008 was 8.63. This equates to a Price Earnings Ratio for the valuation of a private company of 2.9. The effect of this can be illustrated by valuing a business with an after tax profit of \$1M. One year ago, the business would have been worth $\$1M \times 5 = \$5M$. As at the 25th November 2008, the valuation would be $\$1M \times 2.9 = \$2.9M$ - a reduction of \$2.1M or 42%.

25. Franchising

If you are contemplating purchasing a franchise, due diligence and research are necessary to ensure that the business is suitable to yourself, your family and your lifestyle and that you're receiving value for money.

It is recommended that you:

- talk to other franchisees and obtain their input on the franchise and franchisor;
- have the legal documents closely reviewed by a solicitor with experience in franchising;
- review the franchise system and other documentation;
- talk to your bank to see whether they're prepared to finance the acquisition of the franchise;
- review the Franchising Council of Australia's web site for information about franchising;
- spend a significant period of time in the business and in observing the business prior to committing yourself to purchasing the franchise.

If you are a franchisor or a business that is considering becoming a franchisor, it is necessary to fully document your systems and to receive advice from a solicitor who has experience in

franchising relative to the preparation of the franchising agreements and other legal documents.

26. Government

The Federal Government has announced a number of programmes that will increase government spending from December 2008. This will create some business opportunities for some businesses.

You'll need to plan specific marketing events to attract custom from the people who have benefited from the government's grants.

However, some spending by governments, particularly state and local governments, have been curtailed and this could affect business conditions within your area.

It is recommended that you closely monitor the decisions of your local and state government so you can take remedial action if a decision is made to curtail spending in an area that you reasonably expected to receive a share of the revenue that was going to be available.

27. Capital

Now is the time to review your capital to determine whether you need an introduction of additional funding so you can successfully trade through these difficult times.

"Capital" to be considered could include:

- own funds generated from private assets
- securing additional bank or finance company loans on properties owned by the business
- debtors financing
- loans raised from friends and family
- share capital raised from business angels

Debtors' payment terms have blown out to an average of approximately 60-days. This is 100% higher than the traditional 30-day payment period for debtors' accounts. What will happen in your business, if your blow-out trend continues to (say) 75 or 90-days? What will happen if there is a slowdown in your stock turnaround? What will happen if you receive demands from your creditors and suppliers to improve the frequency of your payments to them?

What taxation bills and other abnormal payment items are likely to arise in the next six months?

These matters should all be factored into a cashflow forecast to determine whether you're able to continue to trade within your current financial arrangements.

If the cashflow projection indicates that there will be problems, you need to consider whether you need to raise additional capital.

28. Leadership Is Vital For Success

The leader's role in a small/medium-sized business is very important.

The leader can't control everything. There are external economic factors that are outside a leader's ability to control. Leaders need to be aware of what these outside influences are and then concentrate on the issues within the business that are controllable.

Leadership is the way that leaders influence followers towards the achievement of an organisation's goals. Leadership cannot be performed by one person in isolation.

Leadership is about telling people why they are doing certain things:-

- What needs to be done to achieve results?
- Where we are going?
- Who we are?
- What is the organisation trying to achieve?
- What is the identity of the organisation?
- What does it mean to customers?
- What does it mean to team members?
- What does it mean to the wider community?

A leader's role is to encourage the entire team to work together to understand the goals and visions, and how those goals are going to be achieved.

The leader of a small/medium business needs to have introduced effective delegation throughout the organisation and to have implemented a succession plan for the business. A leader does not have to do everything, but sets the agenda and the culture for the organisation.

In difficult economic circumstances, one of the leader's key roles is to mentor the key management team members and then encourage those managers to mentor the people that they manage so as to encourage a whole-hearted contribution from all levels of the team to the business' performance.

29. Avoiding Problems

.1 Concentrate On Core Business

You can avoid problems in difficult trading conditions by concentrating on your core business activities and instigating marketing strategies directed at your core customers and people who look like core customers.

It is also important to know the break-even level of operations in each segment of the business and to ensure that the cashflow is under control.

You also need to monitor the segment of the industry in which you are involved.

- What are your competitors doing?
- What are your suppliers doing?
- Can you negotiate better terms with your suppliers?
- Can you get your suppliers to assist in promotions, marketing, advertising, supply of skilled staff etc?

It is important to have an extended business network who you can talk to and from whom you can obtain advice and feedback. You need to be ready to change direction quickly, if the need arises.

The necessity to adequately manage cashflow can not be overstated. This involves monitoring of:

- debtors
- stock
- work in progress
- capital expenditure
- current financial performance
- productivity of employees etc

.2 Retail

If you are in retail, many experts expect that there will be a significant slump in retail sales in the first half of 2009. You'll need to determine a strategy to overcome the potential of a significant drop in sales.

.3 Rent Incentives

If you are a tenant in a shopping centre or office building and your lease is up for renewal, you may be able to obtain a better deal through incentives. Media reports have indicated that tenants are being offered large incentives to sign up for new leases. It is also an indicator of the problem that property owners are having in obtaining lessees for their properties.

.4 Avoid Dependency On A Few Customers

You should also try to avoid a dependency on a few customers. Already in this downturn some very large businesses have failed, therefore no one is immune from potential failure and, if possible, you should be trying to obtain your sales income over a wider range of customers.

.5 Web Site

If you haven't already developed a web site that enables the sale of products or services to customers and potential customers, perhaps now is the time to have a web site created which can assist in direct sales of products/services to a wider range of customers than those with which you normally deal.

30. The Big Picture

You want to make sure that your business is going to survive the downturn and be a viable business at the end of the difficult trading period. Businesses which achieve this will normally introduce continuous improvement programmes so as to ensure that waste and bad work practises have been eliminated and that there is contribution to the business' vision from all team members.

The key for management is understanding what the "big picture" is. What is happening in the wider business community? Are there opportunities for your business to improve its market share through these difficult trading conditions by being proactive in marketing, customer service, quality of workmanship and responding to customer requirements?

One of the key recommendations is to look inside your business to identify your inside advantage and then determine strategies to implement marketing, customer service, promotions, web site etc., which promote your inside advantage to your current customers and prospects.

Management needs to instil into team members the necessity for them to have an amazing attitude, rather than a lousy attitude. Sales won't just appear. Telephone calls need to be made, visits need to be made, follow-up calls need to be made and prospecting needs to be undertaken. A great attitude will achieve results in a difficult trading environment.

Knowing your financial position - day-to-day, week-to-week, month-to-month, will be very important in navigating the difficult trading environment.

31. Professional Advice

Your professional accountants are available to assist on the strategies required to successfully survive in difficult times. It is recommended that you obtain professional accounting advice on any matter of concern.

AN IMPORTANT MESSAGE

The forms and commentaries contained in this paper are provided as a guide only and should not form the sole basis for any advice in relation to the particular situation of any person without first obtaining proper professional advice.

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