Making your business more
Profitable
Predictable
Reliable

Australian Garlic Industry Association
Thurgoona August 2015
There is no magic pill that can be administered today or any other day that will immediately improve your business. The best medication I can offer is that today you open up your mind to the process we are going to follow and be prepared to think outside your comfort zone.

**TODAY WILL**

- Give you a new awareness
- Give you new ideas
- Give you assurance going forward

**TODAY WILL NOT**

- Fix your business
- Increase your sales
- Increase profitability
IN THREE YEARS

• Total Annual Sales
  ______________________

• Total Annual Net Profit
  ______________________

• How many staff
  ______________________

• How many hours a week am I working
  ______________________
IN TWELVE MONTHS

❖ Total Annual Sales

❖ Total Annual Net Profit

❖ How many staff

❖ How many hour a week am I working
KEY AREAS

This diagram identifies some of the key areas of a business and integrates the various functions that contribute to having a profitable, predictable and reliable business. The functions are:

- Marketing
- Sales
- Planning
- People
- Client Care
- Purpose
- Reporting
- Product
- Process
- Economic Factors
- Outside Influence
- Financial Monitoring
But in the limited time we have today there is one part of marketing that I would like to cover in detail

- **What can I do to increase my Customers?**

  - Improve the conversion rate
  - Undertake training eg sales and customer service
  - Establish a Referral System
  - Increase focus on customer’s WIIFM
  - Measure wherever possible
Facebook, Twitter, Google +, LinkedIn these are just a few Social Media sights.

- Social Media is it right for you? Do you really need it? Will it make a difference?
- Can you manage it?
- Post regularly on your site so customers know that you are still open for business
- Allocate time for your Business Social Media Pages
- Like/Followers does not = a Sale
- Check links to your website work
- Make sure all your contact details are up to date
- Check your security settings on a quarterly basis (e.g. Facebook password)
What is your Average Sale?

Do you measure it:
- overall?
- employee by employee?

If you do measure average sale what is it?

HOW TO INCREASE YOUR AVERAGE SALE

- Train staff on up-selling skills
- Train staff on cross-selling skills
- Develop point of sale focus
- Combine or Package
INCREASED CUSTOMER FREQUENCY

Do you know or do you have any way of measuring how often your customers/clients purchase in a year:

YES  NO

How can I get my customers/clients back more frequently?

- Establish a data-base
- Communicate regularly with your customers
- Reward frequent transactions
- Have special events
- Establish a VIP Club/Loyalty Program or something similar
<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>I serve the public courteously and promptly</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I know my business’s products (and services) well</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>I make it a point never to interrupt the customer</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>I look at a complaining or unsatisfied customer as a challenge</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I get personal job satisfaction from being professional in dealing with the public</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I consciously check the impression I give to the public non-verbally</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I am very careful and aware of my cleanliness and grooming whilst at work</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I work cooperatively with others</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I listen with an open mind</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I spend more time listening than speaking</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Score yourself**

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Never</td>
<td>1</td>
</tr>
<tr>
<td>Occasionally</td>
<td>2</td>
</tr>
<tr>
<td>About half the time</td>
<td>3</td>
</tr>
<tr>
<td>Frequently</td>
<td>4</td>
</tr>
<tr>
<td>Always</td>
<td>5</td>
</tr>
</tbody>
</table>
Why do businesses lose customers?

- 68% of customers stop dealing with a business because the staff give indifferent service and show little interest in them or their problems.
- 4% of customers float from one business to another.
- 7% of customers change firms on the recommendation of friends.
- 9% of customers believe they can buy more cheaply elsewhere.
- 8% of customers, one can never satisfy.
- 3% of customers move away.
- 1% of customers die.
<table>
<thead>
<tr>
<th>Scenario</th>
<th>Would they recommend to others</th>
<th>Would they buy again</th>
</tr>
</thead>
<tbody>
<tr>
<td>Encountered problems, complained remained dissatisfied</td>
<td>48%</td>
<td>46%</td>
</tr>
<tr>
<td>Encountered problems, did not complain</td>
<td>77%</td>
<td>75%</td>
</tr>
<tr>
<td>Encountered problems, complained reasonably satisfied</td>
<td>80%</td>
<td>78%</td>
</tr>
<tr>
<td>Did not encounter any problems</td>
<td>91%</td>
<td>84%</td>
</tr>
<tr>
<td>Encountered problems, complained received complete satisfaction</td>
<td>94%</td>
<td>92%</td>
</tr>
</tbody>
</table>
COULD YOU PLEASE COMPLETE THE BOXES

<table>
<thead>
<tr>
<th>No of Customers</th>
<th>Average Sale</th>
<th>Frequency</th>
<th>Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>400</td>
<td>$100</td>
<td>5</td>
<td>$200,000</td>
</tr>
<tr>
<td></td>
<td>$110</td>
<td>5.5</td>
<td>$242,000</td>
</tr>
</tbody>
</table>
IMPORTANCE OF GROSS PROFIT

It is my strong belief that understanding the impact Gross Profit can have on a business is one of the most important factors in business success. Once Gross Profit is measured regularly and Expense Budgets prepared and compared to Actuals there is far greater predictability to the business.

What are the factors that impact on Gross Profit?

Understanding Price Sensitivity

What does this really mean?

Let me give you two examples, in retail paint, most will shop around selecting the best price for their paint but when it comes to accessories (brushes, rollers, turps, sandpaper etc) they are bought on impulse. With regard to stationery photocopier paper is really competitive but this is definitely not the case with all stationery products.
**Inadequate Markup**

This can also have a major impact on Gross Profit and can occur for a variety of reasons. Some may be:-

- Supplier price increase not passed into retail price
- Mistake made when calculating retail price
- Not understanding the effect on Gross Profit of inadequate mark up
- Understanding the difference between mark up and mark down
- Theft/Spoilage

Do you have adequate record keeping to be able to measure in store theft?

With Point of Sale software stock can be checked on a regular basis and the amount of stock stolen quantified.

Similarly stock that is held too long can deteriorate through shop spoilage etc or may be subject to obsolesce through fashion change or technology change.
Poor Buying

Whilst this may result in discounting I believe it is a separate factor. Through not knowing our market it is possible to buy product that does not appeal to our customers. We may be lucky enough to be able to return or exchange with our suppliers but in a worst case scenario.
DISCOUNTING

I believe discounting should only be used as a marketing/sales tool for a specific purpose or reason as it can have a significant impact on Gross Profit if given on a general basis. Please refer to the attached Chart.
This table shows quite dramatically what happens when a company discounts. Quite simply it has to sell a lot more just to stand still. For example, a gross margin of 30% discounted by 15%, means you need to sell double (100% more) to get back to where you were before a discount was given.
EXPENSES

During the last ten years I have really understood the critical importance of budgets, particularly Expense budgets which are largely predictable and from that we are able to calculate a breakeven analysis which will give us the total sales we need to break even. Most businesses lodge BAS returns quarterly, actual expenses are available quarterly and should then be compared with budget. I now will not consult to a business that does not have budgets as it is not possible to track how the business is going. So budgets are critical. I guess it’s a bit like playing a game of football and not bothering to keep score. As I have said earlier today and will no doubt say again “If you do not measure - you cannot manage”
MONTHLY REVIEW

Having prepared budgets it is now most important that time is taken every month to review budget to actual for all financial facets, sales, gross profit, expenses and net profit. It is even better to take time to discuss the results with a trusted friend/professional who has no emotional involvement in the business. Is the business operating in line with expectations and are any changes necessary?
**BREAKEVEN ANALYSIS**

As part of Breakeven Analysis, fixed and variable costs need to be established. Once again it is vitally important to know what our costs will be even if we don’t open the door. Expenses such as rent, interest, accounting fees, rates, insurance premiums and fixed monthly repayments on plant and equipment.

I believe in nearly every business there is little variation in total expenses from one year to the next unless a conscious decision is made by the business that impacts on expenses. What do I mean by a conscious decision?

- The employment of another staff member
- Moving to new premises that will mean either increased or reduced rent
- Launching a new advertising campaign
- Increasing the size of the motor vehicle fleet

How many businesses really know what their breakeven point per month or per year is?

The more I see of businesses the stronger the belief; we need to know at least our sales targets to breakeven each month.
**FIXED COSTS**

Fixed costs are those that don’t change, irrespective of sales or trading hours. These costs remain constant and include the following expenses:-

- Rent
- Leases/hire purchase payments
- Interest on loans
- Rates
- Insurance premiums
- Depreciation of assets

Whether you open your business five days a week or seven days a week the above costs remain constant. Similarly levels of production generally would also have no impact.
Variable costs are those which increase or decrease directly with business activity. If sales increase by 10% then variable costs increase by 10%. Likewise if sales fall by 10%, variable costs decrease by 10%. These expenses include:

- Manufacturing materials
- Production costs
- Sales commissions
- Sales motor vehicle costs
- Wages and salaries

It also needs to be recognized that it is possible for a particular expense to have a component of both fixed and variable cost. For example, electricity may have a fixed component and then may vary directly with business activity.
**BREAKEVEN ANALYSIS**

Breakeven point is the level at which sales equal the total of all costs which means there is no profit and no loss. It is important to know this, particularly in setting monthly sales targets and the point in the month where all costs are covered and all sales excess of this should generate profit, which will be the difference between total sales and total variable costs.

**HOW TO CALCULATE BREAK EVEN SALES**

Break even sales are calculated using the following formula

\[
\text{BREAK EVEN SALES} = \frac{\text{FIXED COSTS}}{\text{CONTRIBUTION MARGIN}}
\]
The contribution margin is the first calculation needed to be done which determines the amount required to cover fixed costs. It is calculated the following way:

CONTRIBUTION = \frac{TOTAL SALES - VARIABLE COSTS}{TOTAL SALES}
Turnover  
$200,000

Cost of Goods 65%  
$130,000

Gross Profit 35%  
$70,000

Expenses  
$65,000

\[ \text{Net Profit} = \frac{(242,000 - 151,250) - 65,000}{90,750} = \frac{90,750}{90,750} = 1 \]

\[ \text{Net Profit} = \frac{25,750}{90,750} \]

\[ \text{Net Profit} = \boxed{\$5000} \]

\[ \boxed{\$25,750} \]
The Twelve Business Principles
KEY PERFORMANCE INDICATOR REPORTING

So let’s go back to the start of the day, it is now 2018 and your business has prospered so much in the last three years that you are able to have the holiday of a lifetime and on this Friday afternoon you are relaxing on one of the best known beaches of the world. But you are not totally carefree - you still want to know how the business has traded. Could you please write down between six and nine numbers that at a glance would enable you to see how the business has traded during the last week.
Some of the items you may include are current bank balance, weekly sales, new accounts opened, average sale, stock orders placed etc.

1. .................................................................

2. .................................................................

3. .................................................................

4. .................................................................

5. .................................................................

6. .................................................................

7. .................................................................

8. .................................................................

9. .................................................................
Now back to reality, I suggest you have your staff assist in the completion of this report every week as it will not only highlight to them immediately, areas that underperformed, but it also gives them a sense of ownership.

I am also a strong advocate of weekly staff meetings, depending on the size of the business, with the Management Team or for a smaller business with all staff. This report is a great way to formally review the previous week.
“While this knowledge may assist in managing your own team, there is little point if the success achieved as a result can’t be maintained”.

“But what really made a difference was the attitude of those in the team”

“No business can operate successfully for any length of time without planning methodology”

“Create a learning environment”

“To control the future by having playing skills and support technologies that no other team has.”

“The glue which binds these principles together are the intangible elements built by the organization. Whatever the mantra the words must actually be lived not just platitudes”

*If Better Is Possible* by John Buchanan
WHAT ACTIONS AM I NOW COMMITTED ON TAKING TO IMPROVE MY BUSINESS

Please list three actions that you are going to take in the next 30 days that result from what we have experienced today.
**ACTION 1**

Who will be accountable?

What measurable results can I expect and what will this mean?

When specifically will I see a result from this?

Why are you choosing this idea?

How are you going to use this idea in your business?
ACTION 2

Who will be accountable?

What measurable results can I expect and what will this mean?

When specifically will I see a result from this?

Why are you choosing this idea?

How are you going to use this idea in your business?
**ACTION 3**

Who will be accountable?

What measurable results can I expect and what will this mean?

When specifically will I see a result from this?

Why are you choosing this idea?

How are you going to use this idea in your business?
So Where can I go to receive subsidised business advice?