

# Business Plus+



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## **Understanding Financial Statements**

Understanding financial statements is a task that many business owners often put aside to concentrate on something more interesting. This results in many business owners not really knowing what is going on with their business, especially the cashflow control within the business. Cash is the lifeblood of any business and it is the fuel that keeps the engine running. It is vital that business owners understand all there is to know about the flow of cash into their business and the flow of cash out of their business. The movement of cash is recorded within the financial statements. Financial statements are very useful as a tool to help in the management of the business. Financial statements are required by the business owners to understand how the business is performing. As well, there is normally a requirement to produce them for banks and investors. Preparing financial statements for taxation purposes should not be the priority - being of assistance in business growth is more important!

Financial statements concentrate on measuring profit or loss. They may then facilitate the preparation of cashflow reporting and Key Performance Indicators (KPIs) that enable meaningful management information for your business. The key components of financial statements are:-

- Departmentalised Trading Profit and Loss accounts with gross profit percentage calculations for each department
- Balance Sheet
- Supporting verification workpapers for each item in the Balance Sheet
- Source and Application of Funds Statement
- Debtors' Aged Analysis
- Stock on Hand Analysis
- Work-in-Progress Analysis
- Creditors' Aged Analysis
- Capital Expenditure Summary
- Bank Account Analysis



Preparation of financial statements on a regular periodic basis can contribute greatly to the management of a business. Some businesses find it very useful to produce a weekly performance report and detailed monthly financial accounts.

If you have any queries on any aspect of the interpretation of your financial statements, please do not hesitate to contact us.

## Business Plans - Questions To Consider Part 19

### Exports

Some of the questions that should be considered in reviewing Exports as part of the preparation of a business plan include:

- Do you sell any products or services overseas? If yes, to which countries?
- Are you planning to export goods or services?
- Have you visited the overseas markets?
- Have you developed an export plan for each market?
- Have you had discussions with officers of Austrade?
- What currencies do you normally sell in when conducting exporting activities?
- Do you take forward exchange contract cover?
- What due diligence have you undertaken in relation to the appointment of proposed overseas representative?
- Have you reviewed tariffs and import regulations that apply in the country to which you are proposing to export?
- Have you consulted your bank?
- Do you spend more than \$10,000 on export market activities per annum including:
  - Overseas representation?
  - Marketing consultants?
  - Visits to overseas markets?
  - Communication costs?
  - Free product sample ?
  - Trade Fairs?
  - Promotional material?
  - Bringing overseas buyers to Australia?
- If so, do you lodge an "Export Market Development Grant" application prior to the 30 November each year?



to be continued...There are over 50 questionnaires relating to the preparation of a Business Plan. In the next issue we will consider Staff Development.

### Commercialisation Australia - Proof Of Concept Grant

The Australian Government's "Commercialisation Australia - Proof Of Concept Grant" offers grants of between \$50,000 and \$250,000 to assist eligible businesses with turnovers under \$10M to test the commercial viability of the business model or idea for a product, process or service. For grant percentages up to 50% of the eligible expenditure, funding is available for activities associated with the steps necessary to establish the commercial viability of a new, product, process or service. Proof of Concept eligible activities does not include Research and Development which is funded for companies through the Income Tax Act.

The first step for interested companies is to download the Commercialisation Australia Pre-Application Form from the Commercialisation Australia website at [www.commercialisationaustralia.gov.au](http://www.commercialisationaustralia.gov.au). Applicants for Commercialisation Australia must satisfy the merit criteria, which is:

- need for funding
- commercial plan and potential
- market opportunity
- management capability
- national benefits



If you would like our assistance in completing the Commercialisation Australia Pre-Application Form or for discussions of the practicalities of applying for assistance under the Commercialisation Australia programme, please do not hesitate to contact us.

## Profit Improvers

Have you considered instigating a marketing system to get the best out of every lead that your business receives? One way to significantly improve your business' performance is by the implementation of a "business building matrix" so as to improve your business' sales.

You need to measure the following five key components necessary for increasing sales and profitability:

- increase the number of enquiries
- increase the number of conversions from enquiries to sales
- increase the average value of sales
- increase the number of times people buy from your business
- increase the gross profit percentage.



We can assist you in undertaking a review of your business procedures to determine profit improvers. If you would like a copy of the sales target worksheet, please contact us.

## Social Media

### A cheaper marketing approach that gets results

By now we are all familiar with social media networks like Facebook, Twitter, YouTube, Blogs and LinkedIn. Although many people have personal accounts on these networks, a lot of people are at a loss when it comes to utilizing the power of social media for marketing for their business. There are many reasons to use social media marketing including:

- very low cost;
- access to the huge audience that use it on a daily basis;
- the ability to easily integrate your marketing efforts;
- the value of optimizing your business online so that search engines rank it highly; and
- building strong customer relationships by being able to interact with them on a variety of issues.

So where do you start when organizing your social media marketing? The first step is pretty straight forward; sign up for the social media platforms you want to use. Have a search for key interests and subjects that relate to your industry in the search bars of various social media networks and determine which have the most valued target audience for you.

After signing up it is important that you work at growing your network. Join in on conversations, start your own conversations, offer some promotional material (a discount perhaps), import your current database into the social network, create a fan page on Facebook and add all employees and link your social media pages with your current marketing (put a link on your website, business cards, signage).



Help retain your current followers by adopting the 10, 10, 80 rule in your social media marketing.

- 10% of your posts and interactions should be entertaining material, like clever YouTube video forwards or interesting quotes etc.
- 10% can be outright business like a special discount for Facebook members or a reminder of the new products you have in stock; and
- 80% is personality content like commenting on the charities you support or uploading a picture of your footy tipping competition winner.

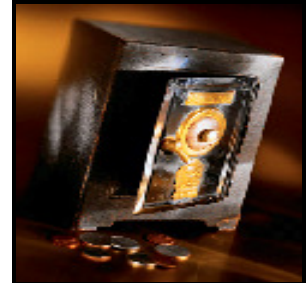
Personal content is anything that allows people to see your brand personality or culture. This 10, 10, 80 Rule allows you to create a relationship with your client and stay in front of them without annoying them and, if implemented correctly, will help in making your customers love your brand (We wish the same could be said for telemarketers!).

Frequency of updates really depends on the social media marketing you choose and the content of the updates, but most experts say a well rounded, interesting update once a week is enough to keep you in the consumer's mind.

## Interest Rates, Banks, Bad Debts, Greece

### How will these matters affect your planning?

- Prime bank interest rate now 4.5% and expected to be around 5.5% by the end of 2010.
- Debtors' payment days now 54.1 days (Dun & Bradstreet).
- Are you monitoring debtors so that you are not incurring bad debts?
- Banks are more active in closely monitoring SMEs for loan payments and operating within bank overdraft limits. Have you checked your reporting obligations to your bank/lender?
- Affect of the government's announced "super profit tax" on the resources industry and its effects on the large number of SMEs who provide products and services to the resources industry.
- Problems in Greece over enforced lender conditions on emergency loans. Could these problems extend to other European countries and affect bank lending policies worldwide, thus causing uncertainty to SMEs?
- The expected large number of businesses that will be listed for sale in the next 5 years as the baby boomers exit their businesses. Will there be buyers for these businesses who agree to pay the seller's asking price?



Each of these items could significantly affect your planning for 2010/11.

We can assist you in developing strategies to assist the long term performance of your business.

### What's It Mean?

**Exit Event** - Most investors predicate their investment in a technology start up on being able to "exit" the investment (i.e. sell their stake) at the time of an "exit event". An exit event would normally occur at the time of an IPO (Initial Public Offer) trade sale (acquisition by a larger corporation in a similar business) or further investment by an external organisation, such as a venture capital fund.



Investors' perceptions of the attractiveness and risk profile of an investment in a technology start up are conditioned on their faith in their ability to make a timely exit from their investment (which is required to crystallise capital gains). Importantly the longer the time arising for exiting an investment, the higher the risk discount that must be applied to compensate for "opportunity costs" and other risks inherent in a long term holding in a technology start up entity.

### An Important Message

*While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.*

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