BusinessPlus+ Newsletter

CBSW
TAX & BUSINESS ADVISORS

Level 2, 49 Oxford Close
West Leederville WA 6007
PO Box 1475, West Leederville WA 6901
T: +61 8 9363 7300
E: admin@cbswtax.com.au
W: cbswtax.com.au

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Issue – July 2020

Rebuilding your Business

As restrictions ease, organisations are now starting to shift focus from activities that were required to ensure immediate business continuity and shock resilience to those centred on rebuilding and growth.

While the short-term outlook for businesses in the private, mid-market and family business sector varies greatly by industry, it's important to consider what rebuilding and reshaping will look like once the economy begins to return to a state of normalcy or establishes a new normal. Putting a strategy in place for this phase and beyond will help prepare you and your business to take advantage of opportunities in this rebuild phase.

Assess the Current Business Position

The first step in developing a rebuilding plan is to determine just how deeply your business has been impacted to date from the impacts of the crisis – but to understand this, businesses need to look beyond the financial numbers.

While comparing your financial results to last year's numbers will allow you to see how much your business sales, profits and cash flow has been impacted, consider some of the other factors you may need to relook at. For example, if employees have been laid off, businesses need to account for that in the rebuilding plan. Customers lost due to their businesses failing or because they have migrated toward competitors, will also need to be accounted. And for bricks and mortar businesses, taking stock of existing inventory and how that stacks up with demands in the market is another factor to consider.

Optimise Your Costs

During the past three months, all businesses have had a focus on cutting costs, but to give your business the best chance of surviving, a renewed focus on costs will allow you to position your business for continued success.

Cost optimisation is more than just cost cutting and belt tightening, and short-term tactics alone will not lead to sustained business success. Typical reasons for increased pressure to rethink costs are financial distress, downward pressure on revenue or prices, changing consumer needs, intensifying competition, need to fund growth or strengthen the balance sheet, pressure from shareholders. Our experience working with private, mid-market and family businesses has shown that organisations that take a more holistic, strategic view will have a greater chance of success.

Understanding your business' cost drivers is critical to identifying the right cost opportunities and avoiding unnecessary negative impacts on your business, customers and staff.

A successful cost optimisation initiative starts with gathering current cost base and performing a spend analysis. This will help inform your needs and sets a baseline to measure and track success. Industry trends, benchmarking data and access to industry, or functional experts may help to improve the identification of the right cost opportunities.

Access to Capital

Most businesses in private and mid-market sectors don't usually have a large amount of cash on hand and it's likely that any cash reserves are already depleted. Hence, there is a good chance that businesses will need access to working capital to rebuild and reshape.

There are several options for business to seek access to capital during the rebuild period. Federal support programs designed to help small and medium businesses impacted by COVID-19 is an obvious place to start.

The challenge with federal programs is that the funding is limited – so it's important to consider other sources of small business funding, including:

- traditional small business loans
- small business term loans from banks, credit unions and online lenders
- merchant cash advances
- business lines of credit
- contemporary financing options - accounts receivable financing; inventory financing; purchase order financing; equipment financing
- business credit cards - (although we recommend these be used with caution and only for smaller spends, due to very high interest rates).

Getting Confidence Back in Your Workforce

The current crisis is first a humanitarian one, before anything else businesses should keep relentless focus on supporting employees through this.

The JobKeeper Program, for example, is a great way to retain your employees during the coronavirus pandemic, who are likely experiencing financial stress at this point. Understand that employee retention is an important part of any rebuilding strategy, as research shows a new employee takes at least three to four months before achieving the same productivity as an existing one, and costs of employee retrenchment and rehiring are substantial.

Have frequent and transparent conversations with your staff. Involve them in your planning processes as you map out future plans for rebuilding and reshaping the business. Truly engaged employees often offer the greatest ideas and involving them in the rebuilding stage will give them a sense of ownership in their roles and responsibilities.

A Digital First Workplace and Technology Enablers

This crisis has illustrated just how real disruption can be and has highlighted any gaps in operations and technical investments. It is now important for businesses to start thinking more strategically about technology and digital capabilities and investing in uplifting their technology capabilities as an imperative rather than a nice to have.

Leveraging the new digital working order to your advantage will require strategic thinking around where the best opportunities lie to deliver lasting business value, customer experience and employee satisfaction. Some low-cost benefits we consider SME businesses can get started on include:

- **Cloud** – as the preferred choice to provide a secure platform, accessible anywhere, anytime and remove dependency on physical data centres.
- **Anything-as-a-Service** – buying 'as-a-service' is not limited to software services, but extends to activities, processes and functions. Identify which parts of your organisation are critical to be operated internally, and which parts qualify to outsource or buy as-a-service. These decisions will provide focus for your investments in talent and innovation.
- **Rapid automation** – Small and medium businesses tend to rely on manual processes and tasks. Automating repeatable tasks can provide significant benefits to your organisation. It can also allow you to repurpose your workforce efforts to more valuable tasks – when done in conjunction with broader technology investment priorities
- **Secure digital workplace** – A digital workplace strategy, done right, can save significant costs in unnecessary real estate rentals, while boosting productivity. Businesses must re-evaluate parts of their business that can operate remotely. We see four lessons which underpin success in enabling a digital workplace – resilient networks and device interoperability, fit-for-purpose collaboration tools, right culture and support and security by design.

Business Model

Australian private, mid-market and family businesses will need to re-think their business model – there has been a huge shift across so many layers that re-casting the mould is a necessity. Businesses now need to pivot to adjust to a new normal.

Organisations will need to reshape their business models to respond to changing consumer needs. Consideration will need to be given to how each aspect of the organisation, from customer experience and sales to supply chain and back office, will need to seamlessly collaborate to address customer expectations in the future. Key areas to relook at in your operating model include:

- **Customer** – What lasting changes to customer expectations and behaviours will we see? How will you know your customers and engage with them differently in the future, and how will your brand respond accordingly? How will you optimise your future channels? What does the competitor landscape look like in the post COVID-19 environment?
- **Procurement and supply chain** – How do you reduce the risk in your supply chain? How do you optimise and automate supply chain processes, eliminating manual effort? How do you ensure visibility and management of your supply chain to reduce business risk?
- **Workforce** – How do you optimise your workforce for productivity? Which new skills will be required in your business in the post COVID-19 world? What is the optimum workforce mix - offsite vs. onsite? What parts of your workforce will need to be retrained as you invest in automation and adapt your business model?
- **New vs. Old Markets** – Consider the effectiveness of your operating model and if your products, channels and markets still make sense in the current, and potential future, environment. Some questions to consider are: should you divest from non-core markets? Which underperforming products or services should you rationalise? Which underperforming segments should you close?

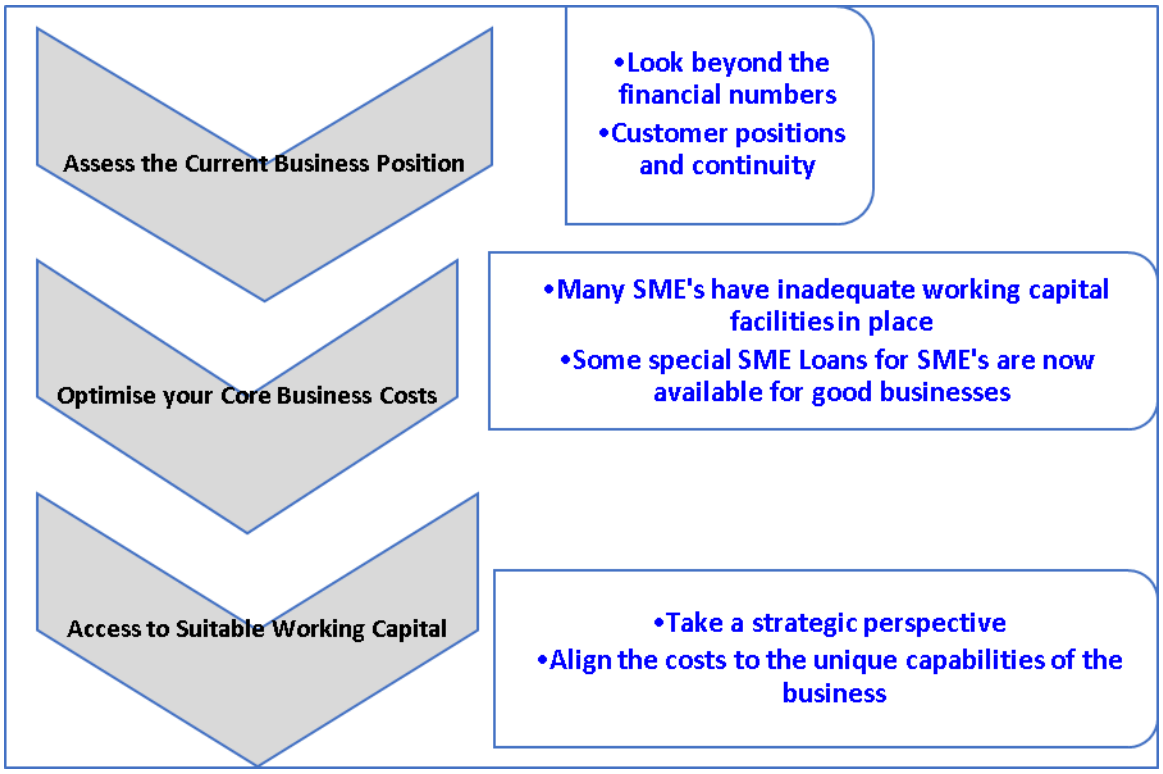
Build a Plan and Track Progress

SME business leaders will find that doing everything at once may not be realistic when considering how to rebuild. Having a prioritised plan with your most important actions first can help give structure to this huge task.

A logical order of events might look like: securing funding, rethinking the operating model, launching a cost optimisation program and new supplier relationships. Set a timeline for hiring employees, restocking inventory, and, finally, reopening your doors if your small business is closed.

As you take necessary steps towards rebuilding your business, remember to track your progress. This is particularly important if you've secured capital to fund your business, because you don't want to waste time on activities that aren't delivering a solid return on your investment. Often getting external help to project manage such critical initiatives yields better results as an external party can quickly assess issues and raise these.

In Summary:



Why did you Go into Business?

Most owners go into business for similar reasons: *To be the boss and not answer to anyone; make more money; do what I'm great at; choose my hours.* Basically, we want a more flexible and rewarding lifestyle, and the freedom to live life on our terms.

So why do we put ourselves through it? Why not pack it in and go work for someone else, with a regular pay cheque, super and guaranteed paid leave? Because when it's done right, the rewards (financial and lifestyle) can be amazing.

However, most business owners don't get the rewards they deserve from their business. Some make perfectly healthy profits but are slaves to their business. Others have great lifestyles, but no cash to enjoy it. And the hidden killer: most businesses have their potential sales price reduced simply because the business relies on the owner, so it's less attractive to a buyer.

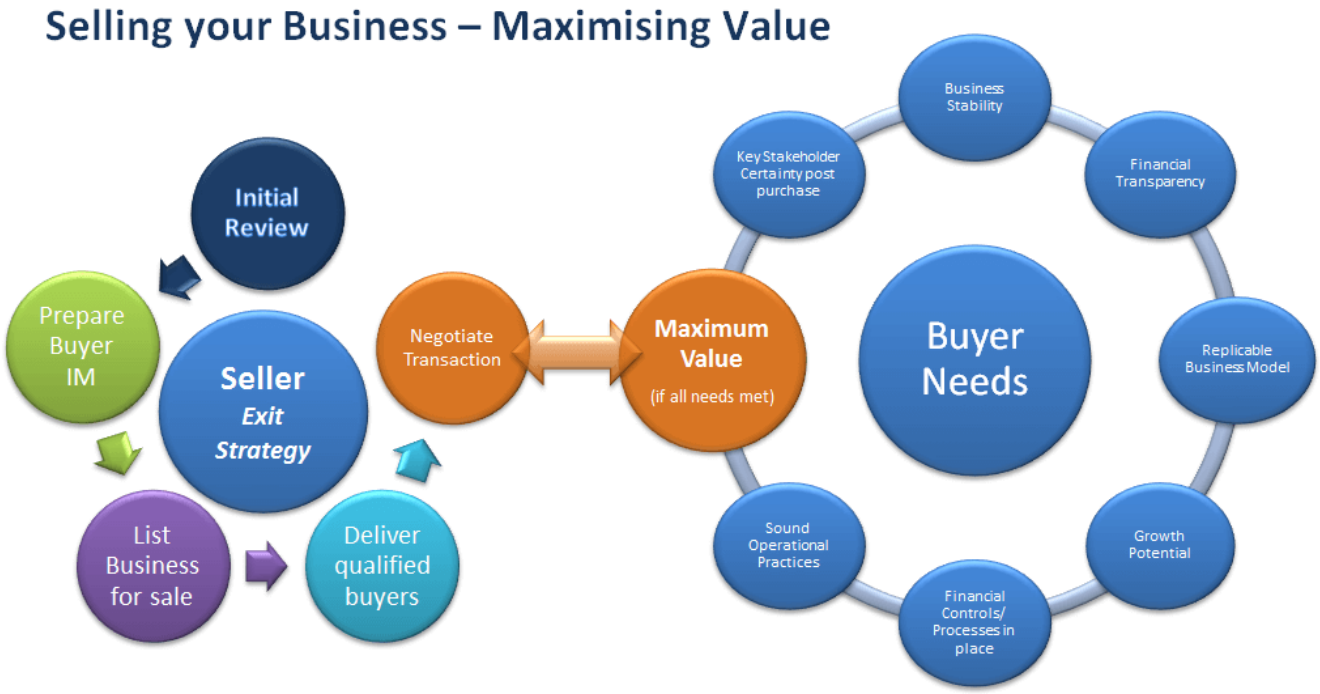
It is possible to build and grow a highly profitable business that's a delight to run and own, while simultaneously growing a valuable business asset that others will want to buy.

What Defines a Valuable Business?

A highly desirable business to a potential buyer has: -

- ***Solid cash flow and significant profits that grow year on year;***
- ***A unique value proposition backed by differentiated capabilities (a couple will do) with the business offerings;***
- ***A loyal, growing customer base;***
- ***A well-trained and engaged team that follows clearly defined (and documented) processes aligned to the business purpose;***
- ***A low reliance on the owner, so a buyer can pick up where you left off;***

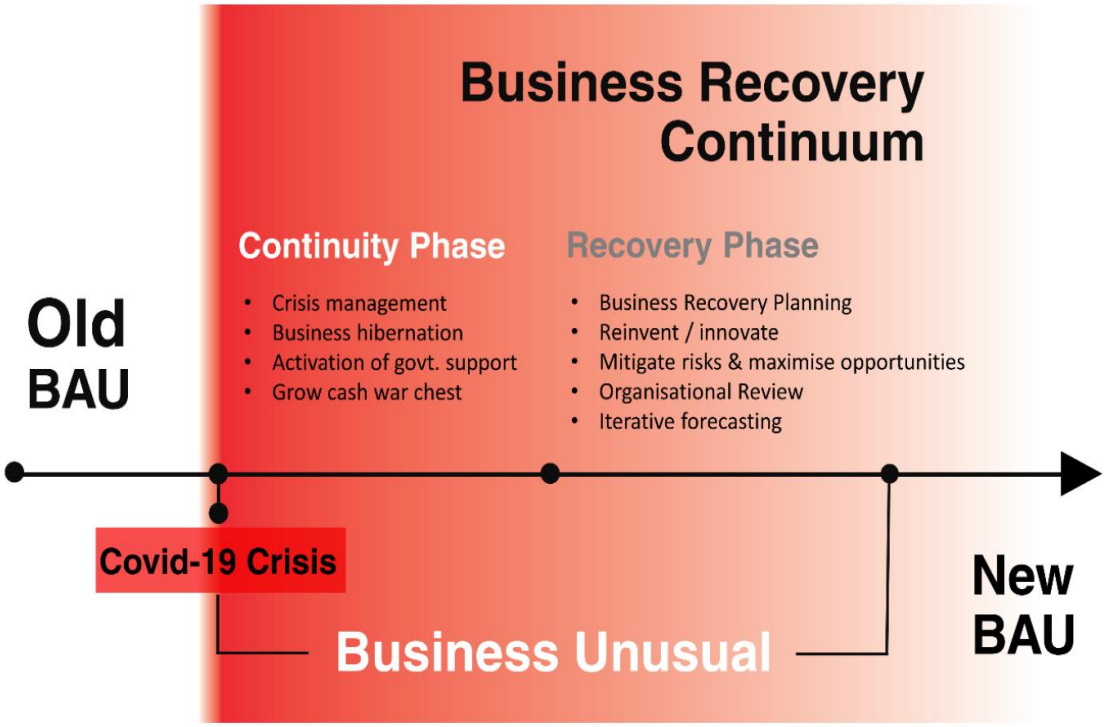
You will note that these are also the attributes of a great business to own - profitable, well run, and it won't suck the life out of the owner! **The diagram below summarises other factors that also can affect business value from the buyer's perspective.**



Please contact Lyall Bear at CBSW if you would like to discuss the process for getting a <u>business value indicator summary report</u> (NB: This is <u>not</u> a full business valuation) for your business. This can be a great first step to helping you achieve your goals for being in business – "beginning with the end in mind".

Getting a Business as "Unusual" Plan Together

"Everyone has a plan until they get punched in the mouth." – Mike Tyson



Covid-19 has thrown the world into chaos. The disruption caused has challenged us all, exposed our blind spots and tested us to the extreme. But …it's an opportunity. An opportunity to adapt, improve and transform. You just need the tools. The steps to face disruption head on and evolve into something stronger, leaner and ready for the upturn.

Conduct a Short-Term SWOT

The best way to pinpoint your precise coordinates is with a short-term SWOT – Strengths, Weaknesses, Opportunities and Threats analysis. One that identifies where your business is in this exact moment.

Ask everyone on your leadership team to fill this out independently. Compile everyone's answers and then come together to agree on your collective responses.

- **Strengths:** These are the internal capabilities, attributes, skills and/or assets within your control you can optimise.
- **Weaknesses:** These are the internal factors within your control you can eliminate.
- **Opportunities:** These are those external factors that could help the organisation grow. Conceptualising and targeting these opportunities are in your control but the result is beyond your control.
- **Threats:** These are the external factors that are beyond your control that are hurting or could hurt your organisation.

Now that you know where the business is at, it's time to map a plan towards recovery and beyond. *The following are a list of questions / issues that you should be considering.*

Cash:

1. Have you done your 90- and 180-Day Cash Flow Projections and are they updated weekly?
2. Have you done your better, worse and "really bad" budget scenarios for 2020/21? What is the most likely case? Document your working assumptions.
3. Have you made the expense cutting adjustments that you need to ensure Cash Flow?
4. What are you doing to (a) secure additional cash resources and (b) reduce immediate expenses?
5. What is your current cash flow runway? How long can you stay in operation if there are no more sales?
6. What are the borrowing opportunities available to bridge the gap?
7. Relief – What government relief is helpful to manage through this crisis? Have you applied for all the Government Assistance that is available to you?

Strategy:

1. Do you have a COVID team in place that is meeting regularly to stay on top of latest news/ working assumptions?
2. Have you done a "Brutal Reality" Exercise using the Stockdale Paradox questions?
   a. Name three things you have been avoiding in your business. What can you do today to bring these issues out into the open?
   b. Which parts of your current reality – parts out of your control– are you refusing to accept? How are you holding on to the past?
   c. What "red-flag mechanisms" can you put in place to make sure you are confronting reality?
3. Will your offerings / product still be viable in a post-COVID world?
4. Market strategy – Where can we pivot and what new opportunities are available for us? Has the business model shifted affecting distribution channels, core customer, margins OR something else in our business model? Do you need to decide if/ how you will pivot or stay the course?
5. Acquisition – Are there any companies that we may pursue that would complement our offerings/business?
6. Contracts – What contracts could be renegotiated?
7. Restart Plan – Do we have a plan for the first 30 days, and does it include scenarios if things change?
8. Information access – What employees are a single holder of information that if they became ill would place risk on the business?
9. Virtual considerations – What needs to happen with technology or processes to move to a full virtual environment?
10. Personnel Management – What is our restart date and what essential employees must return first?
11. Physical considerations – Does the office space have to be redesigned, do employees need PPE, and should we adopt new cleaning protocols?
12. Policies and Procedures – Do we have new operating policies for our employees, guests, and customers that we will interact with?

Employees:

1. Meeting rhythms – How will you stay connected with everyone in a virtual environment?
2. Company culture – Who is the culture warrior during these times and is keeping the workforce in harmony?
3. Team retention – How can we stay connected to those furloughed or laid off to keep them engaged so they are not lost?

4. Hiring – Are we positioned to take advantage of talent that becomes available?
5. Employee development – What can we do to groom our personnel with training and development? Is everyone on the team is a B+ or better?
6. As a core leadership team, what is the common language we want to use as we communicate with our employees?
7. What is our formalised process for addressing questions our people have?
8. Emotional and family support – What employees and families have fallen on hard times or need help managing family situations in order to be able to work?

Customers:

1. What are we doing to help our customers and retain our current business?
2. What do customers need today that they didn't need two months ago?
3. How are we making it Easy for our customers to do business with us?
4. Customer communication- What are our communication rhythms and strategies for connecting with customers? How should we be reaching out to our customers?
5. What are we communicating that will build confidence in our brand?

Sales:

1. What are we doing to grow sales and take care of our pipeline?
2. What can our team do virtually that they have historically done in person?
3. What other products/services could we pivot to and serve existing clients as well as attract new/different?
4. What new sectors/markets could also benefit from our core products/services?
5. Virtual Sales – Are we able to continue selling in a virtual capacity?

Technology:

1. What technologies could/should be considered to leverage virtual work transition in each of the categories listed above?
2. How are our current tech gaps creating slowed forward progress? How could those best be overcome immediately and what needs to happen for a more sustainable change?
3. Is there anything in our current tech stack that could be better utilized in our current environment?

Business Decision Tree

To then tie everything together, please refer to the *Business Decision Tree* document at this **link** and work through that tool to get your business forward planning strategies organised.

Helping Small Business Lower Power Costs – New Grant

From 6 July, small businesses across Australia can apply for a share in $9 million of grants under the Government's Energy Efficient Communities Program.

Up to $20,000 will be available to small businesses with an annual turnover of less than $10 million *to upgrade equipment to reduce energy consumption, invest in monitoring systems to better manage energy use and conduct energy audits to investigate other opportunities for efficiency.*

To ensure an equitable distribution of funding across Australia, **up to three grants per electorate will be awarded to eligible small businesses.**

The program will deliver grants to help businesses and community organisations to improve energy efficiency practices and technologies, and better manage energy consumption to reduce their power bills.
Small business owners who wish to apply for a grant can access the guidelines and application forms at business.gov.au, or by telephone on 13 28 46.

The Government is also offering free advice to help small businesses and their representatives get better energy deals and increase their energy efficiency through the Business Energy Advice Program (BEAP).

Further information on BEAP and the Energy Efficient Communities Program is available at energy.gov.au.

Standing out in a crowded marketplace is, of course, incredibly challenging for any business – customers are unaware of your brand, and they have first to know that you exist. **In this post- COVID recovery phase period, it has never been more important for business than to refocus on customers.**

Let us begin the journey down a basic sales funnel: -

Unaware – *Your business begins with the need to build awareness about yourself and your offerings*
Lead – *Someone in your target market who is not yet engaged with you*
Prospect – *Someone in your target market who has expressed interest*
Customer – *Invested in your offerings*
Fan/Referrer – *Tells others*

In summary, people must know what you do; then you've got to convince them that you're the right people to buy from. You must turn those people into leads and then convert them to sales. If you do it properly, then you end up with fans or referrers – people that go out and broadcast why you are so wonderful. And that's important.

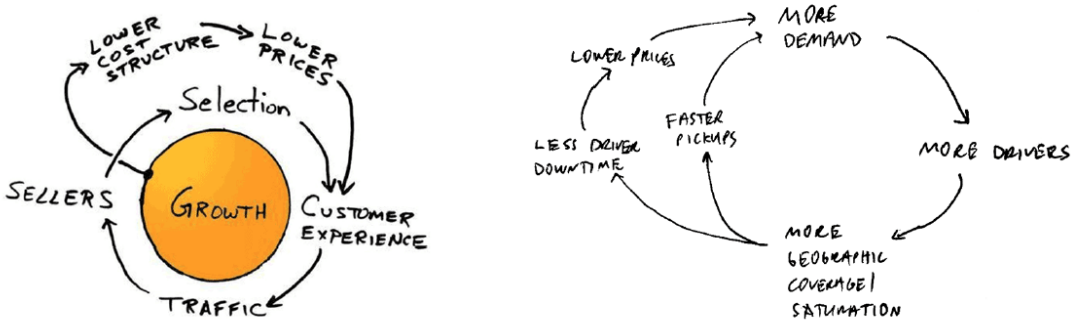
Fanatical referrers are what you really want as there's not much credibility in me telling you my company is great – but if someone else says my company is great, then that's ten times more powerful, and people are far more likely to buy.

Your real job is to widen your sales funnel – and that's where standing out from the crowd through great ideas and your unique business offerings & capabilities (make sure you find them) - comes into play.

Capabilities-driven strategy suggests that companies that have a clear way to play (WTP) that aligns with market demands, and that invest in a system of four to six differentiating capabilities that enable the company to excel at the WTP, are better positioned for success. But increasing clock speed changes the calculation. Today, the half-life of a competitive advantage may be fleeting. As industries are disrupted, players that have been successful within the context of one business cycle might need to rethink their differentiating capabilities, their investment portfolios, and possibly even their WTP more frequently and dynamically.

Constructing flywheels

The virtuous circles designed by Amazon (left) and Uber (right) have allowed them to thrive in this age of higher clock speed.



Note: Original Amazon sketch: Jeff Bezos (2001). Original Uber sketch: David Sacks (2014).
Source: Ashish Khandelwal post, *Medium*, July 27, 2016

Let's look at two remarkably simple examples of companies that have thrived in this age of higher clock speed. Jeff Bezos's original "napkin" diagram (*see "Constructing flywheels" diagram above)*, drawn well before Amazon became a leader in online retailing, describes a virtuous circle of broader product selection, better customer experience, more sellers, more traffic, lower cost structure, and lower prices, all reinforcing one another. A diagram describing Uber's strategy shows a similar dynamic at work. Faster pickups generate more demand, which attracts more drivers, leading to better geographic coverage, less driver downtime, and lower prices. The components of the flywheels include positions or features that encourage reinforcement through causal effects, thereby increasing exponential and nonlinear adoption. One can assemble such flywheel approaches by thinking carefully about the most important features that are going to drive demand and the causal linkages between them.

Sense, act, learn

The flywheel strategy has three components, built into an analytics or AI system that can *sense* the market, think through different strategic choices, *act* on those choices, and evaluate and *learn* from the outcomes, and then, once again, sense the response from the market.

Sky-High Branding Concepts

British Airways is a memorable example of how you can use one idea to transform a company. In the 1970s their reputation was lowly rated – famed more for losing baggage and running late than providing a pleasurable passenger experience. However, they were able to make the claim that they were 'the world's favourite airline' for one simple reason – statistically, more people flew with them than anyone else.

They took that mantra to every aspect of the business. Would the world's favourite airline lose 40% of its bags? Would its engineers have planes that didn't leave on time? It transformed the whole organisation based on that one clever thought, and the absolute genius was to roll out that message through the entire business.

Surprise and Delight

When you go that extra mile, people remember. When Canadian airline WestJet ran its first Christmas Miracle campaign in 2013, its impact was huge. A Santa Claus appeared on-screen asking passengers what they wanted for Christmas. On arrival at their destinations, their gifts were waiting for them – fulfilled by eager WestJet staff. The media reaction was huge, a Christmas tradition was born and WestJet's popularity, naturally, went through the roof.

Ideas Come from Insights

What can small businesses do? Great Ideas also come from opportunity. Do the legwork, read the label and you'll be amazed what you can uncover. Take a chance and put it out there.

Be bold and fail fast. However, the key to success is to find a way to stand out from the crowd. Reid Hoffman (the founder of LinkedIn) once stated: 'If you are not embarrassed by the first version of your product, you've launched too late.' This is his concept of 'failing fast'.

Effective Banking Relationships for Business

In these times, there is a compelling need to deal effectively deal with Banks. Even before the COVID-19 Pandemic hit, some businesses were having difficulty getting funds for conducting the business, often having applications for new funds declined and calls by Banks for existing facilities to either be reduced or refinanced.

Commonly, Banks now need additional information (business forecasts - 3 Way Reports, statement of selective financial indicators & more) for loan applications; the days of only submitting historical and current year financial statements is over.

Business owners need to be able to clearly and compellingly articulate why their lending proposition should be supported by the Bank. This needs to occur with every communication with the Bank including new loan submissions and loan structuring review meetings.

To assist Business Owners in preparing for a bank presentation, all the following questions should be considered.

These are by no means extensive and should be considered as a guide to assist with loan application preparation.

1. *Can you pay the Bank back? **The Serviceability Test**.*
2. *Does the business generate **enough operating cashflow** to cover the interest and principal reduction with room for a possible interest rate increase?*
3. *Do you know the **quality of the cash flow** – is the finance required to fund growth or is it because of weaknesses in the business model or operations?*
4. *Required to cover a cash shortage due to **changes in financial performance**?*
5. *Do you have fast growth indicators that signal that **sales turnover growth is detrimental to cash**?*
6. *Do you have the **right mix of short- and long-term funding**?*
7. *Does the business have **liabilities that might jeopardise the Bank's po**sition i.e. income tax, GST, key suppliers with substantial outstanding balances due to them?*
8. *Do you have well prepared budgets and cash flows that **substantiate the business feasibility**?*
9. *Are there **external environmental factors and industry trends** that might adversely or positively impact on your profitability, for example, competitors, regulation, emerging markets?*
10. *Are your **working capital levels appropriate** and trending reasonably?*
11. *Can the business **demonstrate future viability and growth** to support its funding requirements?*
12. *Does the business **generate a reasonable return on capital employed** for its shareholders?*
13. *Do the Directors have a **clean credit history** and the business a clean trade credit history?*
14. *Does the business have **enough equity funds** for operational working capital & growth?*
15. *Does the Bank have **adequate (or excessive) security**?*
16. ***Is there an active market for your business**- if it needs to be sold as a going concern or worst case - it needs to be liquidated?*

Australian Banking Association Update – 8 July 2020

As customers approach the end of their six-month loan repayment deferral periods, Australia's banks will implement a new phase of support to assist customers to get back to making their repayments.

In this next phase, bank customers who can restart paying their loans will be required to do so at the end of their six-month deferral period. In the long run it is best for the financial wellbeing of individuals, families and businesses to return to full loan repayments and pay off their debt.

Bank customers with reduced incomes and ongoing financial difficulty due to COVID-19 will be contacted as they approach the end of their deferral period, to ensure that wherever possible they can return to repayments through a restructure or variation to their loan(s). **If these arrangements are not in place at the end of a six-month deferral, customers *will be eligible for an extension of their deferral for up to four months*. Customers will be expected to work with their bank, during this extra time, to find the best solution for them.**

A deferral *extension of up to four months will not be automatic*, it will be provided to those who genuinely need some extra time. Many bank customers may need less than four months to either restructure their loan or get back into full repayments.

Banks will work with customers to find the best options to restructure or vary their loan.

Options may include: -

- *Extending the length of the loan*
- *Converting to interest only payments for a period*
- *Consolidating debt*
- *A combination of these and other measures*

If, during or at the end of any deferral, customers continue to be severely financially impacted and are unable to make repayments, they will be assisted through their bank's hardship process to determine the best long-term solution for their individual circumstances.

In relation to credit reporting, for customers who recommence repayments on their existing loan or enter into a new repayment arrangement, **their credit report will not be impacted, provided they meet the new repayment arrangements.** If you are granted an extended deferral period approved by your bank, your credit report will not be impacted.

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