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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Do you have the right SME Business Insurance?

Having insurance is critical to protecting your business, employees, customers and income. But with so many options out there, choosing the right business insurance coverage can be a challenge.

In fact, according to Aon, businesses typically only have 50% to 75% of the correct value of their assets insured. So, is your level of coverage appropriate for your business?

Understanding types of Business Insurance

Whether you're an established business owner or starting a new venture, it pays to understand the different types of business insurance out there. In addition, to the level of cover you're required to have in Australia, there are several other types of business insurance that can offer extra protection.

Compulsory Business Insurance

There are three main types of compulsory insurance for Australian businesses:

Workers' compensation insurance: Required if you have employees and covers you and your employees in the event of work-related accident or illness.

Third-party personal injury insurance: Required if you use a vehicle for work purposes.

Public liability insurance: Covers you for damages to the general public, including injury, death, damage to property or possessions due to business negligence. Public liability insurance is required for certain types of businesses in some states – check your state's business insurance guidelines for more information.

Need to protect your Business?

Having the right insurance is a critical part of your business plan. An insurance broker can offer a range of insurance solutions for your business or help you compare insurance cover to ensure you're on the right deal.

Cover for your Assets and Income

Whatever type of business assets you own, there are a number of insurance coverage options designed to protect against specific risks and losses. These include:

Building and contents: Covers your business building and its contents (including stock) against events like fire, earthquake, lightning, storms, floods, impact, malicious damage and explosion.

Theft and burglary: Covers damage and loss from stolen contents and goods.

Stock deterioration: Covers your business when chilled, refrigerated or frozen stock spoils due to a breakdown of a refrigerator or freezer.

Electronics: Covers your computers, electronic equipment and digital data against theft, destruction or damage. Machinery breakdown: Protects your business in the event of a mechanical or electrical plant or machinery breakdown.

Goods and property in transit: Covers the goods or property you buy, sell or use in your business while they're in transit.

Cover for Business Liability

Liability insurance can help provide financial protection if legal action is taken against your business.

Depending on your business and industry, liability insurance could be an important step in your risk-management plan. In addition to public liability insurance, other types of liability cover include:

Product liability insurance: Covers you in the event a customer, supplier or member of the public makes a claim of injury or damage caused by products your business has sold or supplied.

Professional indemnity: Covers legal costs associated with a claim made against your business relating to professional service or advice provided to a client.

Management liability insurance: Covers your assets if a manager or director uses illegal or unethical management practices that cause losses.

Cyber liability insurance: Protects your business against legal claims and lost profits as a result of a cyber breach or attack.

Directors and officers (D&O) insurance: Designed to protect the assets of corporate directors and officers if they're sued by employees, customers, shareholders or other relevant parties.

The risks of getting it wrong

The risks of having inadequate insurance – or, worse still, not having compulsory coverage – can be significant. As a business owner, it's ultimately your responsibility to ensure the safety of your employees and customers and to safeguard your business against financial losses.

It might only take one accident or unexpected event to seriously disrupt your business and leave you facing large personal debts if there is a legal claim.

And even if you do have insurance, common coverage mistakes can have negative consequences if you need to make a claim. For example, under-representing the value of your business assets could lead to a claim being delayed, or leave you with a shortfall. In the worst-case scenario, an insurer could deny your claim entirely.

Getting it right: Business Insurance Coverage Checklist

So, what can you do to ensure your business is adequately protected?

1. Review your existing coverage: Make sure your existing coverage accurately represents the current state of your business, including your business size, activities and the value of your assets.

2. Find out what's required in your State: If you're new to business or think you could be missing compulsory coverage, check your state's business insurance requirements.

3. Investigate your options: Even if you have compulsory or basic insurance, investing in more comprehensive cover could mitigate specific risks associated with your business. Many insurers bundle multiple types of policies together, which could also help you save on your premiums.

In an uncertain economy, protecting your business against risks and financial losses can be critical for survival. One of the most pragmatic ways to do this is with the right business insurance coverage.

For a comprehensive guide on the Insurance for SME's & Start-ups, please click on the link HERE.

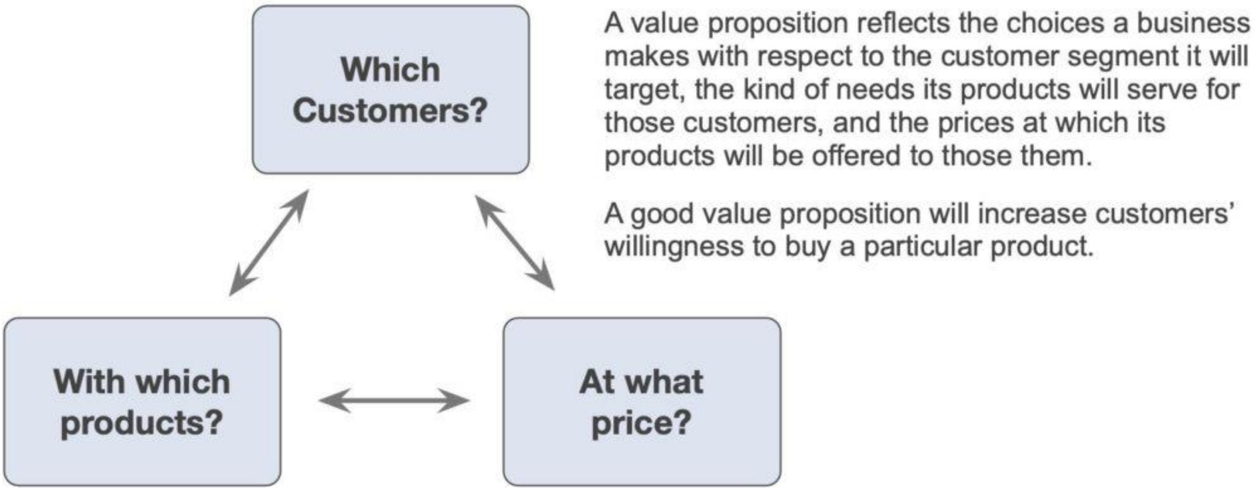
What is a Business Value Proposition?

Companies have three levers to act upon when trying to influence customers' willingness to buy their products.

They can choose the customer segments they will target, the needs they will offer to serve for those customers (i.e. through the design of their products and the benefits they offer), and the price at which their products will be offered to those customers.

Determining a Value Proposition

The decisions you make with respect to that triad of factors (customers, products and price) form the *Value Proposition* of the business for that particular customer segment, a concept that sits at the core of your business strategy.



A value proposition is the answer to these three questions

The goal of a value proposition is to create a "perception" of value in the minds of your target consumers, which influences how much they will be willing to pay to get the benefits of your products.

Because *value* is a relative term, you can see how a single product can have multiple value propositions based on the type of customers it is being promoted to.

For example, you may promote solar energy to global-warming activists as a way to reduce global emissions, and then offer the same energy to homeowners as a way to reduce their electric bill; same product, different customer value propositions.

Value Proposition versus Positioning Statements

Many classic business frameworks define a Value Proposition as some kind of *statement* outlining the benefits of the product. Things like "*Get whiter teeth*", or "*Faster downloads*".

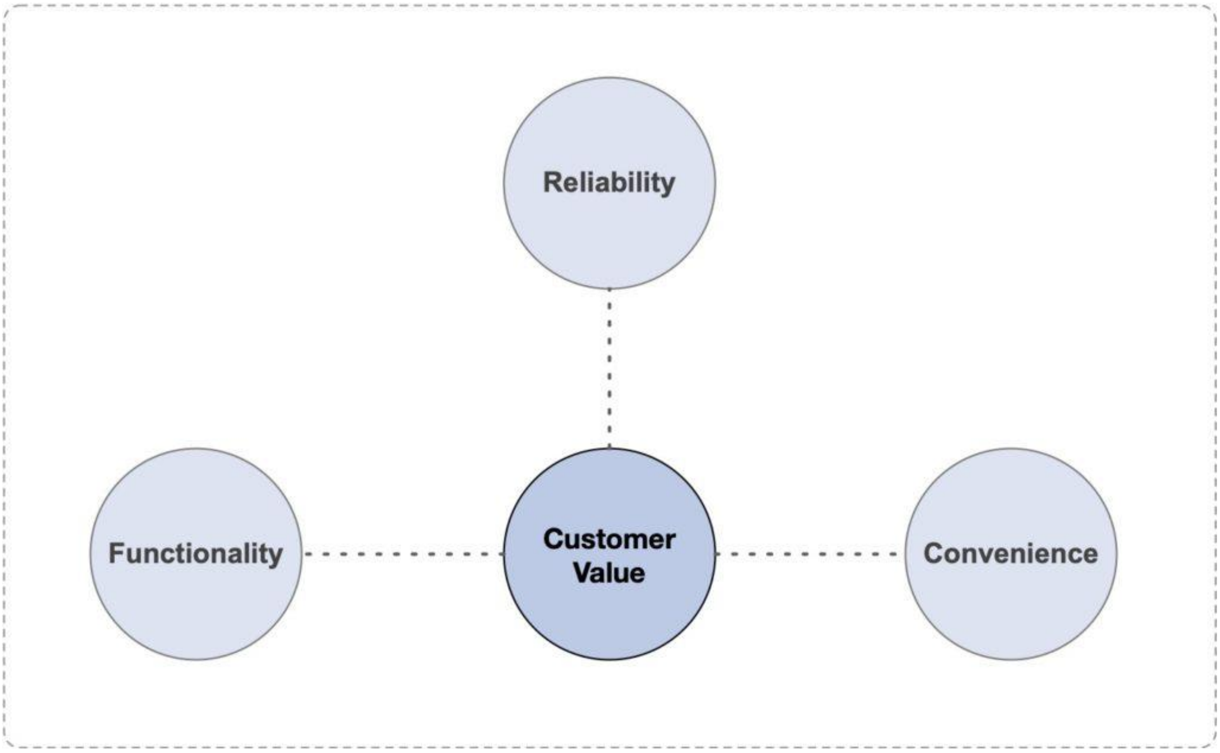
In reality, that's a simplified definition that doesn't really exploit the value that a more serious effort could have for strategy.

How to create a powerful Value Proposition

A good value proposition must be the result of thorough research to "*prove*" the superior benefits of a solution with respect to its competing alternatives in measurable (e.g. monetary) terms.

You then use the results of that research to make strategic decisions about product development, marketing and sales (i.e. the product's value proposition for its different customer segments), and from that information you can also create *messaging campaigns* and a series of brand positioning statements to use in marketing and promotion.

But the value proposition itself must be an *internal* appreciation of the company's approach to a particular market, which evaluates consumer choices and proposes a marketing strategy to make customers buy, and for that reason it is not something to be shared with the external world.



Customer value is created along three dimensions: Functionality, Reliability and Convenience

Linking your Marketing Strategy with your Operating Model

A strategy that is both profitable and defendable is only achievable through a differentiated value proposition or through a distinctive value chain.

Simply put, that means that your products and services should be different AND valuable to your target consumers, or to some extent they should have something that is difficult for your competitors to imitate.

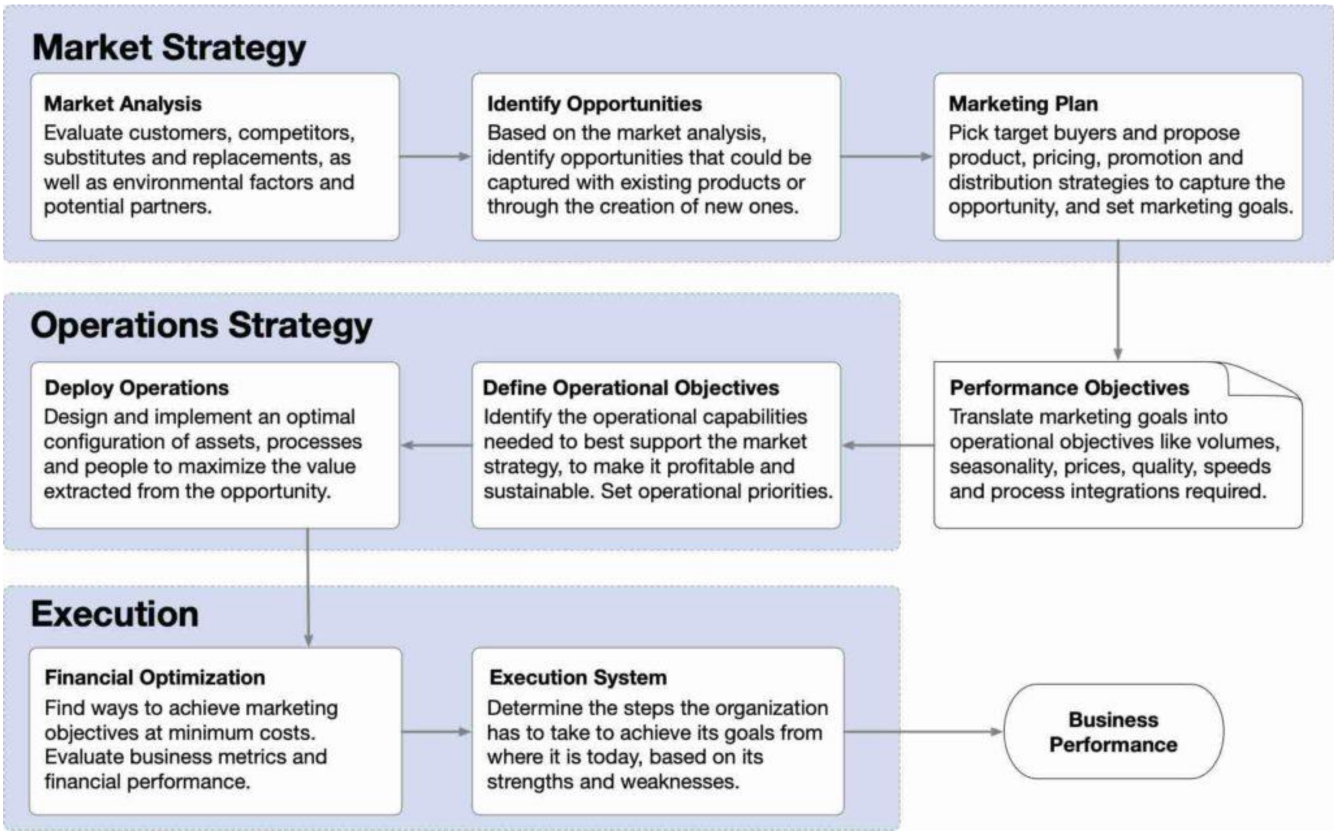
Strategic positioning therefore demands clear decisions about the value that your products and services will offer, and how those products and services will be made and delivered by your company *profitably*.

So in essence, you need a *market* strategy to identify and define market opportunities, and an *operations* strategy that makes decisions about how you will configure your value chain (assets, processes and human resources) to capture that opportunity profitably.

Effective Strategic Positioning requires alignment between a Company's Strategy and its Operations

Although each case is unique and depends on the specific type of company and industry where you operate, we could say that *in general* the strategy process follows a sequence which usually starts at the market level, through some kind of market research or discovery process, which then leads on to the definition of a target market, value propositions and business models, and that from there it keeps moving upstream to the optimisation and streamlining of the activities in the business's value chain that will support the capture of those opportunities.

Although many rightly argue that a "forward" approach is also feasible, where an organisation analyses its capabilities and then goes out to find opportunities that fit its strengths, it doesn't seem to be the norm, and we consider those as *sales* efforts rather than strategy formulation. Ideally, the process should flow from market opportunities to operations.



Simplified sequence of a typical strategy planning process

Once you understand your market positioning intentions clearly, you can then move on to define the metrics that will measure your performance and the constraints of your operations.

Things like demand forecasts, seasonality and prices must be translated from your market strategy into capacity needs, dependability, flexibility and maximum costs allowed for your operations.

With those metrics at hand, you can then set your *operational priorities*, that is, the factors that your operation teams must focus on to support your market strategy. If your strategy is based on differentiation, for example, you may have to put more emphasis on the factors that make your products different.

You need to have a clear understanding of your operational priorities, and put the corresponding plans in place to support, develop and invest in those capabilities. With those priorities well established, you can do a better job at configuring and optimizing the activities in your value chain and defining more specific things like project capacity and making location decisions.

You must be extremely careful when evaluating capacity investments since hard assets could eventually become stranded ("dead") costs if your business doesn't succeed as expected. You should also consider how your proposed capacity plans might play out against the capacity plans of other companies attacking the same segments.

If too much capacity accumulates in a particular market, its players may be forced to start price wars as a way to stay in business. Boeing and Airbus have several times engaged in races to produce the largest planes, but they both know there is not enough of a market for two aggressive players producing huge planes.

Sometimes the numbers would suggest that very large scales are needed to turn a profit, but the larger these numbers are, the higher the risks of dragging out large fixed costs for a long time (or even forever) if demand never catches up as you expect.

Other important value chain decisions involve the labour needed, in both quantity and quality terms. Highly skilled labour is sometimes hard to find, and so is cheap labour in high quantities, so those considerations must also be seriously pondered.

Business Operations is usually seen as a technical subject, but it should not be. It is a fundamental component of strategic positioning and is all about making your marketing plans, hence your strategy, happen. **Without a good operational strategy, there would be no such things as competitive advantages, superior profitability or sustainability.**

In a dynamic environment, operations and marketing must be always aligned to ensure that your organisation is efficiently using its resources and that profitability is always maximised.

To do that, you must have a clear understanding of the markets and opportunities you are going after and ensure that your value chain is optimised to capture them. Any changes in the market or in your operations that require modifications in who you target or how you target them must be properly addressed by your tactical teams and looped back in.

Finding and protecting a Positioning Strategy

A challenge that you continually face as a business executive is the persistent threat that other companies could copy what you are doing once you find a market position where you make superior profits.

A lot of information about a company's strategy and its financial performance, especially for public companies, is available to the world at large, making business strategy a little bit like a quiz competition where all the participants know the right answers.

Your competitors know the dimensions of value that you focus on, your customer satisfaction rates, the names of your employees, who your partners are and your prices, and with a little bit more research they may also get to know your costs so they could, therefore get to know your margins and measure the success of your whole strategy.

If you think about it, Pepsi knows Coca-Cola's strategy, in the same way as Coles knows Woolworth's strategy and just as any furniture vendor knows Ikea's strategy, yet they have all managed to find a position in their respective markets where they are profitable and difficult to challenge or imitate.

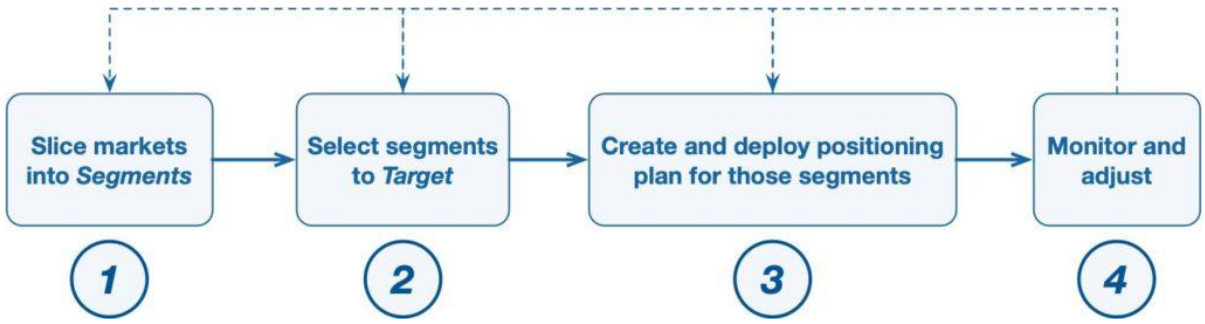
So, the challenge for you as a business owner/manager is in carving out a market position where you can make good margins and lift some competitive advantages that keep copycats at bay. Those advantages may be in the form of strong brands, robust distribution, exclusive access to key resources or channels, or just a very distinctive (e.g. proprietary) way to make and deliver your products and services.

Because commoditisation can happen to product features (e.g. computer memory and toothpaste whiteness), to the product itself (e.g. fast internet and generic drugs) or to how your products are made (e.g. computer assembling and manufacturing), their strategic positioning therefore must be an iterative process to continually monitor your business's performance and adjust its strategic direction accordingly.

In general, the process to find and defend a profitable market position can be described in four different steps:

1. **Market Segmentation:** Find effective ways to classify customers and slice the market into groups that share common characteristics that make them approachable through the same value networks.
2. **Choose Target Markets:** Based on your segmentation of the market and your value proposition research, select the segments that you are going to target within those markets.
3. **Craft your Market Positioning Strategy:** Make decisions about how you will position your products with the selected target consumers, which can be done through product features and benefits, pricing, sales, distribution and promotion efforts.
4. **Monitor and Adjust:** Once your strategy has been deployed, measure the traction you get with your target consumers and the performance of your marketing efforts, validating previous assumptions and adjusting your market positioning preferences accordingly as new information becomes available. Proper systematic feedback may call for adjustments or additions of product features, pricing models, distribution channels and/or promotion efforts.

The goal of this iterative process is to find a profitable position where your business is most difficult to be challenged by potential competitors and where your products and services are less likely to be commoditised.



Finding and protecting a market position is an iterative process that sits at the centre of any competitive strategy

A company doesn't need to destroy its competitors to win in a competed market. The beauty of strategy comes from its diversity, which is what allows multiple players to win at the same time within the same industry.

In essence, the idea with this iterative process is to *zig* when others *zag*. If competition for a particular segment is tough, you must move into a different market position or just target different customers.