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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Business Financial & Strategic Management (Part 2)

The Business Model Framework

Every business model consists of four key interdependent elements.

Customer Value Proposition ("CVP"):
A product or service solution for a problem that customers are currently facing or specific need that they have.

Profit Formula:
The unique way your company creates value for itself and its owners/shareholders.

Your profit formula must define the business models: -

- *Revenue Model:* Volume/Quantity x Price (ideally with a good gross margin built in);
- *Cost Structure:* Direct costs, indirect costs, and general operating overheads;
- *Margin Model:* The operating profit per unit needed to cover overhead costs and achieve financial targets;
- *Resource Velocity*: How quickly money will flow through your company from the sales/services provided to customers/clients– that is, it has very good cashflow processes in place.

Key Resources:
The people, technologies, facilities, and funding a business needs to successfully deliver its CVP to customers.

Key Processes:
These are the essential tasks that bring your company's **CVP** and profit formula into fruition - such as manufacturing, service offerings, sales, training, and research & innovation.

Designing a New Business Model

Business model innovation process consists of four repeatable steps:-

a) **Discover your customers' jobs-to-be-done**: Stop asking your customers what they want and start asking them what they need to accomplish. Study their lives until you understand every detail of the problems they face. Instead of hiring a marketer to collect this information, use the Internet and/or your website to connect with your customers directly.

b) **Design the new CVP:** Once you identify an important job-to-be-done, develop a **CVP** that addresses it in a powerful way. The CVP must clearly define what your company will sell, which payment scheme it will use, and how it will make its products or services available to customers.

c) **Develop the profit formula:** To identify the most effective strategy for delivering value to your company, you must work backward by creating a reverse income statement. This means developing a profit goal first and then testing out different revenue models, cost structures, inventory, and staff utilisation until you accomplish the goal.

d) **Identify the key resources and key processes:** Determine which processes and resources need to be in place in order for your company to deliver its new **CVP**.

Getting Your Business Model & Strategy Right

So how can you best approach getting your business model aligned with your overall strategic objectives, in a structured way? **The diagrams below illustrate how you might go about the process and the various steps to be addressed.**
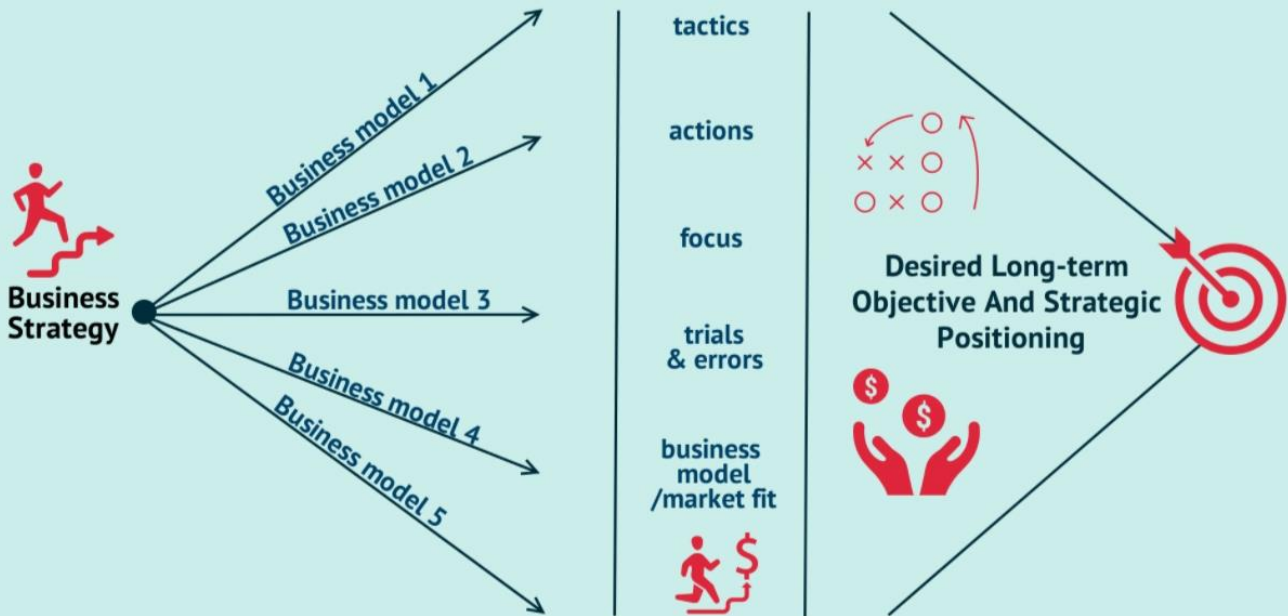
Business Model vs. Business Strategy

A business strategy is a deliberate vision to get toward a desired long-term goal. A business model is a great tool to execute a business strategy. Yet while achieving a long-term goal a business strategy set a vision, mission and value proposition that can be executed through several possible business models. When one of the drafted business models encounters the favor of the market that is when a business strategy becomes successful!
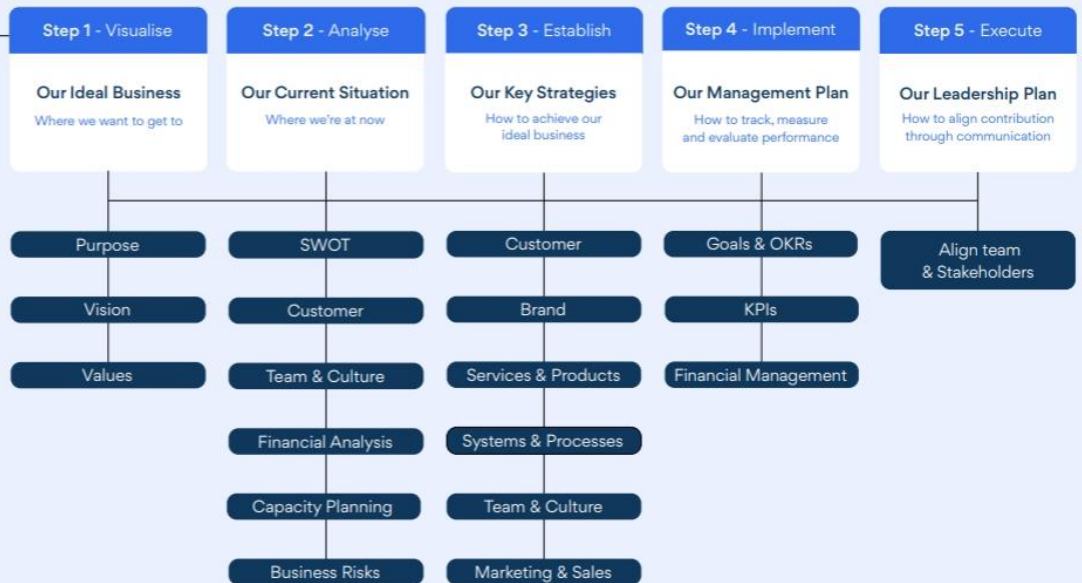
Business Strategy

- Business model 1
- Business model 2
- Business model 3
- Business model 4
- Business model 5

tactics

actions

focus

trials & errors

business model /market fit

Desired Long-term Objective And Strategic Positioning

Common Overarching Business Objectives.

- To grow
- To improve performance
- Setting up to sell

Perhaps the Business Owner personally wants:

- Business Independence i.e. more time back
- Greater fulfillment from their role

Step 1 - Visualise	Step 2 - Analyse	Step 3 - Establish	Step 4 - Implement	Step 5 - Execute
Our Ideal Business	**Our Current Situation**	**Our Key Strategies**	**Our Management Plan**	**Our Leadership Plan**
Where we want to get to	Where we're at now	How to achieve our ideal business	How to track, measure and evaluate performance	How to align contribution through communication
Purpose	SWOT	Customer	Goals & OKRs	Align team & Stakeholders
Vision	Customer	Brand	KPIs	
Values	Team & Culture	Services & Products	Financial Management	
	Financial Analysis	Systems & Processes		
	Capacity Planning	Team & Culture		
	Business Risks	Marketing & Sales		

Business Purpose

Why is defining a 'Purpose' important? It's the meaning behind 'why' the business exists; keeping everyone focused on the bigger picture and the impact being made as an organisation. If we're to distil down the meaning of a business 'purpose,' it would be - the underlying motivation as to why the business exists in the marketplace.

A purpose usually stems from either:-

- A sense of meaning and/or fulfilment;
- A belief in doing things differently, better or perhaps more ethically and sustainably;
- A passionate motive behind what you do.

The answer is intended to continually inspire the businesses employees along the journey to achieve what's defined as the aspirational and ideal business.

Financial Impact:

It's hard to put an exact figure on the impact of having a purpose versus not having one.

To some, defining it may seem simple and 'fluffy', but it is important to establish, because it will ensure the businesses resources (time, energy and the cost of all of that) are more effectively utilised, by:-

- Driving the motivation and attitudes of the business culture
- Aligning and motivating the team
- Streamlining and acting as a moral compass for business decision making
- Influence the service and products the business provides

Clearly defining why the business exists in the marketplace and sharing this belief, will also act as an underlying force that attracts like-minded stakeholders; people who also believe in what the business is trying to achieve.

And, by stakeholders we mean:-

- Ideal customers
- The right staff
- Aligned key strategic partners; whom refer customers

Attracting the right people (i.e., stakeholders) can only positively influence the business's bottom line.

The right questions to ask:

A purpose usually stems from the Founders initial vision behind starting the business, but it's very common for it to evolve over time. Your marketing department will be linking it with your brand strategy and positioning - so it's likely they will have an influence to it's formation along with your Founder/s.

To unearth:

- When our business was first established, what did it set out to achieve or do?
- What are our strong beliefs for the role our business plays in our community?
- Thinking about our industry - how are we trying to doing things differently, better or perhaps more ethically?
- Where do we collectively and commonly find joy in the work and value our business provides?

In Summary:

- How do we define and articulate our purpose?
- How can we better ingrain our purpose in our high level decision-making?

Business Vision & Aspirations

The right questions to ask:

Some find it easier to start with defining what they DO NOT want the business to resemble, to help paint a clear a picture of what the ideal scenario actually is.

To unearth:

- **Overall:** 5 years from now, what do we **NOT** want our business to look like?
- **Business Financial Aspiration:**
    - 5 years from now, what's our ideal turnover?
    - What's our ideal profit?
    - What's the business ideally valued at?

- **Customers:** 5 years from now, who are our ideal customers?
- **Brand:** 5 years from now, what do we want our reputation to be known for?
- **Service/Products:** 5 years from now, what services do we want to be offering?
- **Systems/Processes:** 5 years from now, what processes/software do we aspire to have in place?
- **Team/Culture:** 5 years from now, who is in our business and how many staff do we have?
- **Marketing/Sales:** 5 years from now, what's our ideal retention and acquisition rate - scenario?

Business Values

The right questions to ask:

To unearth the core set of business values:

- What does our business believe in?
- What attitudes do we rely on to conduct ourselves in the way we see is 'right'?
- What does our business value in great customer service?
- What do we value when it comes to our customer relationships?
- What character traits do we look for in people, when we are hiring?
- What does a healthy workplace culture resemble to us?

How to Manage Effectively Through Business Peaks and Troughs

- Know when your business is likely to grow and slow. Regularly analyse sales data and customer flows over different periods to understand when these peaks and troughs occur.
- Be flexible with your staffing arrangements. When you've identified customer flows, you can match staff numbers and skills to those predictions. Make sure your employees are qualified for their role and properly trained in the service standards you expect.
- Use cash-flow forecasts to ensure you have adequate cash buffers and available funding to cover business operations through non-peak periods. This funding should include fixed commitments, such as rent and loan repayments.
- Have working capital funding facilities in place, such as a line of credit or an overdraft, which you can access to help fund your business when you need it.
- Carry the right amount of stock. Excess stock comes at a cost to your business: insurance, storage and spoilage are all impacted when you have surplus stock. Consider negotiating with suppliers so they deliver stock when you need it. You could also reduce the minimum volume of stock you have before replenishing.
- Consider reducing excess capacity in off-peak periods by changing staff rosters, selling excess assets, outsourcing non-core activities, using short-term leasing or sub-leasing out assets or premises.
- Consider charging a premium during peak periods or early in a product's lifecycle. Outside those times, your pricing strategy could include bundling products or services or reducing prices.
- Look for opportunities to expand your business in line with your strategic direction and with proper funding. Mitigate the fluctuations in your income by expanding into areas less impacted by peaks and troughs. Expansion plans could include new locations or increasing products and service offerings to include those less impacted by fluctuations.
- Take a holiday. In spite of your best efforts, you may lose money staying open in slow periods. If you do close for a holiday, you might consider leasing or sub-leasing your premises or assets to another business.

A business should adopt a sound strategic planning process that can assist with all of the above matters – and much more too.

Strategic planning is done to:-

- set priorities
- focus energy and resources
- strengthen operations
- ensure employees and other stakeholders are working   toward common goals
- establish agreement around intended outcomes/results
- assess and adjust the organisation's direction in   response to a changing environment

Effective and on-going strategic planning will determine what business success looks like and what needs to be done to achieve it. It also informs and shapes how the business owners and employees react to opportunities and challenges.

Tips for improving strategic planning

1. Identify long-term objectives.
2. Recognise capabilities and resources needed to achieve these objectives (or identified gaps).
3. Document activities required to achieve these objectives and set specific time frames. Note that objectives need to be:
   - clear, concise and achievable.
   - focusing on the key drivers of the business.
   - regularly monitored and measured.

Cyber Security & SME Business

Cyber criminals are nothing if not adaptable. So, it's no surprise they adjusted to the 'new normal' of digital transformation and widespread remote working. And the relative anonymity of cryptocurrency payments has made cyber criminals bold. The

Australian Cyber Security Centre (ACSC) found that during the 2020-2021 financial year, malicious players launched 13% more cyber-attacks on Australian businesses.
This resulted in Australian businesses collectively losing $33 billion in 2020/21.

Small-to-medium businesses, which don't have the IT resources of the big players, have long been extra vulnerable. Working from home means a lot more business emails and texts flying around. These messages are often sent from or to poorly secured personal devices. That's seen fraudsters double down on phishing in general and 'business email compromise' (BEC) scams in particular.

A BEC scam is when criminals masquerade as, say, a business supplier. They then convince someone to, for instance, pay a fake invoice. There are other cyber threats, such as ransomware attacks, firms also need to defend against. BEC and ransomware are where malicious actors seem to be currently concentrating their efforts.

It's not only the financial losses that can be devastating. In most APAC countries, businesses must now report cyber-attacks to the relevant authorities. And then notify their customers their data may have been compromised. Cyber-attacks can cause serious reputational damage as well as having potential legal consequences. This is mostly when relevant data protection and privacy laws have not been followed.

What to do? Even the smallest business can buttress their cyber defences by:-

- disallowing the use of easy-to-guess passwords
- insisting on multi-factor authentication
- using a Virtual Private Network (VPN)
- using privacy and security settings on your company and personal social media.

Make sure you stay aware of new threats by regularly checking **www.cyber.gov.au**

Improving Business Productivity & Efficiency

For operational efficiency, you need to balance and maintain a good relationship among people, processes and technology. "People" perform specific tasks for an organisation using processes. Often technology is used to streamline and improve these processes, making it possible for people to do more innovative work at a faster pace.

Therefore, focus on your people first and processes second to ensure you have the appropriate resources in place before implementing technology.

People

You could say that the people in the organisation are the most important of the three. Without them, nothing can happen. Having people with the right experience, skills, qualifications and attitude is necessary to realise business growth. Equally important is creating a working environment with the right culture. Truly engaged employees will play a significant part in the overall success of your business.

Therefore, employing and retaining employees who contribute to increased productivity should be a high priority. This can be easier where the business has a clear vision and goals, and a culture based on trust, teamwork, effective communication and shared goals. Regular team and one-on-one meetings, employee surveys and feedback, and team building events are some ways to improve communication and feedback. Reward and recognition, be it in monetary form, a promotion, or some additional time off to encourage employees to meet and exceed targets may also encourage positive contributions.

Tips for Improving Employee Performance

- Source employees with the skills and competencies your business requires.
- Ensure they understand and are aligned with the business' strategic direction and goals.
- Delegate responsibilities to qualified employees, and trust that they will do the task well. This gives them the opportunity to gain new skills and leadership experience.
- Know their skill sets and behavioural styles and match tasks accordingly.
- Communicate goals, performance and plans effectively. Sometimes, having a quick meeting or phone call can save time taken on back-and forth emails.
- Set clear and focused goals to keep employees focused and efficient. If a goal is not clearly defined or is not achievable, it will reduce productivity. So, make sure your goals are "SMART", specific, measurable, attainable, realistic and timely.

- Incentivise employees by recognising when they perform well and encourage them to continue increasing their productivity. When deciding on incentives, consider what their individual needs or preferences are. One employee might appreciate public recognition, while others may appreciate some additional time off or a simple gesture, such as taking them out for a meal. And everyone appreciates monetary rewards.
- Invest in staff training and encourage continued development. Individual coaching, workshops, courses, seminars or mentoring – or even increasing responsibilities – are several ways in which you could support staff development.
- Give and receive feedback. Measure your employees' performance and have one-on-one meetings to let them know where they are excelling and what areas need to be worked on. Asking for feedback should give you clear and immediate ways you can help them improve.
- Consider flexible working arrangements. Allowing employees to work from home at times will allow them to save time commuting.

Business Risk Management Report

A 2021 survey and report by Accenture titled "*Global Risk Management Study*" provided some very useful risk management information for all businesses – large or small.

The key findings from that study are detailed below:-

- 77 percent of risk leaders believe that complex, interconnected risks are emerging at a more rapid pace than ever before. In parallel, operational and financial risks rose up the agenda most significantly in the past 12 months (see Section 1).
- Despite its growing importance, risk teams trail behind the rest of the business when it comes to deploying new technology: just 46 percent use cloud technology to process and derive value from data, which is less than teams in the wider business (57 percent) (see Section 2).
- Businesses have accelerated digital-transformation plans in response to COVID-19 and broader business challenges, but risk teams lack confidence in assessing risks associated with the technology that underpins them. Only 49 percent say they are "fully capable" of assessing risks associated with their businesses' adoption of cloud. Even fewer believe they are fully capable of assessing the risks of artificial intelligence (AI) (34 percent), Blockchain (32 percent) and robotic process automation (RPA) (28 percent) (see Section 3).
- Despite the health and economic challenges of the past 18 months, fewer than a third of risk leaders are "very satisfied" with their progress in bolstering operational resilience in the past two years. Furthermore, fewer than half took vital steps to fortify stress testing, such as expanding the range of scenarios covered or involving more stakeholders (see Section 4).
- Eight in ten risk leaders say their teams now spend significantly more time on value-adding activities such as product advisory or evaluating new business models, compared with two years ago. That said the same proportion struggle to balance this with traditional duties such as reporting.

If you would like to access a full copy of the study, please click on the link HERE.

Adopting a Performance Based Culture

A performance-based culture is an organisational culture built on a set of universally accepted behaviours and norms that are encouraged by leaders and facilitated by optimal tools and processes.

A very close relation of a wider 'company culture', this particular concept focuses on making sure teams are enabled to be highly effective in their roles.

A positive performance-based culture helps achieve business goals and creates value. When it's done right, it becomes a huge asset because while so much in business can be copied, a winning culture based on performance is harder to replicate and can be your all-important differential.

To create a high-performance culture, leaders need to display the following leadership behaviours:

- **Developing and communicating a clear and inspiring vision;**
- **Continuously challenging team members to remain focused and execute efficiently;**
- **Provide support to achieve performance goals.**

A positive performance-based culture focuses on making sure people are as effective as possible in their roles.

The benefits of actively implementing, promoting and maintaining such a culture are numerous for organisations of all sizes; it makes management accountable, encourages employees to arrive each day highly-motivated, and provides transparency on both sides.
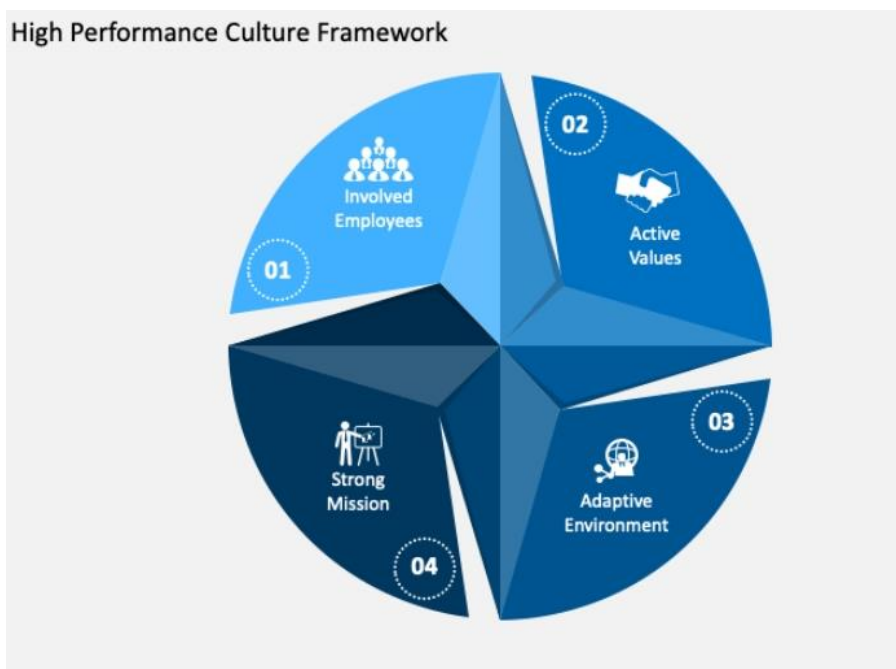
For a good summary document on implementing a performance culture in your business, please have a read of the Business Insight provided by the Icehouse Group (NZ) - titled "*Performance Based Culture".*

That business insight can be accessed by clicking on the link HERE.

Providing you professional direction