

BusinessPlus+ Newsletter



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Issue – June 2022

Identify your Best Sources of Business Profits

Customers

Shake your database and see what you find

- Uncover which customers bring the most value to the business, not just from a financial input.
- It's advised then to look to refine the profile of customers and more narrowly target (attract) those who the business prefers working with/helping.
- This analysis is also a great to spotlight any key learnings and opportunities to provide existing customers with greater value.

A Rolling Stone Gathers the Profit

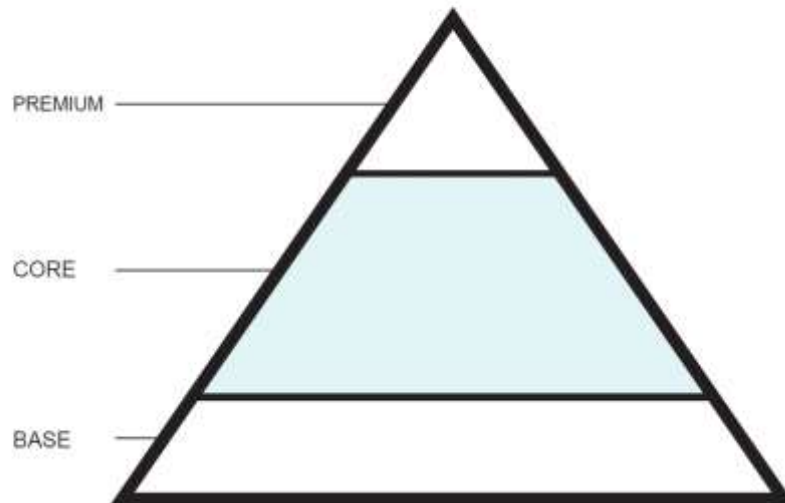
At an age when they should (or we just wish they would) hang up their leather trousers and retire, more and more ancient rockers are embarking on yet another tour with The Rolling Stones top of the list. Prior to Covid, The Rolling Stones (of course!), Madonna, The Who, Neil Young, Rod Stewart, Pearl Jam, Queen, and even Ringo Starr were all performing on stages around the globe. **Given that many of them are nearing or way past grandparent-age, you might wonder why they're still bothering so many years after their first taste of fame.**

The performers will say it's because they love it and that they 'don't want to let the fans down.' But there's another hard-nosed reason to get their weary old bones back on the tour bus. And it's this: **touring boosts their profits in a way that digital music sales and royalties can no longer do.**

Top performers can take home 35% of the night's gate sales and up to 50% of the money made from merchandise sales, according to Forbes' journalist, Peter Kafka. Their record labels are likely to receive none of that, which means the stars are likely to receive a whopping payout for their performances.

Singing aside, what can you learn from the likes of Mick Jagger when it comes to your business?

EXERCISE:
Plot your services and products



Customer Analysis & Focus

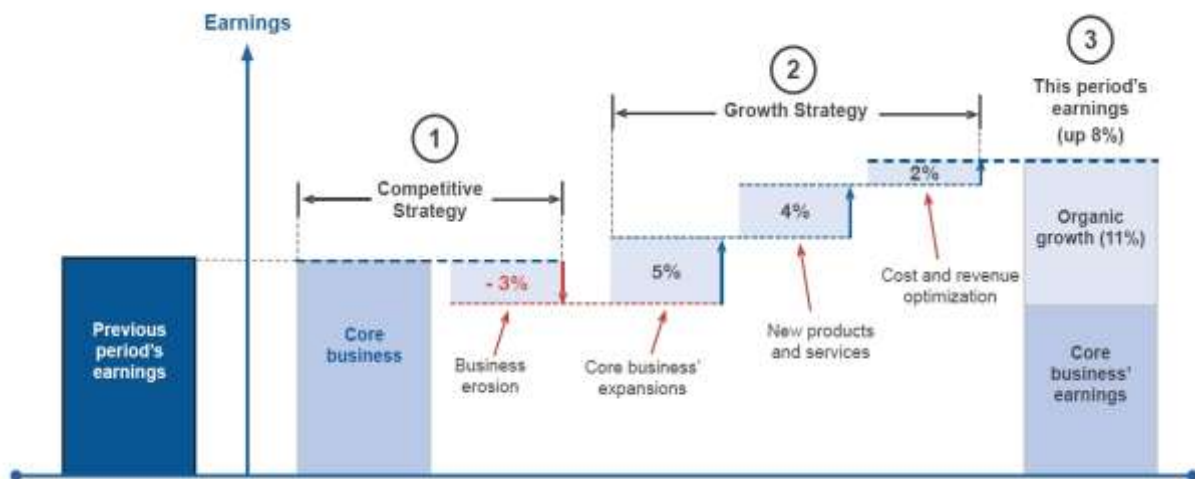
You need to focus on the part of your business that brings the most profits. The Rolling Stones could have retired decades ago and waited for the income from album sales and royalties to trickle in. Instead, they made the decision to continue to tour and have generated many millions as a result. In just under three years, for example, the band’s overall concert grosses topped \$401 million, according to Billboard.

The following story also illustrates why it makes sense to focus on the most profitable part(s) of your business.

A major direct marketing company with significant annual sales, reviewed its customer database to determine where its profits were coming from, Business-to-Business (“B2B”) or Business-to-Customer (“B2C”). At that time, 50% of its sales were to consumers and 50% to businesses. The business was surprised to discover that the profits on the business sales were 500% better than those to consumers. Most consumer sales weren’t even profitable even though they represented the majority of customers, transactions, and expenses.

The decision was made to focus on B2B sales. It required a significant turnaround in the business: at that time, the company employed 500 people taking inbound calls from customers and only 100 people making outbound calls to businesses.

The changes took two years to fully implement. By the end of that period, 95% of its sales were to businesses (B2B) and only 5% to consumers (B2C) - Sales flourished. The company had been growing at 21%pa before the turnaround but by the end of the two years averaged 50%pa. Profit growth was equally dramatic.



So, what can you do to boost your profits besides cutting costs? For a start, identify your most profitable customers and then do everything possible to increase sales to that segment of your business. Focus on attracting more customers like them.

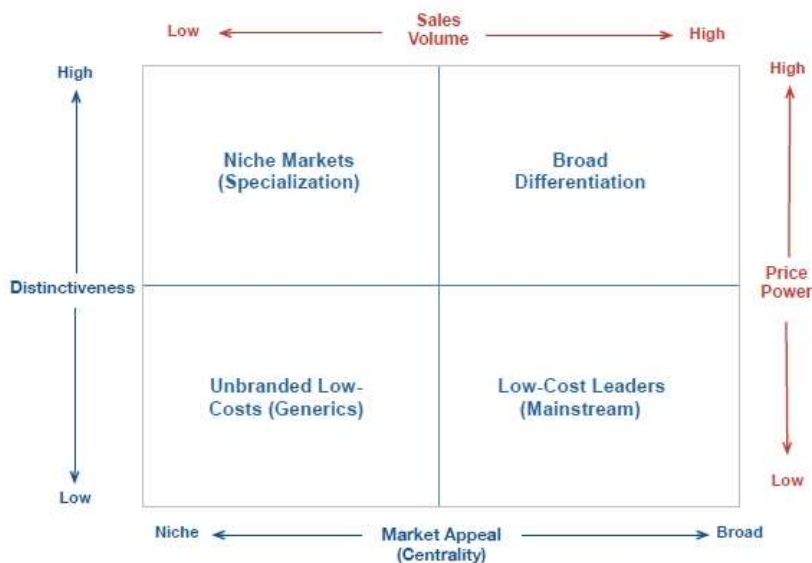
Critical Factors to Improving Profitability

For most SME businesses, profit improvement is one of their top 3 priorities. It is vital that business owners and managers understand the drivers of profit, as well as the connection between profitability and cash flow. Profitability is affected by sales and reducing costs. Within sales there are 3 critical areas: price, volume and customers. Each of these is connected and affects sales in different ways.

There are further ways to increase your profitability through monitoring and reviewing your business fixed and variable expenses and also your supplier management (your supply chain).

Price

To improve profitability and performance, price sets the scene. It will determine the volume of sales and ultimately attract different types of customers.



A Distinctiveness-Centrality map gives you two dimensions to move your market positioning strategy around

The most obvious part of profitability is the selling price. It is essential when determining the price to ensure that the price and sales volume allow the business to be profitable. **It is therefore, good practice to also review prices regularly and this is even more critical in this inflationary and supply chain disrupted economic environment.**

There are many factors that you need to consider when setting prices, for example, the balance of pricing across the product range. You may have a loss-leader (this is a product that makes little or no profit), which can be offset by other profitable products. Pricing should also consider the level of competition and relative pricing – reflecting the position you wish to take in your market segment.

When offering a discount to a customer, always remember that the discount may increase sales volume, but it will also eat into the profitability of the products. You should record all discounts and review them regularly - **and ideally eliminate discounting as a general practice.** More importantly, given the economy has entered an inflationary environment - businesses should be considering appropriate price increases. **The impacts of both price reductions and increases are illustrated in the tables below.**

The amount that sales must rise (%) before total gross profit increases

Current Gross Profit %	10	15	20	25	30	35	40	50
2	25	15	11	9	7	6	5	4
3	43	25	18	14	11	9	8	6
4	67	36	25	19	15	13	11	9
5	100	50	33	25	20	17	14	11
10		200	100	67	50	40	33	25
15			300	150	100	75	60	43

The amount that sales can fall (%) before total gross profit reduces

Current Gross Profit %		10	15	20	25	30	35	40	50
Price Increase %	2	17	12	9	7	6	5	5	4
	3	23	17	13	11	9	8	7	6
	4	29	21	17	14	12	10	9	7
	5	33	25	20	17	14	12	11	9
	10	50	40	33	29	25	22	20	17
	15	60	50	43	37	33	30	27	23

There are two ways in which you can monitor pricing: gross profit margin and mark up. These can be linked through to your pricing strategy. Monitoring both will allow you to make sure they are both in line with the pricing strategy and make changes when necessary:

- Always review your gross and net margins against previous periods;
- Understand customer profitability for each customer and their behaviours;
- Eliminate discounting if possible;
- Implement and review a mark-up policy – this will ensure that you are in line with the policy;
- Analyse sales on a regular basis; and
- Use key financial indicators to identify any anomalies that may impact the sales price:
 - (a) Cost of goods sold margin;
 - (b) Gross margin;
 - (c) Average stock turnover; and
 - (d) Mark-up.

For a copy of Business Australia's "Pricing Strategy in Six Steps" document, please click on the link [HERE](#).

Sales Volume

There are two ways in which volume can be increase. The first is through increasing your current level of sales with your existing customers, and the other is sourcing new clients.

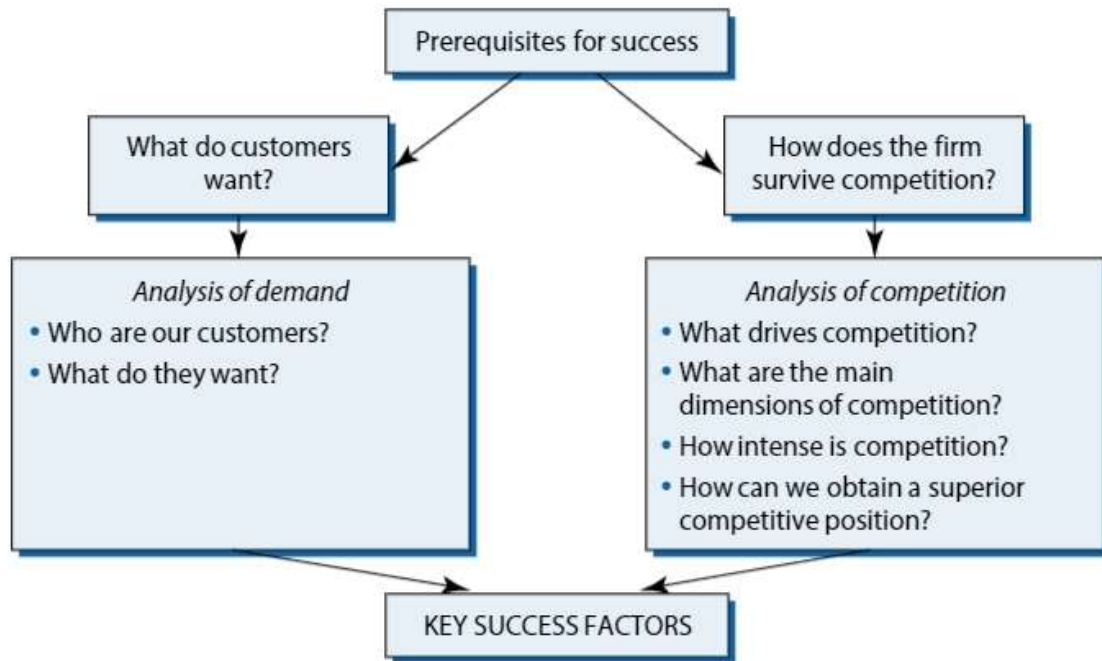
To increase sales to your current customers, you will need to implement a marketing strategy to entice more sales. Something that most businesses fail to see is the ability to up-sell to their existing customers. Making sure that all staff are trained in this area could be most beneficial for your business.

Selling targets are a way to monitor overall performance and enhance profitability. Therefore, I advise you to look at this carefully as it can have an impact on other areas of the business. Understanding your break-even point will allow for realistic targets to be set and ensure profit is maximised.

To help increase the sales volume:

- Understand the current customer buying patterns;
- Implement a marketing strategy to increase sales volumes;
- Introduce loyalty programs that encourage referrals;
- Train staff to up sell and make sure they are aware of the high-profit products;
- Use break-even calculations to set sales targets; and
- Always research to see if there are other markets that the business can move into.

Customers



First and foremost, excellent customer service is imperative to keeping and winning new customers. Understanding their needs and wants is a simple step to improving the performance of the business.

Having a Customer Relationship Management system will enable you to keep a wide range of information about your customer and their behaviours. If the business needs to increase the selling power, using this tool is the first step and can help you to:

- Understand the needs of the business customer and use this information to improve the customer service experience;
- Measure customer service levels, for example, there are many free tools such as Survey Monkey to gain these insights;
- Reward current customer for their loyalty;
- Consider using mystery shoppers to monitor customer service; and
- Have regular contact with your customers to make sure your business is front of mind.

Customers

1. Define them:

- to attract more like them
- achieve greater fulfillment and \$\$

2. Segment them:

- 2-4 only
- save money (be specific and relevant!)

3. Profile them:

- to understand them/their different needs
- to solve their key problems (build trust)
- to avoid mass marketing! (ineffective \$)

Customers want to know who you are, what you stand for, and the really important bit how you're going to make their lives better or easier (or both). And the only way you can know this answer - by understanding them as best as you can.

Customers

Why is segmenting a customer base important?

Dividing customers into similarity groups (segments) empowers businesses to:

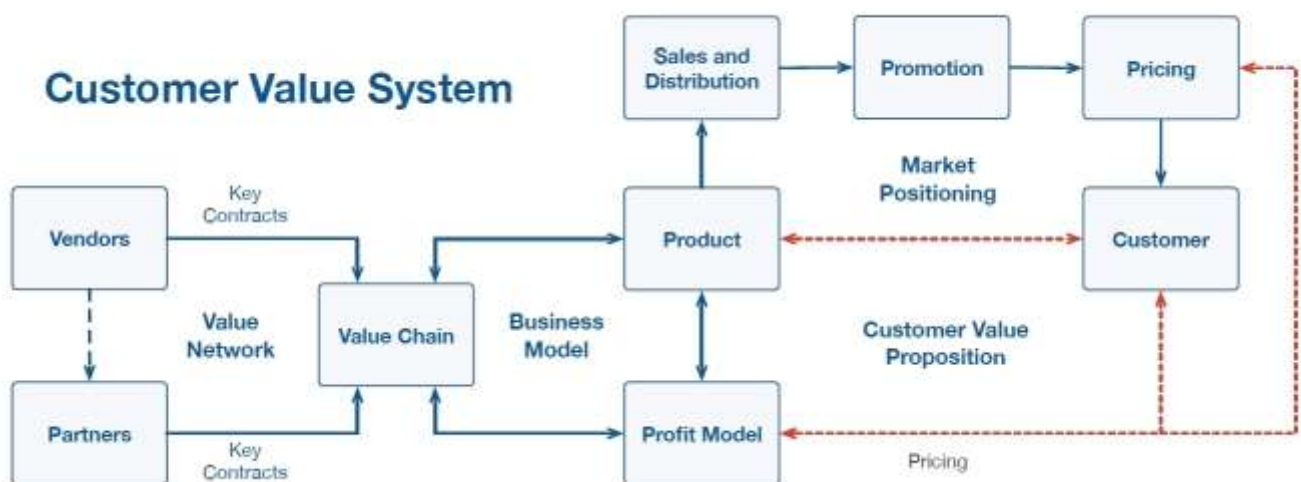
- understand how each segment differs
- to treat them relevantly (no mass marketing)

A better view of your business approach to a market is by thinking in terms of a **customer Value System** within which value is created by your business's products and services that are used by your customers. Within that value system your suppliers, sales and distribution channels, value chain, business models and customers all interact to create an efficient ecosystem.

Value systems are specifically designed to address the needs of a particular customer segment with a particular product. A beer company, for example, sells its products to women, young men, sports fanatics and other groups, but each segment must be approached through a distinctive and unique value system.

That said, it is the entire value system from suppliers to product disposal that needs to be optimised when seeking to maximise the value we extract from an opportunity, and they can play a critical role in the success of your business strategy.

One painful lesson from the failure of many companies, is that "transplanting" a business model from one product to another is sometimes a recipe for failure. Instead, each new product or business opportunity must be run on its own value system, entirely optimised for the customers it serves.



To prevent tunnel vision and get the most out of new products you must embrace the fact that both products and customers must reside within a value system that is specifically designed to maximise the value that can be captured from a particular opportunity.

Within this value system, you must find a value proposition that creates **customers' incentive to buy**, a **market positioning plan** that sells those benefits and makes them available to the right customers, a **value network** that's optimised to deliver the promised value and a **business operating model** that captures a piece of the value created **and converts it into sustainable profits**. Fundamentally, adapting your business means improving your operating model – the key link between strategy and execution, as shown in the diagram below.



When developing new businesses all decisions count, from the selection of the right customers, and the optimisation of the job the product or service offers to do for them, to the determination of the right pricing for those customers, picking the right suppliers and the selection of the right sales and distribution channels. In the end, it is the entire value system that must be perfected, from suppliers to product/services distribution, if you want to maximise the value that the product/service creates for its users and for your company.

In conclusion, each business has their specific challenges when it comes to profitability – and this can be dependent upon many operating factors – both internal and external to the business.

If you have found this article valuable in understanding profitability and would like to learn more, then please reach out to your CBSW contact director for some further assistance.

Australian Business Results: Asia Pacific SME Business Survey

A survey was **conducted by CPA Australia in November/December 2021** and covered more than 4,250 businesses employing 20 or fewer employees (with more than 500 SME's from Australia included in the survey).

Key findings

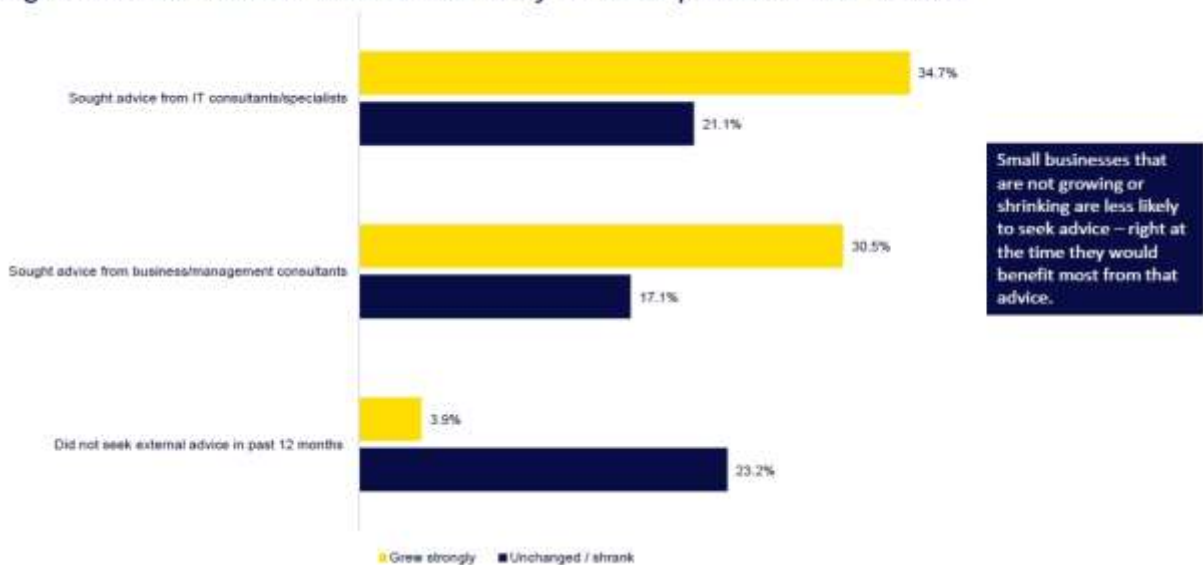
- Small businesses in all markets are more likely to expect to grow in 2022 than 2021.
- Less than half of small businesses reported that they grew in 2021, down from nearly two-thirds in 2019.
- Younger businesses and younger respondents were far more likely to report growing in 2021 and expect to grow in 2022.
- High growth small businesses are much more likely to be using technology, focusing on customer satisfaction, innovating, exporting and seeking professional advice.
- High growth small businesses were significantly more likely to have responded to COVID-19 by making major changes to their business plan, restructured or made big changes to their product or service offering.
- There is a clear generational gap in digital adoption. Respondents 50 and over are far less likely to be taking advantage of various digital technologies in their business.
- There has been no material increase in the percentage of businesses that found paying debts difficult during the pandemic (2020 and 2021) compared with pre-pandemic (2019). This most likely reflects the significant financial assistance many governments offered small business during the pandemic.
- Businesses in difficulty are less likely to seek professional advice.
- Businesses were more likely to have required finance for business survival than growth last year. It's the first time in the history of this survey that small businesses were more likely to seek external finance for survival than growth.

What do high-growth small businesses do differently?

As in previous years, high-growth small businesses across the region were much more likely in 2021 to be:

- using various technologies. This includes:
 - making online sales
 - receiving payments through technologies such as PayPal, buy now pay later technologies, WeChat Pay and Apple Pay
 - using social media to learn more about their customers and potential customers, monitor competitors and recruit employees
- investing in technology. Such investments are significantly more likely to quickly improve profitability
- focusing on customer satisfaction, improving business strategy and improving management
- innovating through the introduction of totally new products, services or processes
- expanding their sales into overseas markets
- seeking professional advice, especially from IT consultants and business consultants
- protecting their business from cyberattack

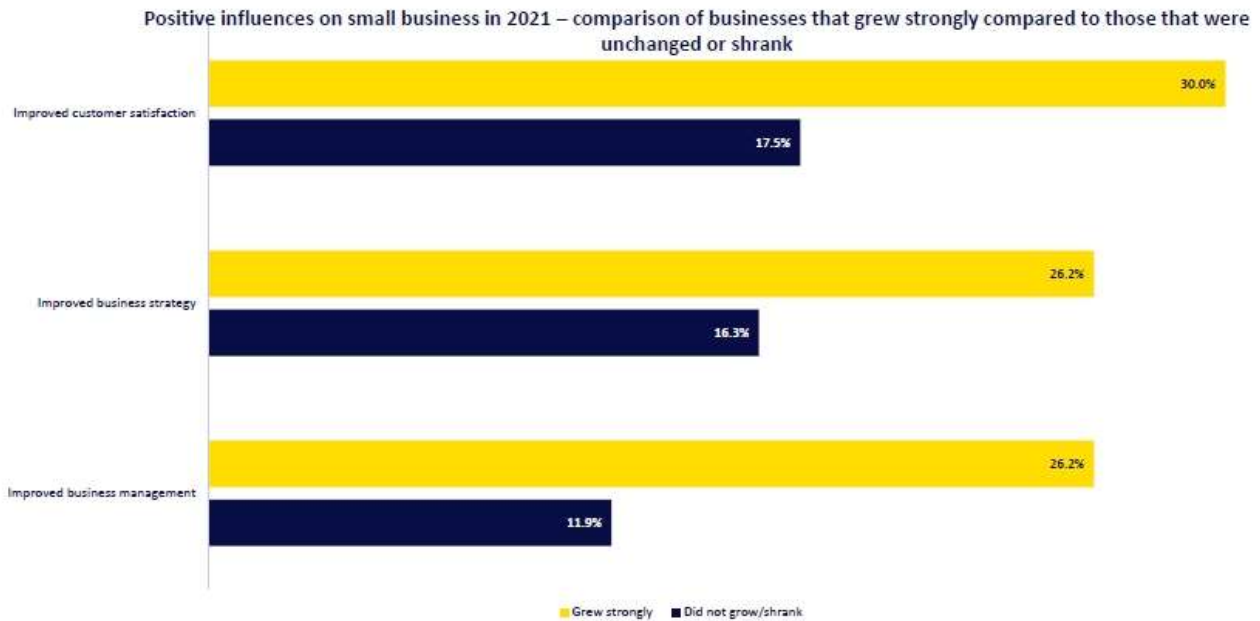
High growth businesses were more likely to seek professional advice



Small business growth expectations for 2022

- Small business growth expectations for 2022 are mixed. The survey results for some markets show a large increase in the number of small business that expect to grow this year, including Philippines, Hong Kong, New Zealand and Australia. While other markets expect a decrease, led by India and the Philippines (although both markets still have very large numbers of businesses that expect to grow).
- Filipino and Indonesian small businesses are the most likely to expect to grow in 2022, while Hong Kong's small businesses remain the least likely to expect to grow, despite the improved result for that market.
- Consistent with reported growth for 2021, younger businesses, younger respondents and larger small businesses are more likely to expect to grow in 2022.
- It should be noted that the survey was conducted before the war in Ukraine and COVID-19 outbreaks in several markets, and this may impact these results. Experiences with COVID-19 in other markets show that economic activity rebounds quickly following the lifting of restrictions, however the uncertainty created by the virus does have some lasting impacts on business confidence. It's harder to predict what impact the war in Ukraine will have on business growth, although it's likely to hit fuel dependent businesses harder due to a higher price for oil.

High growth businesses are more focused on improving customer satisfaction, business strategy and business management



	Australia 2021	Survey average 2021	Rank 2021	Australia 2020	Rank 2020	Australia 2019	Australia 2018	Australia 2017
Businesses that grew in the last 12 months	32.2%	47.3%	11/11	22.3%	10/11	35.3%	42.2%	50.7%
Businesses that expect to grow in the next 12 months	53.1%	61.9%	9/11	41.4%	10/11	41.1%	47.3%	55.6%
Businesses that expect the local economy to grow in the next 12 months	55.1%	60.6%	8/11	44.2%	9/11	29.3%	34.7%	42.3%

To obtain a copy of the [full Asia-Pacific Small Business Survey report](#) - please click on the link [HERE](#).

To get a copy of the [Australian Small Business key findings extract](#), from the full report - please click on the link [HERE](#).

Business Changes & Challenges for 2022/23

A recent Mid-Market business report from MYOB has provided some useful insights into both business challenges and changes being implemented by Australian and New Zealand businesses.

Some of the key challenges and changes are summarised below by Australian SME business.

Challenges

The top five that were identified by businesses surveyed were:

- **Shortage of skilled employees (37%)**
- **Risk of on-going business interruptions due to COVID-19 restrictions and related employee absences (36%)**
- **Maintaining a steady operating sales revenue (35%)**
- **Disruption of supply of goods from overseas (31%)**
- **Business operational and compliance requirement costs (31%)**

Perhaps since this survey was completed we could now add the challenges now associated with heightened inflation risks, pricing of business goods and services and increasing interest rates implications on both consumer demand and business debt funding.

Planned Operational Changes

Most Australian businesses are planning more changes in the 2022/23 because of the changed economic and global marketplace and the additional impacts of global instability, in particular the Ukraine/Russia war on energy costs and further supply chain disruptions.

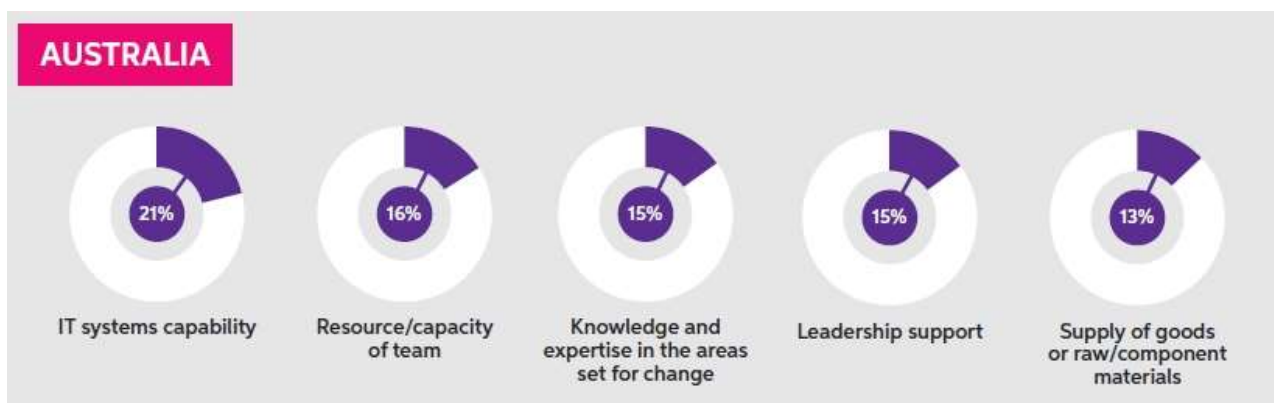
In Australia, this means a focus on improving productivity and efficiency, as well as increasing or reinforcing adaptability through an increase in technology investments, coupled with both structural changes and diversification of the products and services they offer to the market – supported by growth in employee numbers.

The top changes that are planned include the following:

- **Invest in more technology to better run/manage our business (37%)**
- **Hire more full-time staff (35%)**
- **Invest more in marketing and advertising (29%)**
- **Change/restructure their business model (27%)**
- **Provide more/new goods or services for clients/customers (24%)**

Key Business Capabilities

Businesses identified the following will have the biggest influence over whether they can achieve your business goals moving forward in 2022/23.



To get a copy of the [full Mid-Market Business report from MYOB](#), please click on the link [HERE](#).

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