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On The Money

December 2021

The Key Ingredients for Business Success (Part 2)

There's no secret formula that guarantees business success, however, in a series of articles we are examining some of the proven key ingredients. In part one we identified the importance of careful planning, developing a point of difference and a deep understanding of your numbers. In part two we look at the importance of having a marketing plan, a thorough understanding of your competitors and developing systems.

Marketing – Doom, Gloom or Boom?

When you're starting your business, you need to wear a lot of hats. Inventor, production manager, receptionist, bookkeeper and cleaner just to name a few. You also need to fill the role as marketing manager and successful businesses have a clear marketing plan. In the digital age, your marketing could be the difference between Doom, Gloom and Boom.

Typically, business owners invest a huge amount of time and money in their new business with research and development, professional advice, a shop, or office fit out, plant and equipment plus lots of inventory to fill the shelves. You might have the best product or service in the industry but without marketing you won't sell a thing. If you're expecting a queue of customers and hockey stick growth the moment you open the doors, you're going to be disappointed. If you think you'll be inundated with online orders within minutes of your website going live, think again. With websites, it's not a case of 'build it and they will come' because Google can take three or more months to index your website content which means you could be invisible on the internet for months after launching your website.

Don't underestimate the importance of your brand. It needs to resonate with your target market and your ideal type of customer. Your marketing focus needs to be online because increasingly potential customers start their research online and your website is probably the first touch point with a potential new customer. You need to make a good first impression and an amateurish website (or no website at all) is marketing suicide in the digital age. Your website is your online shopfront and if you want to appear on the first page of a Google search you need original, quality content including text, videos, and images.

In the internet fuelled world, a great product or service isn't enough to build a successful business. Your website needs to generate leads, store all your content and be the hub of your marketing activities. You'll probably find the majority of your competitor's websites are still just 'online brochures' that simply list the who what and where of their business. They treat their website as a cost not an investment, but you need to create a website that is a 'lead generation machine' that contains calls to action on every page, lead magnets and videos. It should also have social proof that prove your customers love your products and services.

You need to understand your customers and tailor your content to their needs. Only those businesses that really know their customers deserve their business. You need to know what is important to them which could be price, convenience, location, or same day service. You also need to spell out your expertise and that might mean building content that focuses on your niche markets or specialist services. Don't forget to heavily promote your business' points of difference.

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The greatest compliment we receive from our clients is the referral of their friends, family and business colleagues. Thank you for your support and trust.

The Key Ingredients for Business Success (Part 2) *(Continued)*

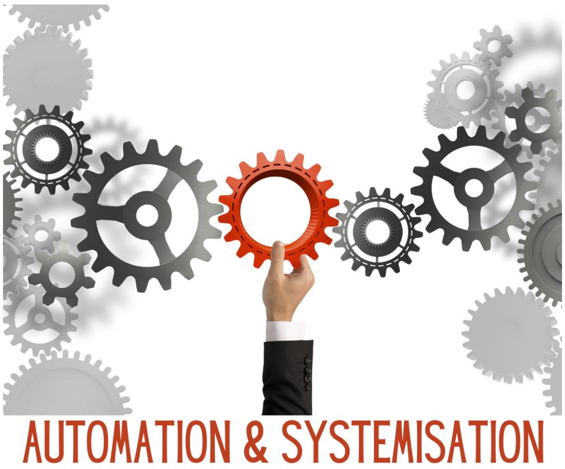
Of course, if we're talking about marketing, it's impossible to ignore social media channels like Facebook, Twitter, YouTube, Instagram, and others.

Systemisation

How is it that some business owners lack the marketing skills of their competitors, seem to work less hours but they are able to scale and grow their business? You'll find these entrepreneurs have simplified, systemised, and automated large parts of their business so their 'machine' runs on auto-pilot.

The challenge for every business owner is to create and grow a business that works independent of them. That is, a business that doesn't rely on the owner's technical skill to produce the products and services. The objective should be to create a valuable and saleable asset.

When Ray Kroc founded McDonalds, he had no intention of working behind a restaurant counter, flipping hamburgers, or cooking fries. His vision was to systemise the business and get hundreds, if not thousands of take away outlets to produce consistent meals and service by getting team members to strictly follow his processes and procedures.



Ray Kroc knew he couldn't be in 100 stores at once so he developed and documented systems and procedures on how to run the business without his hands-on involvement. It included how to fit out stores, hire and train staff, manage the inventory plus heat the buns and cook the fries. Trained staff provide leverage to help grow the business, the profits, and the business value.

Successful business owners work ON the Business, not just IN the business. They don't waste time on low level tasks that could be delegated to team members or outsourced. This can only happen if you identify every

repeatable process or task performed in the business and document how to perform them. You also need to list who is responsible for each step in the process, what tools or resources are to be used and when these tasks should be performed. The mission is to create a business that runs on auto-pilot so management can work on developing and growing the business.

Of course, once you systemise you can then explore ways to automate your processes and technology is the key. One area you can focus on automating is your marketing. Technology can help you grow your list of customers by automatically adding new contacts into your customer relationship manager (CRM) system. Successful businesses recognise their customer database is a key business asset and an up to date, growing customer list is gold. It can make your business more valuable and saleable.

Visitors to your website are encouraged to exchange their contact details for a lead magnet that could be a valuable piece of your content like an e-book, guide, checklist, or free sample. The prospect's email address is automatically added to your CRM system, and you can then segment your customer database based on their areas of interest. You can then target them with tailored offers and then nurture the relationship by sending regular newsletters and offers.

It sounds simple in theory, however, creating a business 'machine' that works like clockwork to produce consistent returns without your daily involvement takes a lot of planning and hard work. A business without systems and automation won't achieve its full potential.

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The Key Ingredients for Business Success (Part 2) *(Continued)*

Understand Your Competitors

Let's face it, you would love to have your competitor's best customers in your stable. Don't worry, the feeling is mutual!

Competition is healthy and exists for a good reason. It provides customers with options and can be the driving force behind product development and improvement. A price war can erupt that forces all players to try and reduce costs and ultimately the consumer wins.

In a crowded market, it's survival of the fittest, fastest, and smartest. Smart business owners watch their competitor's moves and eavesdrop on their products, pricing, and marketing. It's a form of espionage but it's legal and can give you a competitive edge. Be careful not to become obsessive about stalking your competition because all the research takes time and can soak up resources and energy. You can learn from their marketing strategies, product features and innovation plus you can also learn from their mistakes. Imitation is a form of flattery, but your competitors don't like copycats. These type of businesses rarely dominate their industry. Success doesn't happen by chance and your competitors have a proven track record so they must be doing something right.

As a guide, look at your main competitors and:

- Look to cherry-pick the best parts of their product features, systems, processes, and marketing.
- Get to know their pricing
- Monitor their marketing and special offers.
- Understand their point of difference and unique selling point.
- Monitor their social media activities and access their newsletters.
- Read their blogs – do they reveal something about their future plans or products.

Remember, if you get traction in the market your competitors will turn their attention to your marketing and social media accounts. For that reason, when setting up your business make sure you protect your brand and intellectual property with appropriate patents, trademarks, and copyrights. Think carefully about what you post on your social media accounts.

The forensic investigation starts with your competitor's website that should provide the names of staff and the management team, some history of the business and details of their main products and services. It might provide more information than you expected and give you an insight into their strengths and weaknesses. Are there any obvious weaknesses you could exploit? They will almost certainly have social media accounts so you can explore their Facebook, Instagram, and Twitter accounts plus their LinkedIn profiles. These could uncover a treasure trove of information.

There are lots of tools you can use to 'spy' on your competitors and as a guide, Google Alerts will let you monitor every time your competitor is mentioned online and send you an email notification. You can also monitor keywords with this tool.

Summary

Businesses don't succeed by accident and yours won't either. To succeed you need a plan that combines strategy with technology and tools. You then need to implement!

Successful business owners monitor their competitors marketing and have their own clear marketing plan. They develop a clear point of difference, systemise their operations, track changes in consumer behaviour and carefully monitor industry trends. They research new and emerging technology that could revolutionise their business.

Smart entrepreneurs recognise the fact that they can't do it all on their own so they hire the right people and build a team that can grow the business. If you're looking to build a successful business, we invite you to contact us today.

Government Locks in Director ID Deadline

Existing Company Directors are required to apply for a director identification number (Director ID) by 30 November 2022. Directors of Indigenous corporations that are governed by the *Corporations (Aboriginal and Torres Strait Islander) Act* 2006 (*CATSI Act*) will be required to apply for the unique identifier by 30 November 2023.

Applications for a Director ID are free and opened in October on the newly established Australian Business Registry Services (ABRS), a single platform administered by the Commissioner of Taxation that brings together ASIC's 31 business registers and the Australian Business Register.

Directors must apply for their Director ID personally and will be required to produce their myGovID alongside two identity documents from a list including their bank account details, super account details, ATO notice of assessment, dividend statement, Centrelink payment summary and PAYG payment summary.

While existing directors will have a year to apply for their director ID, new directors appointed between **1 November 2021 and 4 April 2022** will have just **28 days** after appointment to apply for their director ID. New directors who are appointed from 5 April 2022 will be required to apply for their director ID before appointment.

Under the law, directors who fail to apply for a director ID within the stipulated time frame can face criminal or civil penalties of 5,000 penalty units, which currently stands at $1.11 million. Directors of a CATSI organisation can face penalties of up to $200,000. Penalties will also apply for conduct that undermines the new requirements, including providing false identity information to the registrar or intentionally applying for multiple director IDs.

The government expects the director ID regime to help prevent illegal phoenixing by ensuring directors can be traced across companies, while also preventing the use of false or fictitious identities.

The new regime, passed in Parliament in June last year, is expected to cover over 2.5 million directors, or roughly 10 per cent of Australia's 25.7 million population. The director ID will be attached to a director permanently, even if they cease to be a director, change their name, or move interstate or overseas.

Find out more about the director ID regime on the new ABRS website.

Preparing to Sell Your Business

At some point in time, you're going to make the decision to sell your business. It's a big decision and an emotional time because in many cases you could be selling your life's work. It might have taken you 10, 20 or 30 years to build this asset so don't expect to sell it in 5 days.

It's an emotional time because you'll reflect on the long hours, staff issues, customer dramas and the financial risks you took to get up and running. Sadly, in business, passion and hard work doesn't always translate into profit. Working 7 days a week and forfeiting holidays won't necessarily add value to the business and the buyers want to see financial proof that justifies the asking price. The figures are a reflection of the owner's years of blood, sweat and tears.

As the vendor, your objective is to maximise the sale price and protect the goodwill you have created. You also want to look after your loyal staff and make sure they still have a job. You also want to ensure your customers continue to get the service they deserve and have become accustomed to over the years. On the other hand, buyers view the purchase as a business transaction. They are now taking on the risk and possibly debt, so they expect a reasonable return on their investment. When assessing the value of a business, most buyers are focused on the historic revenue and profit figures. Unfortunately, in many instances, the vendor let's their emotions cloud their judgment which explains why they think the business is worth more than the market will pay. The emotion creates commotion.

You need to understand that selling your business is a process that can take months. You need to plan the sale if you want to achieve the best possible outcome for you, your staff, and your customers. A lot of the focus will be on the sale price so before you start talking to prospective buyers or list the business for sale, you need to get a realistic valuation. It's a good idea to consult with a business broker who ideally specialises in your industry.

There are several different business valuation methods, however, as a guide, most businesses are valued on a multiple of gross revenue or net profit. The multiple can vary dramatically between industries. Generally speaking, most industries tend to follow a specific valuation method and business brokers and valuers will usually have access to industry data including recent sales of similar businesses.

While every business is different, the valuation could hinge on a several factors including:

- Industry Type
- Size of Business – Total Revenue
- Return on Investment – Annual Profit & EBIT (Earnings Before Interest and Tax)
- Longevity and History of the Business
- Reasons for Selling – Retirement vs Distressed Sale
- The Business Assets – Equipment (age, working order and debt free)
- Value of Inventory and Intellectual Property
- Projected Cash Flows & Value of Future Contracts
- Lease on the Premises – Terms and Transferability
- Structure of the Sale and the Terms of Sale.

Let's examine some key factors that impact on the value of a business.

1. Financial Performance

When assessing the value of a business, potential buyers and their advisors will focus on your financial performance starting with your top line revenue. They will compare your turnover to prior year figures and buyers ideally want to see a business that is growing not slowing.

Buyers will also focus on your bottom line profit

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because this is their likely return on investment. In some industries the business valuation is based on a multiple of the annual profit while other industries (such as professional service businesses) base the valuation on a multiple of gross revenue. In either case, vendors will often talk the business up and sell the growth potential, however, buyers are focused on profits not potential.

When looking at the financial performance of the business, trends are also very important. Buyers want to see the revenue and profit on an upward trajectory. Revenue that is flatlining or in decline can be a red flag for buyers while 'hockey stick growth' will always make a business look attractive. If you've made the decision to sell, you can't afford to take your foot off the accelerator. You might be burnt out, but you can't let the business performance fall away. It has to be business as usual right up to settlement date because plenty of sales fall over at the eleventh hour.

When buyers are evaluating your business, they generally require at least three years' worth of financial information and the more formal your financial statements, the better. You should provide financials produced or certified by an accountant, not internally generated statements from your accounting software. Certified financial statements will help buyers with their due diligence and if there's one aspect that will slow or jeopardise the sale, it's issues with the figures. For that reason, we recommend you always have your business 'investor ready' that means having up-to-date financial statements (profit and loss statement and balance sheet) plus income tax returns for the last 3 financial years.

2. Timing

The timing of your sale can also impact on the value of the business. For example, in recessionary times, finance is generally harder to raise and the appetite

from buyers to purchase businesses is usually subdued. Again, business owners should always be investor ready and it's no secret that a well prepared business will generally sell faster and for more money.

The law of supply and demand influences prices and a market saturated with a supply of similar types of businesses will give buyers more options and price negotiation power. By contrast, if there is high demand from buyers with a shortage of businesses on the market, vendors should get a premium sale price. The key takeaway here is, build a business with a competitive point of difference to differentiate your business from the rest of the pack.

Business owners often hang on too long and defer the sale until the 'time is right'. If you want to achieve top dollar on sale you need to take into account the market and economic conditions. If you're burnt out it's highly unlikely that you'll keep growing the business so it's best to sell when the key performance indicators are all positive. If the business is in decline the buyers will devalue the operation and there are plenty of bargain hunters looking for distressed businesses with a 'fire sale' price tag.

If you sense your sales or profits are likely to tumble in the future, it might be time to cash in your chips. For example, if a major competitor or franchise is opening a new store in a prime location close to you and they offer cheaper prices, that might be the trigger to list your business for sale. If you know one of your major customers is selling or closing their business this could put your business at risk. If you know your landlord is planning to hike up the rent or a major supplier is looking to raise their prices, your profitability could be under pressure and that will affect your business value. Of course, this type of information might be in the public domain, so it also serves as a warning to buyers and reinforces the need for them to do exhaustive due diligence when buying a business.

Finally, make sure you have an understanding of the

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true value of the business. Buyers will base their valuation on a formula and if you are basing your valuation on emotional factors (including an amount you need for retirement) then it's going to be an exhausting and draining process. You might miss engaging the right buyer because your valuation is unrealistic and months later your next offer is below their offer.

3. A Great Team

In the eyes of the buyer, your staff could be one of your most valuable assets. In fact, the definition of a great business is one that doesn't require the input of your technical skills on a daily basis. Successful business owners work ON the Business, not just IN the business and they don't waste time on low level tasks that could be delegated to team members or outsourced.

Using the Ray Kroc (founder of McDonalds) example again, he was only able to achieve his vision through recruiting and training team members to follow his processes and procedures. The staff gave him the leverage to grow the business, the profits and ultimately the business value.

A quality and experienced team can add value to the business and smart buyers will focus their attention on your staff as part of their due diligence. Are they good performers? Are they loyal and will they stay on? What relationships do they have with your key customers? If you're exiting the business with no handover period, who can the buyer turn to for help in running the business? The lesson here is, develop a management succession plan before going to market.

4. Systems, Customer Database Systems

In the digital and social age, your marketing can be the difference between gloom, doom, and boom. Given your customers are the lifeblood of the business, your customer database is an extremely valuable asset and potential buyers will be very interested in the size and depth of your customer data. An up-to-date database that includes your customer's email address, gender, age and buying preferences will make your business more attractive and valuable.

Buyers target systemised businesses which partially explains why franchises are so popular in this country. They want businesses that have incorporated email marketing and automated systems into their operation. Email marketing is inexpensive and proven to generate repeat business. We hear all the talk of people being overwhelmed by their inboxes, however, that doesn't mean email marketing is no longer effective. By segregating your database based on your customer's preferences you can cut through all the noise and tailor offers to their specific interests. Of course, nurturing the relationship with your customers through regular newsletters and updates will keep your brand top of mind.

Summary

While it's an emotional time when selling your business, it's fundamentally a business decision. Think about what makes your business valuable to buyers including the financials, your team, and your systems. The timing is important so make sure you plan the process to ensure you get the best financial outcome.

If you're thinking of selling your business, we invite you to consult with us. We can help you get your financials up to date plus assist you to develop a plan and timeline. Most importantly, we can also provide some tax effective advice on how to structure the deal.

ATO’s New Stapled Super Fund Rules – What Do Employers Need to Do?

Superannuation stapling came into effect from 1st November 2021 for new employees and employers will need to ensure their onboarding process complies with the ATO’s new ‘super stapling’ requirements.

What is ‘Super Stapling’?

‘Superannuation stapling’ was introduced as part of a package of reforms to the superannuation system announced in the 2020/21 Federal Budget. Prior to 1st November 2021, when a new employee commenced employment and did not choose a superannuation fund, the new employer would pay their superannuation contributions into the default product nominated by the employer. As a result, a person who changes jobs and does not exercise choice of fund, may unintentionally end up with multiple accounts, thereby potentially eroding their retirement savings (the ATO estimates there are approximately 6 million unintended multiple superannuation accounts, incurring around $450 million in fees).

As from 1st November 2021, however, under the ‘super stapling’ reforms, where a person moves jobs, their existing superannuation account will be linked or ‘stapled’ to them, meaning that their new employer must pay contributions into the ‘stapled fund’ unless the member chooses for their contributions to go to a different fund.

What Action Must Employers Take?

Employers must generally provide new employees with a superannuation Standard Choice Form within 28 days of commencing work. When a new employee commences **on or after 1 November 2021**, and does not choose a fund in that time, the employer will need to check if the employee has an existing stapled fund. This is done by logging into ATO online services and accessing the ‘stapled super fund request service’. The employer will need to have lodged either a Single Touch Payroll event or a tax file number declaration for the employee to make the request and the ATO has advised that the result should be available within minutes.

If the employee has not exercised choice and has a stapled fund, the employer will be required to contribute to the employee’s stapled fund to meet their Superannuation Guarantee (SG) obligations. If the employer makes contributions to their default fund instead of the employee’s stapled fund (where they have one), the employer may be subject to the choice shortfall penalty.

The stapled fund rules only apply to new employees who commence work on or after 1 November 2021. No request for stapled super fund details is required for a

new employee after that date where they have nominated a superannuation fund.

What if Our Employment Agreements Specifies the Superannuation Fund?

Current superannuation clauses in employment agreements should be updated to refer to the possibility of contributions being made into an employee's stapled fund. Employers will need to comply with the new 'super stapling' rules and will breach their SG obligations if they use their default fund, even if it is specified in an Enterprise Agreement or Award.

What If the Employee Has More Than One Super Account Already?

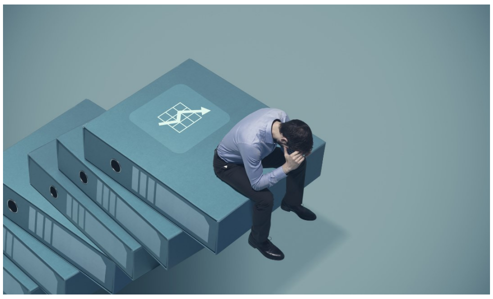
Neither the employee nor employer selects which is the stapled superannuation fund. The ATO is required to determine which is the stapled fund, applying certain ‘tiebreaker’ rules set out in the legislation. The stapled fund will generally be the fund that the employee last received contributions into, but not necessarily. Importantly, employers must ensure they always check the ATO portal to determine which fund is the employee’s stapled fund, even if the employee thinks they know which is their stapled fund.

Should We Still Offer Our Default Fund to New Employees?

The premise behind ‘super stapling’ is to prevent an employee from having unintentional multiple superannuation accounts, however, being in a stapled fund may not be in the employee’s interests. An employee's stapled fund may have higher fees, inadequate insurance, or expensive insurance cover (sometimes insurance can cease when they leave their previous employer for example). Offering a new employee details of the default fund should be handled carefully so as not to be offering financial advice to new employees.

The ATO website has further information regarding stapled super funds.

Why Do New Businesses Fail?



The COVID-19 pandemic has impacted the way we live, work and play. For many, working from home and hosting virtual meetings with no commute is the new norm. It's almost like a decade of change has been compressed into just 18 months.

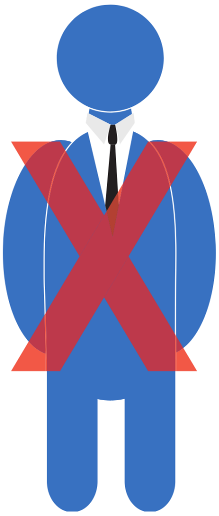
The snap lockdowns produced a whirlwind of change with curfews, QR codes and density limits. Cash transactions are disappearing in favour of electronic payments and the 'buy now, pay later' concept has exploded. The business landscape has changed with many businesses forced into hibernation and sadly, some becoming extinct.

While the pandemic has posed a threat to lives and livelihoods, there's clear evidence that people have struggled to balance the hybrid work model particularly when combined with home schooling duties. The impact on people's mental health is real with increased anxiety, employee burnout, absenteeism, and a drop in productivity. After 18 months of uncertainty people are doing a lot of soul-searching and a chunk of the population are re-evaluating various parts of their lives including their employment or self-employment. According to Microsoft's 2021 Work Trend Index, over 40% of the global workforce is likely to consider leaving their current employer within the next year, and 49% of those plan to make a major pivot or career transition. As a result, we expect a surge in business start-ups in 2021/22.

While the reasons to branch out and start a new business seem logical, be warned because entrepreneurship isn't for everyone. It can be a hard road and if you need supporting evidence, talk to any business owner about the roller coaster ride of the last 18 months. You need to be resilient and have more than just courage, a good idea and plenty of passion. Statistically speaking, the survival rate of new businesses isn't encouraging with around 20% failing in the first year and around 50% not surviving beyond year five.

Let's look at some of the main reasons why businesses fail.

1. The Wrong Person



Many businesses fail simply because of their founder. When you start a business, you're probably operating on a tight budget, so you have to multi-task and fill the roles of inventor, production manager, receptionist, bookkeeper, cleaner, marketing manager and webmaster. You have to juggle a lot of balls in the air while you're on the run. Too often you become a 'jack of all trades and master of none'.

While entrepreneurship sounds attractive, most successful business owners are disciplined, determined, organised, passionate, skilled, and creative. It can be a fine line between success and failure, and you need to be resilient because you'll need to make sacrifices, work extended hours, and manage pressure and stress.

New entrepreneurs can get swept up in the excitement of starting their own business and in the rush, they bypass some important steps and check points. Attention to detail is important and there are a number of key decisions to be made in the set up phase including business registrations, choice of accounting software, adequate and appropriate insurances, finance and of course, the business structure.

In the internet-fuelled world, a great product or service isn't enough to build a successful business. Enthusiasm, money, hard work, talent and a great idea are usually 'must haves' but they don't guarantee business success. Being a good technician is not enough anymore as you need to be able to manage the business including the compliance aspects particularly if you plan to grow and employ staff.

Successful entrepreneurs work ON the business, not just IN the business. You might be a great technician but lack the accounting, legal, HR, marketing, social media, and website skills. Understand your strengths and delegate your weaknesses. It might cost you more in the short term, but your opening moves are critical. Rushing the set-up process or pulling the wrong rein can have catastrophic financial consequences.

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Why Do New Businesses Fail? *(Continued)*

You also need to be starting the business for the right reasons. If your motivation is to make lots of money, stop having to answer to the boss or have more freedom and time with your family - be prepared for a long and winding road. It's not that easy and only a small percentage of business owners get to enjoy those benefits. It can take 10 years of toil to become an 'overnight success'. The right reasons for starting a business might include the fact that you have a real love for what you are doing and based on your research there's a market for your product or service. If you have the skills, understand the risks, and have the DNA of an entrepreneur, make sure you also have the funds and business plan to bring the business to life.

2. Failing to Plan Is Planning to Fail

In business and in life, failing to plan is planning to fail. Building a business is akin to building a house that requires solid foundations and a master plan. Your business plan must be realistic which requires you to make forecasts and projections using data from your research. It is the blueprint for your business success and details your goals and how you plan to meet those goals.

It should also identify the likely problems you might encounter and how you plan to overcome them. Your business plan should list key tasks, a timeline for implementation and identify who is responsible for performing the tasks. The plan should incorporate a marketing plan and a financial plan including a cash flow forecast for the first 12 months of operation. Given you're starting the business from scratch, you'll need to make a lot of assumptions but without a financial forecast you can't prove the viability of the business.

To secure finance from a bank or third party you'll need a professional plan. You could burn a lot of cash and probably burn yourself out trying to push square pegs into round holes so if the numbers don't stack up it's time to go back to the drawing board. Think about putting your largest expenses under the microscope and see if they can get a 'haircut'. What about your prices, could the market handle an increase and what impact would that have on your projected profit?

Could you source cheaper inputs from suppliers without compromising the quality of your products? Could you manage to operate from smaller or cheaper premises in the short term? Could you outsource some of your marketing? Could you lease rather than purchase some of your equipment or vehicles? Could you offer additional related services to increase your revenue and are there new markets you could try without stretching your resources or finances? Punch the changes into your budget and see if that makes the business viable.

Planning involves researching the market including the prices and your competitors. You need to know the suppliers, their pricing plus study the industry trends and latest technology and software. In business it's survival of the fittest, fastest, and smartest so do your homework and get educated on the things that matter. Monitor your competitors online and see what's working for them and learn from their mistakes. Develop a point of difference and think about what you can innovate with your products, services, and marketing.

3. Lack of Cash Flow or Working Capital

Plenty of start-ups crash because they run out of cash. This can often be a symptom of bigger problems like bad financial management, a lack of planning, poor marketing or a bad product or the wrong location.

While it's never easy to do financial forecasts for a business with no trading history, you need to make a lot of assumptions and entrepreneurs often make two obvious mistakes when preparing their cash flow budget. They:

- Overestimate their projected revenue
- Underestimate their expenses

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Why Do New Businesses Fail? *(Continued)*

When preparing sales forecasts, you need to look at the best and worst case scenarios. You then need to ensure you have the financial resources to survive the worst case scenario. You also need to understand the difference between sales and cash flow. What percentage of sales will be in cash and what percentage will be on credit with customer accounts? For the customers you extend credit to, what are their terms and when will you receive payment? A miscalculation can trigger an immediate need for finance and banks generally don't respond well to urgent calls for finance.

In start-up mode, you'll always find there are extra expenses you didn't factor into your budget. Theses unexpected costs always pop up and we often see the budget for product development and shop fit out costs blow out. Marketing costs are hard to pinpoint with accuracy and equipment prices can change. Again, your cash flow budget is critical, and it should calculate how much money you will have on hand at the end of each month. You need to identify any shortfall well in advance to arrange finance including an extension of your overdraft or new loan.

Build your cash flow budget commencing with your one-off start-up costs and don't forget brand development, website, IT requirements, shop fit out, equipment, furniture, and fittings. Factor in professional fees and the cost of licences and business registrations. From there, identify your fixed costs (rent, phone and internet, insurance, rates etc.) before you work on your variable costs that change based on your level of sales. For example, how much stock do you order for your initial order? Stock is really your money tied up on the shelves or in the warehouse, so inventory control is a crucial part of business management.

No matter how brilliant your idea, if you can't make it profitable or scalable, you won't have a successful business. As accountants, we can help you do some financial modelling and prepare forecasts based on 'what if' scenarios.

4. Marketing, Website & Social Media

If your business relies on foot traffic, the wrong location can prove a disaster. In the digital age, if your business relies on on-line traffic, a poor website or a lack of social media activity could prove fatal.

Most start-up entrepreneurs invest a huge amount of time and money in their new venture with research and development, a shop or office fit out, new plant and equipment, professional fees for accounting and legal advice plus inventory. These may well be essential, however, too often new business owners put the cart before the horse because all the planning and investment will amount to nothing if you don't have customers.

Let's be honest, how can you estimate your sales if you don't have a marketing plan? It needs to be a priority not something you piece together just before you launch the business. The plan should detail how you plan to use both digital and traditional (offline) tactics and if you're expecting a queue of customers the moment you open your doors, you're in for a shock. If you think all you need to do is build a website and customers will come, think again. You're not going to be inundated with online orders within days of your website going live because Google can take three or more months to index your content. This means your content could be invisible on the internet for months after going live.

Increasingly your marketing focus needs to be online because potential customers start their research online and your website is probably going to be the first touch point with them. You only get one chance to make a good first impression and an amateurish website (or no website at all) is marketing suicide in the digital age. The web is full of poor websites that are nothing more than 'online brochures' that simply list the who what and where of the business. If you're looking to penetrate the market with your

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Why Do New Businesses Fail? *(Continued)*

start-up, your website has to be outstanding with calls to action on every page, lead magnets and videos. As such, you need to plan the website build early in the process.

Think about your ideal type of customer and produce content (text on website pages, videos, blog posts, articles, white papers, webinars, and e-books) that is relevant, interesting, and valuable to them. The mission is to appear on the first page of Google searches for keywords and phrases, but you need to understand, search engine optimisation (SEO) requires research and planning. The purpose is to communicate your expertise, build trust and demonstrate to potential customers how you can help them. Think about what topics and issues appeal to your target market because the content is what fuels your social media, blogs, webinars, and emails. Ideally, your content should be original, educational, helpful, or entertaining, rather than promotional or sales-oriented.

You can't afford to ignore social media channels like Facebook, Instagram, YouTube, Twitter and TikTok but you need to research which platforms your target audience engage with because there's no point choosing Twitter if your target audience isn't on it. Similarly, you can't afford to ignore Facebook if 70% of your target audience are active users. It's horses for courses and strategic marketing involves delivering targeted messages at the right frequency using the appropriate resources. The beauty of digital marketing is it's a level playing field that allows start-ups to compete with established high profile big businesses.

SUMMARY

Businesses don't succeed by accident and yours won't either. Without doubt, planning is the most important ingredient and the adage, 'people don't plan to fail, they just fail to plan' certainly applies. A lot of start-ups fail because the founder simply didn't do enough research and planning. This serves as both valuable advice and a warning for budding entrepreneurs looking to start a business.

You need a business plan that details the strategies, tools, technology, tactics, and resources you plan to use. Your game plan must prove the business is financially viable so it must incorporate a financial plan and marketing plan together with a timeline of when tasks should be completed. Successful business owners research new and emerging technology that could revolutionise their industry and monitor their competitors. They develop points of difference, systemise their operations, track changes in consumer behaviour and carefully monitor industry trends.

The list of reasons why businesses and particularly start-ups fail is long. The wrong person with a lack of a lack of management skill, inadequate cash reserves, poor planning and the wrong marketing mix are all red flags. The wrong location, no website or social media, poor quality products, the wrong pricing, bad timing (economic issues) and a lack of demand are other factors. Sometimes expanding too quickly can bring a business to its knees and conflict between key people is a time bomb ready to explode. Many bankruptcies have been caused by rapidly expanding businesses who simply couldn't keep up with the production requirements, raise more capital or have the right systems in place to cope with a surge in sales. Running a business can be a roller coaster ride and high speed may provide thrills, but it can also kill. Burn out will bring a start-up business to a grinding halt.

Smart entrepreneurs recognise the fact that they can't do it all on their own so they hire the right people and build a team that can grow the business. If you're thinking of starting your own business, we invite you to contact us today