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FINANCIAL SUCCESS FOR  
SMALL BUSINESS OWNERS

*“Last year we doubled our turnover  
but our gross profit was \$100,000 less.”*

*Rachelle Rose - Deep Green Landscaping, Perth*

Small business owners face many challenges, from the day-to-day running of their business; to generating sufficient income; to building up the value of their business to provide a significant future nest egg for themselves and their families.

Running a small business can be lonely and stressful. By understanding who can help and how; small business owners can find the guidance and advice they need to start or further their journey along the path to success.

This white paper explains the role a personal CFO can play in creating a successful financial life for small business owners. In the corporate world a CFO, or Chief Financial Officer, is a corporate officer primarily responsible for managing the financial risks of the corporation, they are also responsible for financial planning and reporting to higher management.

A personal CFO is a similar role for small business and can be an invaluable asset when it comes to ensuring the financial success of a small business.

# THE CHALLENGES FACED BY SMALL BUSINESS OWNERS

## ACCESS TO CREDIT

Access to credit is vital for small business, as it funds all facets of their lifecycle from start-up, through to growth phases and times where there are cash flow shortages. In recent years, banks have tightened lending requirements, becoming risk-averse. This means credit for small business is often more expensive, as it is often perceived to present a higher degree of financial risk.

The *Senate Economics Committee Inquiry into Access of Small Business to Finance* (Published June 2010) reported decreased competition, increased bank profit margins and price leadership in the banking sector. According to the report, "Lending to small business has slowed since the global financial crisis and interest margins have widened."

The Senate Committee indicated that the fall in lending to small business could be attributed to a number of factors:

- Reduced confidence caused a more conservative attitude towards debt;
- Fewer small businesses are able to meet existing lending standards;
- The tightening of lending standards by financial intermediaries;
- Non-bank lenders have fewer funds available as securitisation and inter-bank lending markets dried up and/or interest rates became prohibitive.

Steve Bates, Principal of Bates & Pickering Accounting, says banks want the following from their small business clients:

- Better accounting systems
- Tighter controls
- Better reporting systems
- Sometimes monthly financials and
- Business plans

Basically the banks want to see better management from small business owners.

In addition, the ATO has gone from being quite helpful regarding businesses with cash flow difficulties during the GFC, to now becoming much more forceful.

*“They (banks) are drilling into the management capabilities of the business as much as looking at the financial capabilities”*

*Steve Bates - Bates & Pickering, Canberra*

Business owners who are getting the right advice and guidance will be better equipped and more organised when it comes to approaching banks for credit to grow their businesses.

## CASE STUDY:

*Jenny runs a small café in the CBD, which primarily serves coffee to busy professionals. She now wants to look at expanding into the premises next door, which has recently been vacated. As part of her expansion plans, Jenny wants to start selling sit-down breakfasts. After spending some time looking at the expense involved, Jenny feels a little overwhelmed by it all and is unsure how to assess the merits of her expansion plan, or how to finance it.*

*Jenny decides she needs to call in some help. She brings in a personal CFO, who starts by developing a detailed business plan for Jenny. The business plan provides both Jenny and her bank with a clear picture of her proposed expansion including the benefits, risks, challenges, and her need for finance. Jenny and her personal CFO meet with Jenny's bank and together negotiate the necessary capital to finance the expansion. In addition, her personal CFO recommends that she buy the operating premises of the business via a newly established Self Managed Super Fund and assists her with negotiating the purchase.*

*With the help of her personal CFO, Jenny is now able to obtain the finance she needs from her bank and implement her expansion plan resulting in a more profitable and valuable business. In addition, the rent her business pays will help her fund her retirement, as her newly-established Self Managed Super Fund, which now owns the premises, receives this income.*

## STAFF

Good staff can be difficult to find and retaining them is a priority to many small business owners (SBO's). Regardless of the financial big picture, SBO's are always at risk of losing a key staff member to a competitor. For this reason, many businesses consider incentives, such as employee share schemes.

Staff are crucial to the success of almost any business, but they can also be one of the largest risks due to the expense of paying salaries and other on-costs, potential for poaching clients, insurance claims such as workers compensation, and industrial disputes to name a few.

When you run a business and are busy doing what you are good at, having to deal with inter-office tensions between staff can be time-consuming and draining.

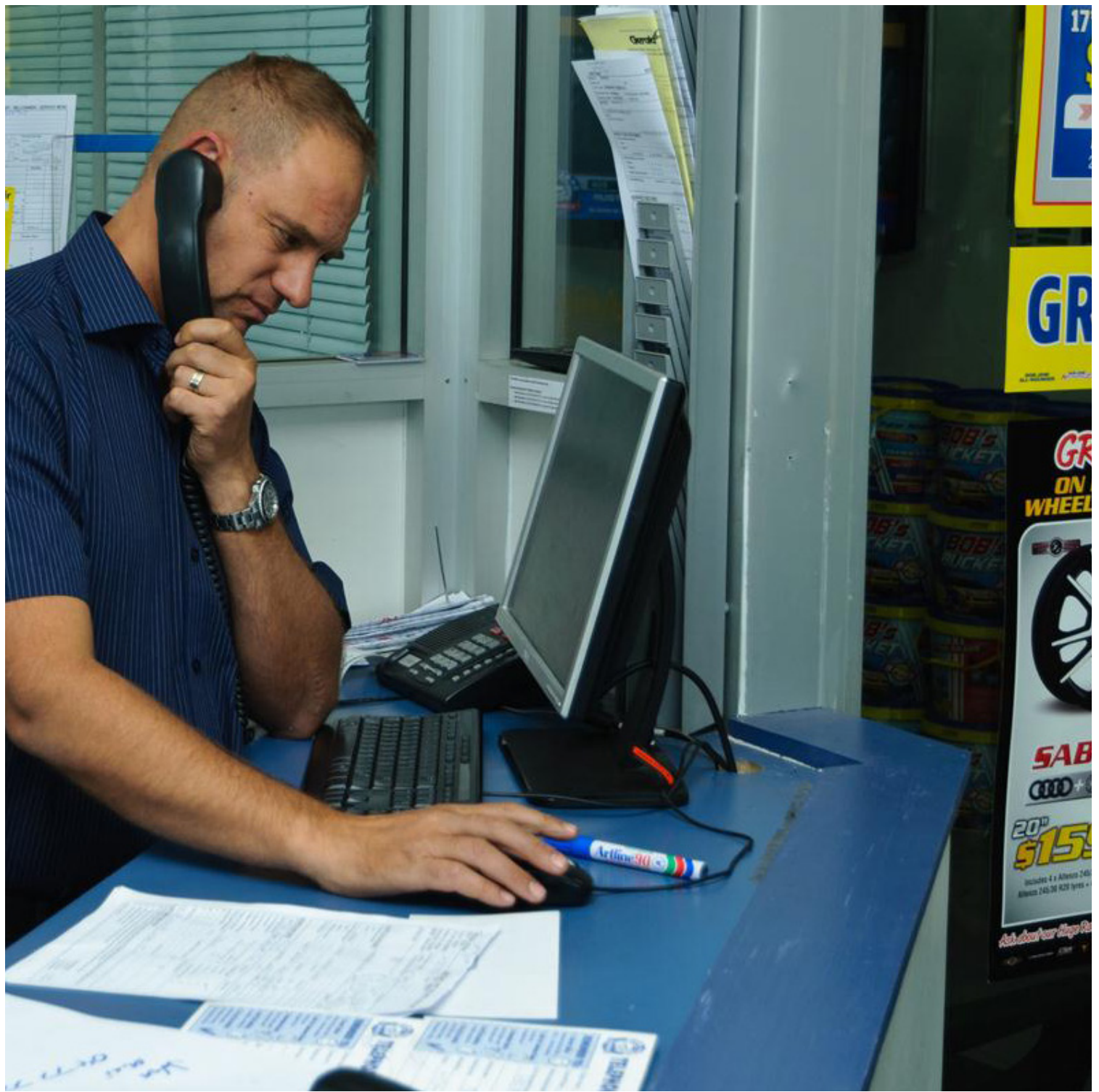
*"We had to deal with conflict between a woman in her 50's and a girl who was 22, it was ridiculous. They both sat at their desks doing no work and complaining about each other."*

*Rachelle Rose - Deep Green Landscaping, Perth*

*"You get one bad one and it lets the whole team down."*

*Eddie Cuschieri - Franchise Owner, Bob Jane T-Mart Belconnen*

Lack of time is a common problem for small business owners, and one of the best ways to free up time is to delegate responsibility to staff. A good question to ask yourself is, "Can one of my employees do this 80% as well as me?" If the answer is "Yes", then you should delegate that task.



Productive employees can free up significant time for busy business owners, in turn allowing them to focus their time on the things that improve profitability. However increasing the productivity of staff is an ongoing challenge.

*“Reliability is an issue, and getting them to work productively is an issue. They have to have incentives. If they don’t have incentives, they can go and get a job in the Public Service to work half the hours and get the same sort of pay. They can’t comprehend that the more you do, the more you get rewarded.”*

*Eddie Cuschieri-Franchise Owner, Bob Jane T-Mart Belconnen*

In the book, “The Elements of Great Managers”, by Rodd Wagner and J.K. Harter, the authors discuss how to harness employee engagement and how this engagement can increase profitability. They quote the Gallup research on employee opinion, a comprehensive study in which the following areas became evident. Employees said, “If you do these things for us, we will do what the company needs.”



The 12 elements required to engage employees include:

- I know what is expected of me at work
- I have the right materials and equipment to do my work correctly
- I have the opportunity to do what I do best every day
- In the last seven days, I have received recognition or praise for doing good work
- My superior or someone at work cares about me
- There is someone at work that encourages my development
- At work, opinions seem to count
- The mission or purpose of the company makes me feel that my work is important
- My associates or fellow employees are committed to doing quality work
- I have a best friend at work
- In the last 6 months someone has talked to me about my progress at work
- This last year I have had opportunities to grow and learn

By considering these 12 elements, your business will have more motivated staff, improved loyalty and higher profitability.

## ALL WORK IS NO FUN

Running a business consumes much of your time and energy and can make it hard to fit in important things such as family, holidays, exercise etc.

Almost 50% of business owners estimated they work more than 40 hours in a typical week, while 22% estimated they work 41 – 50 hours, 18% estimated working 51 to 70 hours, and 6% estimated working over 70 hours.<sup>1</sup>

It is instinctive to work more hours in order to grow your business, but it may not always be the right option, especially if you consider the impact on your family life.

*"In the past 3 years our turnover has increased, but we're not making any more profit... and it stresses you. Everybody thinks you're making a killing, but honestly, sometimes you are better off to scale back. If you're doing more tyres, it means you need more staff and more machines are being used."*

*Eddie Cuschieri - Franchise Owner, Bob Jane T-Mart Belconnen*

Small business owners are usually very confident and capable at delivering a service, product or outcome to their clients, i.e. landscaping, accounting, printing, design, construction, etc. However, where many fail is in putting on their "business management hat". For some small business owners, this part of the job does not always come naturally - it can be stressful and is often neglected.

This is a great example of where a personal CFO can add value, by providing their guidance and tapping into experience gained by working with large numbers of small business owners. The right personal CFO can help you achieve financial success to make work optional. When you reach that point, you have much greater flexibility in regard to your other commitments, such as family.

Source 1: Department of Innovation, Industry, Science and Research – Key Statistics Australian Small Business

## WHEN THINGS GO WRONG

Most small businesses don't plan for the unexpected, such as death, disability, trauma, etc. Where there is more than one business owner, little thought is given to what happens in these same circumstances, and how to pay out that business partner, if need be.

This year, 60,000 Australians will have a stroke, and a further 8,000 will die from injuries. The idea that "it won't happen to me" is fraught with danger and puts a small business owner's family, business and staff at risk.

*"If Julian had a heart attack and dropped dead I really don't know what we would do."*

*Rachelle Rose - Deep Green Landscaping, Perth*

Consider these statistics:

- 100% of SBO's have heard of Life Insurance, yet only 65% of them have cover
- 57% of SBO's have no Total and Permanent Disability cover
- 88% of SBO's with loans have no loan protection in place
- 76% of SBO's have no Trauma Cover
- 57% of SBO's have no Income Protection Cover 2

Workers compensation is not available to the self-employed. Even if you are an employee of your own company, over 50% of serious injuries happen away from work where worker's compensation does not apply. Worker's compensation does not cover non-work related illness.

Source 2: Cameron Research Group - The Australian Small Business Market for Financial Services: 2010

## CASE STUDY:

*Mike runs a printing business which employs five staff. In 2008, Mike was diagnosed with lung cancer, which came as a surprise to both Mike and his family, as he has never been a smoker. He was told by his doctor that he had a 40% chance of surviving for 5 years, and he needed to undergo 6 months of chemotherapy. He was told to expect many side effects, including tiredness, feeling ill, bleeding and a lower resistance to infection - not very conducive to running a small business.*

*Luckily, with the help of his personal CFO, Mike had a comprehensive safety net in the form of insurance. Mike received regular payments to meet his fixed overhead business expenses, such as rent and wages, plus key-man insurance to allow him to hire temporary staff. He received a lump sum to repay his business and personal debts, plus a combination of regular income and an additional lump sum to replace his wages.*

*Mike was lucky - he beat cancer. He also didn't have to worry about financial stress, had funds to pay for the best treatment available and his business continued to run while he focused on getting better.*

## THE EXIT STRATEGY

Exiting a business is not a matter of if, but when. However finding the successor is neither easy nor clear cut. Many SBO's are emotionally attached to the business they have built, and cannot imagine life after the exit.

In addition, retirement may not coincide with the best time to sell the business. Understanding how to build value into a business, and then extract it, is vital.



*“We’re very aware that a lot of the business relies on Julian. If he walked away, there would be nothing left.”*

*Rachelle Rose - Deep Green Landscaping, Perth*

With a seamless, effortless and orderly succession plan, SBO's are best positioned to both protect and capitalise on the value of their business. However, the exit plan is an issue that is either ignored, deferred or both. The reason, it seems, is that SBO's simply don't know what to do and they don't ask.

*“This is exactly where I want someone to help me – I want to be out of here when my children finish high school, I want to be out of the business.”*

*Eddie Cuschieri - Franchise Owner, Bob Jane T-Mart Belconnen*

Having a carefully planned exit strategy can dramatically increase the value of your business.

Consider this – The objective of Private Equity funds is to make money. They do this by buying companies, creating more value in the company, i.e. making those companies more attractive to the market, and then on-selling them a few years later. To summarise, they have better prepared the business for a sale and executed a better exit plan than the original owners. It generally takes a number of years and significant expertise to carry out this task.

As a small business owner, getting professional advice, well in advance of a sale, ensures you capture more of your businesses value upon exit.

# THE ANSWER

## A PERSONAL CFO

Running a business can be lonely; there are not many people you can turn to for guidance.

*"None of our friends are self-employed, and you don't really want to discuss what difficulties you have in your business and what money you are making with your friends."*

*Rachelle Rose - Deep Green Landscaping, Perth*

SBO's need much more than just product advice. They need a personal CFO to guide them in all facets of their financial life both business and personal. The first (and ongoing) priority of a personal CFO is to develop a clear and comprehensive understanding of the issues and challenges you face and the outcomes that are important to you. The first meeting with a personal CFO is often the first time many SBO's have thought about and talked comprehensively with someone about their financial challenges and the outcomes that are important to them.

A personal CFO can facilitate bringing in the many professionals that may be required to assist the SBO, such as an accountant or lawyer with specific skills for the problem at hand.

Additionally, they can ensure these professionals are properly briefed on the problem and can then facilitate and ensure each professional works together to achieve the best outcome.

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