



Issue 43

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Craig Anderson Ltd

270a Queen Street, P O Box 3115, Richmond, 7050

Ph: 544 6179

www.caca.co.nz

Do You Know Your Competitive Edge?

In business you can never be everything to everyone. To be successful you need to come up with a specific proposition or compelling claim that is targeted at your customers in such a way they would be foolish to go elsewhere. This is your 'differentiation' - your 'competitive edge'. You'll also hear people talk about a 'point of difference'.

In developing your competitive edge you need to consider what you have to offer that someone else hasn't:

- What competitive edge can you present?
- Have you got happy customers?
- How do you create happy customers?
- What are the benefits of a small business in dealing with clients?
- Have you considered what the 'moment of truth' is in your business?

A 'moment of truth' occurs every time your business and a customer come into contact. This may be direct contact, as in face-to-face, by telephone, by direct mail or indirectly by way of the delivery firm that you use as a sub-contractor. What your customers experience at these times will have a lasting impression. You need to know when a moment of truth will occur and ensure that your team members have been appropriately trained on how to react at that time.



"There is a real premium that the market is prepared to pay, if you're great at something."

David Maister, former Professor at Harvard Business School

Author of "Managing the Professional Service Firm" and "True Professionalism"

Interpretation of Financial Accounts

When you're running your own business, it's easy to fall into the trap of thinking you have to be expert at everything. And when you're an experienced business owner, it can be hard to admit there are key financial concepts that you'd really like someone to go over again in plain English. The MYOB Australian Business Survey 2004 identified that many SMEs desired advice from their accountants on business analysis and interpretation.

Sometimes you know intuitively that there's a way to use the available data to take the next critical step forward but you just can't see it. It's always worth asking for more information.

For instance, ratios derived from financial reports can be very revealing. Ratios are calculated so as to assist management in understanding the information contained within financial reports. They can help you establish more accurate key performance indicators in your business. This way you can set clearer goals and be able to measure your success more accurately.

Common ratios include:

- Breakeven Sales
- Stock Turn Ratio
- Debtors' Days Outstanding
- Gross Profit Percentage
- Mark-up Percentage
- Net Profit Percentage
- Return On Investment
- Wages To Turn Over Percentage
- Sales Per Person
- Cost Of Goods Sold Ratio
- Current Ratio



If you would like to discuss ratios that are applicable to your business to assist you in the interpretation of financial accounts, give us a call.

What's It Mean?

Cost of Goods Sold means...

The amount calculated in a trading and profit and loss account to represent the cost of the goods that were sold during an accounting period, e.g. one month.

Cost of Goods Sold is the result of a calculation:	Opening Stock	Example:	\$74,000
	<u>Plus</u> purchases		28,000
	<u>Plus</u> freight inwards		2,300
			104,300
	<u>Less</u> Closing Stock		61,000
	Equals Cost of Goods Sold.		<u>\$43,300</u>

Be sure to read each article with the mindset "How this could apply to our business". Thinking of it that way will guarantee that you get value. Also make copies for each team member. To really make sure something positive happens, work with your business development specialists to talk your team through ideas.

Do Your Customers Recommend Your Business?



- Do your customers say 'WOW'?
- Do they recommend your business to their friends?
- Does your staff understand the lifetime value of a customer?
- Do you give guarantees?
- Do you send letters to new customers thanking them for their patronage?
- Do you acknowledge long-term clients for their continual support of your business?
- Do you have a customer database?
- Do you encourage customers to give you referrals to their friends and associates?
- Do you understand the demographics of your customers?
- Have you got procedures for handling complaints?

We can assist you with Customer Surveys and Customer Advisory Meetings to get meaningful answers to these questions?

"The more you act as if you really care, the more money you'll make."

*David Maister, former Professor at Harvard Business School
Author of "Managing the Professional Service Firm" and "True Professionalism"*

Management Reports: Who Needs Them?

All businesses need regular financial statements. One of the key attributes of successful SMEs is that they receive regular financial statements throughout the year and not just at the end of the financial year.

You cannot trade for twelve months and then have a set of financial statements prepared and expect to be successful in business.

The periodic financial statements that are prepared should be detailed. Typically they should contain a lot more management information than would be included in the financial statements that are part of your business' income tax return.

As the business owner/operator, it is essential that YOU understand your financial position at ALL times.

While there are variations with particular businesses, in general these are the key components of financial statements for SMEs:

- Departmentalised Statement of Financial Performance with Gross Profit Percentages
- Statement of Financial Position
- Supporting Verification Workpapers
- Statement of Cash Flow
- Debtors' Aged Analysis
- Stock Analysis
- Work in Progress Analysis
- Creditors' Aged Analysis
- Capital Expenditure Summary
- Bank Account Analysis

Statement of Financial Performance: the devil in the detail?

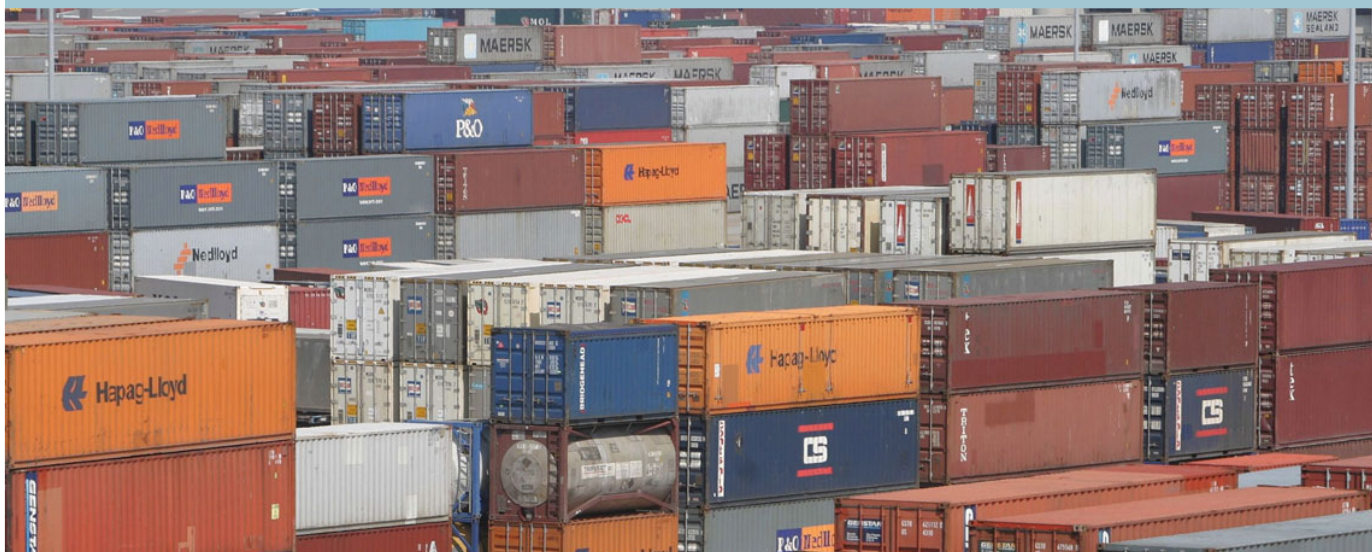
If your business is made up of a number of departments, use your statement of financial performance to think about how they're performing in relation to each other.

Your statement of financial performance records all transactions relative to any product or service that you have developed for sale to customers or any expenditure that is not on a long term investment asset or loan repayment.

When the various components of the statement of financial performance are added and subtracted, the resultant figure will be the profit or loss for the business.

If the business has separate departments or readily identifiable separate products, then the financial statements should be prepared so that the results of those separate departments or product lines are clear. Key items such as sales, purchases, and stock, and direct costs such as advertising, wages, rent and interest are allocated on a department or product basis, so that meaningful financial results can be determined.

If your business has five departments and you don't dissect the income and expenditure relating to those departments into separate categories, how do you know if one or two of the departments are performing very poorly and dragging down the performance of the overall business? While the overall profit and loss might be showing a profit, you could find that if you analyse the individual departments that two of them are losing substantial funds and that they are being subsidised by the other three departments.



If you know that this is occurring and you are allowing it to continue for a specific strategy, then that is a deliberate management decision. The bigger problem is if you don't know it is occurring and the poor performance of those departments is dragging down your overall performance as a business. This can ultimately lead to real problems.

Reading your statement of financial performance with an eye for issues like this will put you in a better position to take action sooner.

An Important Message

While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.