

SUMMER20

PROFIT MATTERS

Helping you realise your full profit potential



INSIDE:

- Making the most of your profit
- Asset protection for business owners
- How to grow your small business
- Hiring the right person
- And more.

Ways to improve cash flow

Signs of growing revenue and profits are ones that indicate your business is succeeding.

This does not reduce the importance of continually making small changes that will improve profitability of the business.

These are some changes you can make to improve the cash flow of your business.

Send invoices straight away:

The faster you send invoices, the faster your client is likely to transfer funds.

Encourage payment to invoices:

You can do this by sending reminders to clients, providing incentives for paying invoices on time, or charging penalties for paying them late.

Lease rather than buying:

While leasing might be more expensive than buying in the long term, it does help cut down on day-to-day expenses and immediate cash flow. Lease payments also fall under business expenses, so you might receive some concession during tax time.

Customer credit checks:

A customer might be hesitant to pay in cash, if this is the case, conducting a credit check might be useful. Poor credit is most likely indicative that you will not receive your payments on time - in the long term this will

hurt cash flow, and it is probably better to not pursue business with the client.

Utilise electronic payments:

Electronic payments make it easier to pay when it is convenient for you, so you can make payments late, as they will go through immediately.

Develop relationships with suppliers:

If you find that you are regularly conducting business with a particular supplier or service provider, aim to maintain this relationship in the long run. This will improve the chances of receiving discounts in exchange for regular business or early payments.

Pay attention to your inventory:

There will be some items in your inventory that are sold less frequently than others. Checking your inventory usage every so often will help you make changes to how much of a product you stock. For certain products, rather than ordering more, it may be better to sell them off.

Increase pricing:

Don't be afraid to experiment with price changes every now and then, this will help you understand the value of your product and provide more cash flow.

While the above strategies are ones you can implement to improve cash flow, you should also be focussing on cash outflow and reduce unnecessary expenses.

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How to effectively use your budget

Creating a budget is a great first step to understand your finances, but it is also important to use that information in a productive way.

The budget should give you an indication of your business and financial decisions moving forward. You will be able to see where your money is being spent and where your profit is being applied.

Your budget might show that you are spending too much money in certain areas. You can respond to this by finding ways to cut costs. Alternatively, you can avoid spending money on things that are not essential to your business. It is important

that you are practical when cutting costs. There is no point in cutting costs if they positively contribute to your business.

Your budget might also show that you have extra funds coming from your business. You could use this extra income to reduce your debt, create a financial safety net or grow your business.

Before you make decisions about cutting costs or paying your debts, make sure your analysis of the budget takes seasonal patterns into account. Your income and expenses vary throughout the year, so a decision you make for one season might not be suitable for another.



Asset protection for business owners

Business owners will often reflect on Asset Protection as something they 'should have done' which can be painfully costly.

Asset protection is a necessity. It allows individuals to make a legal distinction between their personal and business assets. Courts don't often respond well to assets being sold off after the initiation of a lawsuit, therefore this should be a proactively implemented strategy rather than a reactive one. If a strategy is not put into place, then this can lead to loss of whichever assets are available during a lawsuit; such as homes, cars, boats, etc.

Having strategies in place can prevent seizure of your assets, but can also act as a deterrent against potential claims.

There are different types of asset protection plans. Consulting an advisor on which strategy is suitable for your business and industry will enable you to make a more informed decision as this can be a complicated process.

Role of risk management in growth of a business

Neglecting risk management when constructing a business strategy can prove costly down the track.

Businesses often focus on growth and profitability, which is an integral part of business strategy, but an equally important aspect which helps keep the business stable is risk management. The necessity of employing and updating risk management strategies has become abundantly clear due to the pandemic. But if the pandemic hasn't convinced you already, the following are benefits of risk management.

Save money

Risk management strategies encompass all areas of business. They include physical risks, financial risks, legal risks and everything else in between. Recognising the pitfalls of each of these areas and taking the appropriate precautions will save your business from fines, fees and accidents which can be a lot more costly than implementing a risk management strategy.

Reduce risk for employees and clients

Whether your business is primarily run in the office with minimal danger, or on a construction site with a number of possible hazards, there will always be risks in the workplace. Your employees or clients who

come to visit can be impacted by these risks. In order to avoid possible injury or other consequences of these risks, businesses should identify any and all risks, and take the appropriate steps to reduce them. This will show your employees that you care about their safety and well-being, and show clients your commitment to them.

Protect company resources

Constructing a risk management strategy allows a business to establish processes that will prevent or reduce an unnecessary loss of resources. Resources can include inventory, funds, and even relationships with other businesses. Responding to all these risks can be difficult to do at once, which is why prioritising and planning is beneficial.

Improve brand image

Risk management will also reduce the likelihood of bad publicity in the form of employee or client injury or legal misconduct. A thorough risk management strategy sends a positive message to employees, clients and potential clients about the operations of your business.

Business will benefit greatly from developing a risk management strategy that addresses potential risks and responds to them in an effective manner.

Starting off your investment journey

Investing your money is a great way to grow your wealth, but it can be intimidating to someone who is starting fresh.

Investing is unique to each person because of the time and money everyone is willing to invest is different.

Before you begin investing you should think about what sort of investing style you would like to adopt, how much money you can afford to invest, and your risk tolerance.

Investing style

There are two main investing styles that you can adopt. The style you choose will depend on the time and effort you're willing to put in, and the sort of output you expect from your investment.

Passive investing: This is a hands-off approach that tends to focus on long-term returns. The return from these investments will be stable and predictable.

Active investing: This is a lot more hands-

on. It requires you choosing and conducting the investments yourself. This will require a lot more of your time because you will need to continually be researching opportunities. The return from these investments, although risky, can be quite large.

As a beginner, the passive style might be more appealing till you can learn and understand the market well enough to invest more actively.

Budget

It isn't necessary to invest a large sum of money, it is necessary however, that you are financially prepared to invest the amount of money you choose. You should be able to set aside an 'emergency' fund, aside from the money you are prepared to invest. This is because there will always be some sort of risk involved in your investment and you should not rely on quickly selling your investments to fund an emergency.

Risk tolerance

The risk involved in an investment is usually

proportional to the expected returns (higher returns = high risk; low returns = low risk). You need to find a balance of risks and returns that works for you and the amount of money you are willing to lose. This balance might take some time, and at the start, you might choose to only invest in low risk investments.

It is definitely intimidating to start your investing journey, but outlining how much time, effort and money you are willing to commit will put you in a good position to kick start it!



Making the most of your profit

Growing a small business is hard, and it can take a while to start making regular profits. Once you do start making profits, it can be difficult to understand what the best thing to do with your profits is.

Before anything else, you should create a profit and loss statement. This will provide a clear indication of your finances and your profit. The statement will also help you create a budget and project your future income. You will be able to better assess the profitability of your business so that you can accurately decide what you want to do with the profit.

Initially, it might be ideal to save the profit you make for emergencies. There can be unexpected expenses that arise for every

business, and it is useful to put funds aside for those times. An ideal amount of money to put aside is the working capital required for a few months - this will help with the business' longevity.

You can also use the profits to expand your business. Before you start investing your money into the business, however, you should revisit the business plan. Your business plan will help you work out whether you are in the position to undertake more costs and whether the business will be able to pay them off in the long run.

To kick start the business, you may have incurred debt, especially if this was your first venture. In this case, once you start making a regular profit, you can pay larger

repayments towards your principal or refinance. Once a bank sees that you are making regular profits, they may agree to lower rates than they were prepared to offer when you first started your business.

Alternatively, you can also use the business profit to pay yourself as the business owner. Although, factors which are specific to the business structure should be taken into consideration as this will need to change the process you follow.

Some of these options may be more relevant to you than others. Regardless, make sure you take taxation and legal constraints into account. Before you finalise how you want to spend your profits, consider how this will reflect onto your business over time rather than immediately.

How to grow your small business

Cultivating a small business beyond its initial customer base can be very challenging. These are some things you can do to grow customer base and your business income.

Get to know your customers

Talk to your customers about what they like about your business and what you can improve on. This will let you know which areas you should be promoting and which areas you need to further develop. You can also ask customers what other products or services they would like to see from you.

Excellent customer service

Oftentimes, customers will choose a small business rather than a franchise because they want the personalised service that is only possible with a small business. Put in the effort to show customers that you recognise and appreciate their choices. This will also increase the likelihood of being recommended to others.

Social media

Use social media to show your customers you are listening to them. People express their opinions freely on social media, which gives you an opportunity to attain genuine and useful feedback for your business. It also lets customers know that you care about what they think.

Networking events

Don't underestimate the usefulness of networking with fellow small businesses. This will allow you to grow your business relationships and utilise one another to grow each other's customer base through recommendations.

Give back to the community

Participating in community events is a great way to let people know you exist! You can sponsor your local sports team or help local charity raise funds. This will help build a positive brand image and encourage the

community to interact with your business.

You should continually attempt to improve your business. Every now and then, stop and reevaluate the effectiveness of your strategies. If one doesn't seem to be working, try to be creative with your efforts!



Hiring the right person

Hiring the right person is obviously a difficult task. There is a lot of pressure to make sure that the person you hire is qualified and fits into the company culture.

There are lots of benefits to hiring the right person on the first go, some less obvious than others:

- Save costs of re-doing the hiring process
- Avoid dealing with consequences of a bad hire (ruining relationship with client, negative effects on other employees etc.)
- Avoid giving confidential information to someone who is only with you for a short period
- Don't waste training resources on someone who won't last

It's clear that there are lots of benefits, but how do you make sure that you are hiring the right person?

- Commitment to career: The in-person interview should support the commitment that shines through their written application. If you find that a person has regularly changed their jobs but seems to have all the right

skills and qualifications, you can call them in for an interview and ask them about this. If their response doesn't adequately explain their job history, they are not the right person for you.

- Compatibility with company culture: The person you are hiring should be able to work with their team members and other staff. You can assess their compatibility by asking them about how they communicate with their current clients and colleagues.
- Assess their skills: You might want to implement certain tasks into the hiring process which applicants need to complete so that you can assess their skills. This could be as simple as seeing their previous work.
- Hire interns: If you have found that your intern has been performing well - hiring them could save you a lot of trouble. You will already know their strengths and weaknesses, and you have already invested resources into choosing them.

Your employees represent you so hiring the right employee is critical. Observing the qualities listed above will help you make the right decision.

About us

HYD Advisory

Achieving better results for your business

At HYD Advisory we can:

- work with you to help your business grow by identifying opportunities.
- establish systems that encourage and support success.
- ensure your business structure is the most appropriate for your business.
- position you and your business for financial freedom.

We seek to truly understand you, your business and your financial goals. Together, we work to establish a plan to achieve your financial goals.

Call now (02) 8543 6800