



## HOW TO MAKE THE MOST OF YOUR NEWSLETTER

Be sure to read each article with the mindset "How could this apply to our business?"

Thinking of it that way will guarantee that you get value. Better yet, take notes as you read and commit to having the ideas implemented by the time the next edition arrives. Also, make copies for each team member. To really make sure something positive happens, work with your business development specialist to talk your team through the ideas and how to set a schedule for getting them implemented. We're here to help you get started.

## 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.

That's valuable information to know:

- It could be a good move to discontinue loss-making products and invest the time and money on the more profitable ones or a new product entirely
- Alternatively, it could be the prompt to look at improving marketing to sell more, or,
- Increase the price to improve the margin (it's surprising how just a small increase in price can snowball into a good profit on volume sales), or,
- Try lowering the break-even point. One way to do this is by lowering the cost of goods sold, for instance by changing to a less expensive supplier, improving production efficiency or managing inventory more effectively.
- Don't make any changes that could decrease sales, like reducing product quality or the customer service level associated with it

Inevitably in business, expenses tend to creep up and sales decline as a product moves towards the end of its lifecycle so the break-even point may increase beyond what sales are covering. Break-even analysis isn't a report available from most accounting software but it is an important analysis for you to have and understand. Ask your accountant to run one for you on a six monthly or annual basis to keep abreast of just how profitable each of your product lines really is.

# Don't Become An IT Disaster Statistic

Keeping the computers in your business, and the data on them, safe is a vital job that you need to be on top of at all times. IT has become so integrated into business processes that the loss of hardware, software or data can raise serious continuity issues. Replacing lost data can wipe out a lot of time that would have been better put towards production and selling. If you can't issue invoices for a period because you've lost your accounts data it could seriously jeopardize your cash flow. Yet surveys of SMEs suggest owners are notably deficient in taking these risks seriously.

How well are you protected against these common IT hazards?

## VIRUS ATTACK AND HACKING

There are myriad viruses around with new ones being created every day and spread worldwide through the internet. It is inevitable that a computer not protected by adequate virus protection will become infected. Hackers can be prevented from breaking in to your computer by use of a firewall. Sign up for a comprehensive software solution that covers viruses, malware and spyware and includes a firewall from a reputable provider.

## CARELESS, IGNORANT OR MALICIOUS EMPLOYEES

The potential for harm from employees is vast, from accidental deletion of data, to virus infection; from surfing the Web, to deliberate copying and stealing of company information. There is no one infallible fix, but a layered program that incorporates education on acceptable use (and an acceptable use policy), computer safety training, and use of passwords to protect data with access on a need-to-know basis can reduce the likelihood of occurrence.

## HIJACKED WIRELESS CONNECTION

Wireless has become popular as a cheap, fast and convenient method of connecting to the internet. But most wireless routers, the devices used to make the connection to the internet, are set up to work straight out of the box, meaning anyone within range can connect via it. Routers are only secure if they are encrypted with a password known only to the employees authorized to use the connection.

## DAMAGED SOFTWARE

Hackers are continually searching out vulnerabilities in software programs that will allow them to tamper with how the program works. As suppliers become aware of these they release updates to restore security. Regularly check for and install updates to keep your applications working as they should.

## POWER FAILURE

Power spikes and sags as well as straight out power failure can lead to data corruption. Install a UPS (Uninterruptible Power Supply) to protect your computer from power problems and give you time to shut it down without losing information in the event of a power outage.

## IDENTITY AND DATA THEFT

Erasing information from a computer is not as simple as dragging files into the trash bin and then emptying it. The data in those deleted files, which may mean trade secrets, intellectual property, customer records and sensitive information like bank accounts, strategic plans, etc, is still present on the hard drive until it is overwritten by new data. Decommissioned computers can still provide access to 'deleted' information unless the drive is thoroughly cleansed with a special software tool for the purpose.

## DATA LOSS

If your office burnt down at the weekend, would it mean the loss of your only copy of vital information such as customer lists, taxation records, accounts, personnel records? Stay safe by backing up regularly and storing the data offsite. The method you use will depend on the amount of data and the frequency you do your backup – it can be as simple as burning a CD of data every day and taking it home or arranging to have a backup done automatically over the internet periodically.

A recent Symantec survey found lapses in security across these areas was all too common with 17% of the respondents reporting a recent security breach resulting in tangible loss of business. Don't let your business become another IT disaster statistic.

carefully and only continue the most effective. Reduce the size of your ads so you can run more without increasing your total cost. Introduce a referrals program – use low cost communication tools like email, postcards or personal phone calls to let customers know you are interested in receiving referrals from them and what reward they will win for any profitable business they send your way.

Another temptation is to decrease prices. While it may be strategic to offer discounts or special deals to especially valued customers if that's what it will take to hold them, cutting prices to all and sundry will really cut into your margin. Run your figures – will the consequent fall in profit be more than compensated for by the expected increase in sales volume? Try improving the service on offer to the customer or around the product – this can add value without any significant increase in costs.

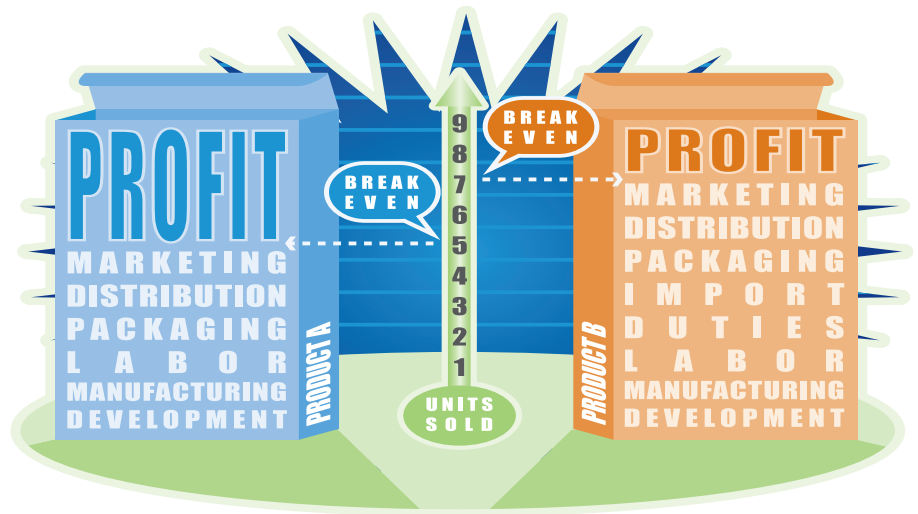
#### SUPPLIERS AND THE SUPPLY CHAIN

Most businesses are both suppliers and customers at the same time. When demand slackens your suppliers will be sharing the hurt. Just as you may be prepared to offer discounts and deals to good customers, so the suppliers you have a good relationship with may be prepared to renegotiate prices with you now. Agreement to pay key suppliers promptly or on the due date by direct debit should win a discounted price.

In a downturn, the last thing you want is to be stuck with shelves of unsellable inventory. If you don't have a stock management system, this is the time to implement one that can predict your minimum inventory needs and the correct time to order them in. Liquidate deteriorated or obsolete items in inventory.

Rationalize your supply chain by aggregating purchases so that you aren't buying the same item from multiple suppliers – it is inefficient and time consuming and also limits your negotiating leverage. There's a caveat though – select your suppliers carefully: if they go under, you don't want to be dragged down with them. If they can't make their production quotas you may miss out on receiving supplies.

Downturns don't last forever and businesses that make the right moves to protect themselves will come through. Consult a business advisor or your accountant to get a clear view of your situation and advice on what tactics you can take to protect your business.



## Break-Even Analysis: A Simple High-Value Tool For Business Owners

One of the trickiest aspects of bringing a new product to market is to estimate the total cost involved in its production. Cost of production effects margin and margin determines how many units must be sold to make a profit. If the number of units sold can't provide sufficient margin at a market acceptable price, then, no matter how good the product is, producing it will result in a loss for the business. The nexus between cost of production, price and units that need to be sold to make a profit, is called the 'break-even point'.

Break-even analysis is one of the most important financial tools you can use to make better business decisions.

#### HOW BREAK-EVEN ANALYSIS WORKS

A break-even analysis is a simple way to determine how much of a product must be sold (at a given price) for it to earn sufficient revenue to cover the costs of producing it.

Here's a much simplified example of how the break-even calculation works. Say the total costs of operating the business each month are \$10,000. Each product the company produces can be sold for \$1,000. Each product costs an average of \$800 per unit to produce, sell and deliver. The profit contribution per unit is therefore \$200 each, so the company must sell 50 units per month to cover its operating costs (\$10,000 / \$200), that is, to break even. Only after the company has sold 50 units in one month does it begin to earn a profit of \$200 per unit. If the company figures it can't

sell that many, then it needs to rethink its plans for production or marketing.

For startups, performing a break-even analysis is a critical part of the business plan. Establishing the viability of the business depends on having a firm idea of what sales volume needs to be achieved to reach the break-even point, since only after that does the business start to make a profit. For early-stage businesses, the figures that went into the break-even analysis provide the baseline for monitoring actuals against pre-start projections to determine if the business is staying on track to make a profit. For the mature business, break-even analysis can provide insight about product profitability.

#### USING BREAK-EVEN ANALYSIS TO DETERMINE PRODUCT PROFITABILITY

Many businesses produce a range of product but don't assign the costs of production separately among them. They treat the electricity bill, for example, as a monthly cost to be paid without analyzing how much of it was incurred producing Product A, Product B or Product C, even though one could be using a substantial portion and another barely any. Analyzing costs down to the specific proportion involved in the production of each product allows for a very precise break-even analysis on a product-by-product basis. Some products, as it turns out, could actually be making only insignificant margins or even running at a loss.

# GROW your business



CONTENTS

11/2008

- 1 Handling Customers And Suppliers Through A Downturn
- 2 Break-Even Analysis: A Simple High-Value Tool For Business Owners
- 3 Don't Become An IT Disaster Statistic
- 4 7 Tips For Getting Your Email Newsletter Delivered And Read

#### MEMORABLE QUOTATION

The measure of success is not whether you have a tough problem to deal with, but whether it's the same problem you had last year.

– JOHN FOSTER DULLES

## Handling Customers And Suppliers Through A Downturn

The global credit crunch has hit the economy hard making it an anxious time for small business owners. You may not be able to recession-proof your business entirely but there are a number of actions you can take to improve your chances of weathering the downturn in business activity and coming out the other side. Among the most important is how you continue to relate to the people you rely on to stay in business – your customers and your suppliers.

#### CUSTOMERS

With consumers cutting back their spending level, encouraging existing customers to continue dealing with you is a smart move. During a downturn they may be facing financial challenges of their own so, first up, consider if there are special terms or value-adds you can offer that will make it easier for them to buy from you during this time. On the other hand, this is also the time to review customer profitability and 'fire' those who aren't showing a return commensurate with the effort you are putting into servicing them.

Collecting what's owed to you within a reasonable period can present a real challenge during an economic downturn. Send your initial invoices with a pre-addressed and stamped remittance envelope to encourage prompt reply. Use the phone to chase accounts as they go overdue – a diplomatic telephone call is a lot harder to ignore than an impersonal reminder statement that turns up in the mail. Changes in the billing cycle can improve matters – billing

*While it's tempting to accept any business in slow times, a high risk customer can end up costing you money.*

a quarter of your customers every week rather than billing everyone at the end of the month can even out the flow of funds coming back into the business.

While it's tempting to accept any business in slow times, a high risk customer can end up costing you money. Run a credit check before accepting new accounts and ensure the customer understands your credit terms. Review your credit terms to see if they are in line with the industry average – maybe they need tightening up to improve cash flow. Reducing the credit period may lose you some customers, but this might be compensated for by the majority paying sooner.

Often, the first cost to be cut in a downturn is the marketing budget. Consider, though, sales only follow marketing. Monitor the effectiveness and profitability of your marketing campaigns

Place your firm logo here then delete this box once the logo is positioned.

RAN ONE – making business advisory simple