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Knowing 'Breakeven' Helps

Do you know what the breakeven figure is for various operations being conducted in your business?

'Breakeven' sales are the level of sales necessary to cover all fixed and variable expenses. This gives the point of no profit or loss.

A fixed expense is an expense that does not vary relative to production or turnover within reasonable production or sales levels. Rent would normally be considered to be a fixed expense and would not vary until such time as it was necessary to obtain larger premises. Management salaries would also normally be considered as a fixed expense. Some staff salaries

would also be considered fixed expenses, but in the main, staff salaries that relate to production or sales would normally be termed a variable expense because variable costs normally move directly in relation to increases in production or sales by the business.

You also need to know the gross profit percentage for that particular operation within the business.

To determine your breakeven for a particular operation within your business, prepare a list of the fixed expenses relating to the business or to that activity and then prepare a list of the variable expenses that relate to that activity and add the two totals together.

For example, If the fixed costs were \$195,750 and the variable costs were \$26,500 the total would be \$222,250. If the business was achieving a gross profit of 52%, then the calculation of the breakeven sales would be as follows:

Total of fixed and variable costs Divided by gross profit %	x Multiplied by 100/1	= Equals breakeven sales
e.g. \$222,250 ÷ 52 x (100 ÷ 1) = \$427,400		

Proof:

Sales	\$427,400	
Gross Profit 52%		\$222,250
Less fixed costs	\$195,750	
Less variable costs	\$ 26,500	\$222,250
Profit/Loss Breakeven		NIL

Management should be aware of the breakeven sales figures for their business or individual operations so as to assist in the strategies being prepared for the business or individual business operation.

Staff profile this month: Stephanie Horne



Stephanie came to Temperton and Associates when we purchased Karen Trotters practice. A genuine and dynamic member of our team she is happily married with two children - Jessica aged 6 and James aged 4. She is very lucky to have the best of both worlds. Stephanie works two days a week in the office here which she really enjoys but she also gets plenty of time to do the "Mummy" thing, which she also loves. Her family is involved with the Salvation Army Church in Levin. Stephanie loves to scrapbook in her free time.

High Interest Rates - Watch Your Cashflow

In an environment where interest rates are increasing, your business will be affected if you are operating your business with loan funds, bank overdrafts, credit cards etc. Now is an appropriate time to fully review all of the processes which can affect your cashflow including:

- Do you promptly dispatch invoices to clients?
- Do you have clients complete a credit application form?
- Do you obtain personal guarantees from company directors of customers?
- Do you promptly dispatch debtors' statements at the end of the month?
- Do you follow-up debtors who are not paying in accordance with your firm's payment terms?
- Have you clearly stated to your customers what your payment terms are?
- Have you analysed your work in progress to ensure that jobs are completed and billed as soon as possible?
- Have you analysed your stock turn? Are you trying to do something about slow-moving stock?
- Should you negotiate better terms or delayed payments with your creditors?

If you are experiencing delays in receipts and you are relying on loan funds, bank overdrafts and/or credit cards to finance your business then the increase in interest rates will start imposing greater burdens on your business.

The key thing for you to do is to be aware of the necessity to monitor your cashflow position on an on-going basis, particularly relating to work in progress, stock, debtors and creditors, to see whether any improvements can be made that would have the effect of reducing reliance on borrowings, therefore reducing interest cost.

We can assist you in reviewing your cashflow position.

Business Plans - Why Bother?

Why bother with a business plan? If you were going to go on a long trip, wouldn't you need a map? Business plans for business people are like maps for tourists. If you don't have a plan, and you happen to reach your destination, it will be more luck than good judgement!

Business planning is simply identifying where you are now, what your goals are and how you are going to achieve them. The key commitment is writing it down. Planning asks you to look at future developments, consider the services you offer your customers. Get staff and other key people to have their input so that they 'own the ideas'. Planning encourages clear communication within the business. The whole business should be reviewed on at least an annual basis. Fine-tuning and updates should be made every six months.

Undoubtedly one day you will want to sell your business and you will want to get the best possible price for it. A good business plan will promote your business to a third party audience, particularly a potential investor or financier.

Business planning forces you to consider the risks involved in the particular business operation that you are involved in. 'What would happen if...?' is a very good question to pose to your team on a number of issues



so that you can determine appropriate strategies that are then documented to be utilised as that particular event materialises. Various studies have indicated that businesses that develop a written business plan have a greater chance of surviving than those that do not.

Business plans will assist the owner/manager in running the business by incorporating performance benchmarks that have been analysed and agreed to in the business planning process. These can be regularly measured and then action taken to determine reasons for variants from the targeted figure.

If your measurements vary from your benchmarks, you can analyse the reasons and take action accordingly.

Please call us to find out more.

So how do you better manage your time? Here are some ideas:

- Establish daily and weekly priority goals/to do list. Mark off the task when it is completed and periodically prepare a log sheet of the amount of time you have spent on various tasks
- Control the telephone. Do not allow it to control you. Perhaps you should have messages taken during the day and have very specific return telephone time allocations: one in the morning, the other in the afternoon
- Have a 'quiet period' each day so that you can
- Consider and analyse those persons or tasks that management style to overcome these time was someone else's office or business premises rather than close the interview or meeting and basically leave
- All meetings should have an agenda and a time
- At meetings, make sure someone takes minutes for the next meeting. If this type of activity continues

Management of time is essential if you wish to be successful and elimination of bad time wasting practices. Remember each day. How you spend it will have a significant impact



Everyone Has 1440 Minutes a Day!

Time is one of those things that cannot be expanded, but it can be better managed. Every one of us has 24 hours or 1440 minutes a day. Some business people are better managers of their time than others. Business people need to allocate the number of hours per day that they are prepared to spend at work and then prioritise how they are going to spend that time.

Managers need to consider:

Technical Issues:

- Sales
- Client/customer work

Management Issues:

- Planning
- Controlling operations
- Administration
- Staff leadership
- Developing new products and services
- Training and development
- Conferences

Everyone Has 1440 Minutes a Day! (Cont'd)

*“Unless you have definite, precise, clearly set goals,
you are not going to realize the maximum potential that lies within you.”*

See You at the Top, Zig Ziglar

Who Can Assist Small Business Operators?

If you are a new-comer to small business you can be assisted by:

- Professional Accountants with experience in small business
- Solicitors with commercial experience and an appreciation of small business problems
- Bankers, finance companies, industry groups and government agencies charged with assisting small business operations

You could also gain assistance by developing networks with other businesses servicing similar industry groups. You can also gain an understanding of how you are performing against your peers by participating in benchmarking surveys for similar businesses.

The management of an SME (small to medium sized enterprise) can be a very lonely affair. Please don't hesitate to contact us if you would like to have discussions or seek our opinion on other allied professionals who will have empathy for your aspirations and concerns.



An Important Message

While every effort has been made to provide valuable, useful information in this publication, Temperton and Associates 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.

