businessforward

Issue Seventy Five

LAUNCHPAD

Turn on the charm

It is one thing to have good leadership skills, but charisma is something else. To be compelling enough to inspire employees and those around you requires awareness and skill. There are small but meaningful steps you can take. By doing so, you are likely to improve the attitude of your employees and those you come in contact with and, most importantly, yourself.

Be aware of any chip on your shoulder. No one likes attitude. Perhaps you don't feel you've got a bad attitude to begin with but be aware of how you come across to others. Are you warm and approachable or short and abrupt? People respond to kindness, and aim to treat your team with a high level of respect. Be open. Make yourself human. Talk about your family or friends, joke about your pets and create an atmosphere where people enjoy being in your company.

Connect with people by learning about others and ask questions. You may enjoy this. It can be as small as asking colleagues or employees about their hobbies while making a morning cup of coffee, or as big as approaching strangers at networking events. People love to talk about themselves and feel you're interested. At the same time, they'll respond to you.

Dress for success every day. If you come to the office wearing your jandals and an oversized T-shirt, your charisma levels plummet. Promote a level of pride in your appearance and instil this in your employees. Looking the part will also help you play the part. Get into your charismatic character first thing in the morning, select your attire accordingly and see how this affects your attitude. Then watch how it affects the attitudes of your team and those you meet with throughout the day.

Think outside the box. Try and organise team events that step away from the norm such as cooking competitions or car rallies. With a bit of ingenuity, you will emit charisma and at the same time inspire and motivate your team.

Most importantly, positivity is key. Portray an optimistic outlook and your team will reflect this. They will enjoy being in your company and coming to work. It will have a positive outcome, boosting team morale and productivity, as well as employee retention and loyalty.

"How can you have charisma? Be more concerned [with] making others feel good about themselves than you are [with] making them feel good about you."

Dan Reiland

Presenting a winning business

When you are satisfied your business is market ready and it is time to sell, think about your process for presenting a winning business.

Put together your information or sales memorandum. This is a marketing document though it's a bit different from other marketing – sure, it presents your business in the best possible light but it must show that it's grounded in reality. Buyers are looking for hard information. It needs to be easy to read, clear and concise. Take care with the summary section at the front, setting out what the business offers to a prospective buyer and your reason for selling it.

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How well do you know your breakeven point?

Most people are familiar with the concept of breaking even. Your breakeven point tells you how many units you need to sell or what dollar value in sales you need to achieve just to cover your costs. Once you know that, you know the point you need to pass to turn a profit.

Pretty easy right?

But a breakeven point isn't set in stone. It will shift as your business grows, costs fluctuate and as you continue to surf a constantly changing business environment.

Monitoring breakeven

A breakeven point therefore becomes something you keep in play over time as a tool for you to think about your sales, costs and pricing in a different way.

For instance, say you know your breakeven point and you take it at face value. Tell your team. It's a powerful motivator for your sales people to know exactly what the numbers are to put the business in profit.

Say you don't accept your breakeven point at face value. What can you do? Can you reduce your costs to lower your breakeven point so you can start earning profit sooner? That might lead you into analysis of your fixed and variable costs to judge whether you have room to move.

Tell your team!

Reduce costs?

Lift prices?

Lift sales?

Or does your breakeven point uncover an issue with your pricing that you need to deal with? Lifting your pricing might mean your numbers are into profit sooner but you might have to think about whether your market will tolerate that. Does that line of thought indicate that you simply have to lift your sales volume? And then you're looking at marketing strategies, market reach and coaching your team on what the sales goals really are.

If you're not sure you really have a handle on analysing your breakeven point, we're happy to talk through options which could increase your profit.

Make the most of your business mentor

If you're a business owner, chances are you've considered seeking out a business mentor. Some business owners swear by the help and encouragement they've received by doing so. But what do you need to look for and how do you guarantee you're getting the best advice?

Shop around. Can any of your peers recommend someone who comes with a reputable track record? Ask at your local chamber of commerce or business hub. It may be that business mentors are provided free of charge to new business owners. Ask family and friends who know your business well and may be aware of someone who is well suited to help. Word of mouth is one of the best forms of marketing and there's a reason for this. Don't be afraid to ask.

Be open to constructive criticism. Don't look for someone who is simply going to stroke your ego and tell you how amazing your business is and how wonderful you're doing. You need more than that to get ahead. Allow for someone to highlight the areas of your business that need improving and be aware of how this will help you. Don't see it as a nasty put down.

Communicate. Remember that no question is a silly one. A business mentor may come at a cost, so make sure you get every bit of bang for your buck. If there's something you're unsure of or want to know more about, chances are your business mentor will be able to give you a lead. Once you've asked the question – listen to the answer. Think about the different ways you can relate this to your business. You might be surprised at the new directions which could open up for your business.

Be patient, be present, participate. A business mentor is not a wizard. They will not swoop in and make miraculous changes overnight. You need to chip away at different areas of your business over time and there is no way to phone it in. You need to be wide awake. A mentor is not there to do all the work for you. You'll need to participate – perhaps more so than you ever have before.

Be inspired. Most importantly, find someone whom you admire. This will help to inspire you to get on board with what is being said. Make sure you feel motivated to make the most of the opportunity to work with your mentor.

Profit – the nuts and bolts

When you look at your accounts, can you read your profitability? Here are some things to look for.

Gross profit

Gross Profit = Net Sales – Cost of Goods Sold

On your revenue statement or profit and loss statement, **gross profit** is the difference between revenue and the cost of goods sold (or services provided). It generally appears before administrative expenses and general overheads are accounted for. Ideally, gross profit covers your overheads as well as generating your targeted profit, your net profit.

Net profit

Net Profit = Total Revenue – Total Expenses

Net profit is what you're going for – it is the actual profit after all expenses and overheads have been paid. Net profit is the bottom line. When you are assessing your business' actual profitability, bottom line tells you a lot (it is, after all, the bottom line).

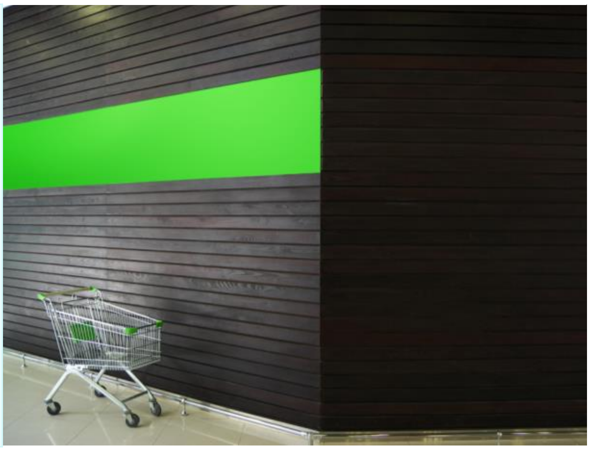
They're the basics. But there are other indicators worth analysing. Gross profit percentage is one.

Gross profit percentage

Gross profit percentage is a percentage of sales and it's a valuable metric to keep hold of. It is the ratio of your gross profit in proportion to your sales:

$$\text{Gross profit \%} = \frac{\text{Gross Profit}}{\text{Sales}} \times \frac{100}{1}$$

Now that you've calculated it, what are you going to do with it? For a start, calculate your breakeven point:



Breakeven point (see our article above on using breakeven point strategically)

$$\text{Breakeven} = \frac{\text{Total Expenses}}{\text{Gross Profit \%}} \times \frac{100}{1}$$

What does your gross profit percentage tell you?

Gross profit percentage is a useful indicator of production efficiency and financial health. Ideally, it is fairly stable, barring drastic upheavals in your business or industry. A drop might mean one of a number of factors which need to be corrected, such as a rise in costs, waste or bad debts.

In a competitive market, where benchmarking data is available, you might compare your business' gross profit percentage to that of your competitors and take steps to make sure you keep your edge. Gross profit percentage can vary widely across different industries. For food and beverage businesses, for example, it's a very thin margin while for software businesses it tends towards the high end.

Changes in gross profit percentage might also mean increased competition in the market or increasing demand from customers for discounted products or services. It could be a response to changes in the business, such as expansion driving increased production costs or a higher wages bill.

Keeping track of your profitability gives you the big picture on your business. The key metrics that indicate profitability are all windows onto the big picture. Understanding them will help you set goals and drive growth.

Backing a winner

When you're selling your business, the information or sales memorandum drives your sale process. It will be a key element in motivating a buyer to the next stage – conducting due diligence on your business. Put yourself in their position and think about what you would want to know.

Think about your process

Consider what you are comfortable revealing at this stage – remember there is no commitment to buy at this point and it is important not to put sensitive or confidential information into the public sphere.

It may be wise to consider some kind of weeding out process so you don't have too many copies of your sales memorandum at large in the marketplace. It would definitely be wise to ask prospective buyers to sign a non-disclosure agreement before you make the sales memorandum available to them. Flag this in your early discussions with them, whether face to face, by phone or email.

And on that last point, while we're all familiar with the quick email, dashed off as you rush out the door, be very conscious in your dealings with potential buyers that a carelessly worded email may come back to bite you. Check anything through twice before you hit send.

How do you want the process to lead from the sale memorandum into due diligence? It may be a good idea to suggest a letter of intent as a threshold before your prospective buyer proceeds into due diligence or while waiting for a formal agreement to be drawn up. A letter of intent states the general intention of both parties and agrees key terms. It may identify deal breakers and transitional provisions. It can be long and detailed or short and basic and can involve considerable negotiation in itself. Have your legal advisor on board for this.

If you are starting to think about selling your business, please let us know. We can help you with the sale memorandum and the process of presenting a winning business.

FYI...

Profitability: the capacity of a business to yield a financial gain beyond covering expenses. Some businesses might have high volume turnover and high revenue yet not be profitable because of high production costs or other factors. Generally businesses starting out have a period where they are trying to gain sufficient traction before they can be profitable and new businesses need to plan carefully to make sure they survive this period. Without profitability a business won't last long-term.

Gross profit % and markup: what's the difference? People often confuse gross profit % with markup, probably because in straight numbers terms they look the same. However, knowing the distinction helps you assess your profitability.

Markup is the difference between what an item costs you (its cost price) and the final price you put on it when you sell it (its selling price). It is calculated as a percentage of cost. Gross profit % is exactly the same amount but expressed as a percentage of the final selling cost.

Example:

Your widget costs $10 and sells for $15	Your markup is $5 – 50% of cost
	Gross profit % is still $5 but it's 33% of your selling price

Gross profit % is used to calculate profitability, taking into account both direct and indirect costs. Focusing on markup would tend to overstate your profitability.

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