REINVE\$T

Rob Cameron

Unicorn Business Solutions



Tourism Industry Council Tasmania



COUNCIL TASMANIA

Plan for today...

Why are we doing this?

Theory vs.
Practice

What's really really driving this business

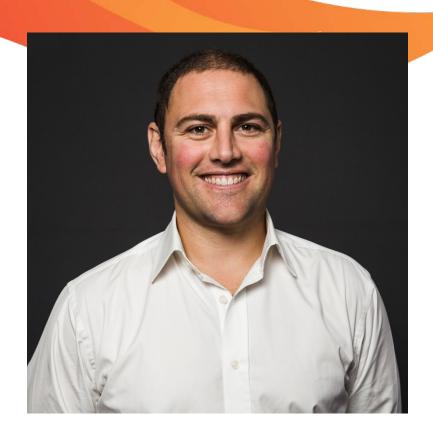
Business model as numbers

How do we make it happen





Rob Cameron



Strategic Business CoachUnicorn Business Solutions

NOT an accountant! Or a banker!

General Management

Focus on <u>results</u> Aim is success, not perfection

rob@unicornbs.com.au







Unicorn Business Solutions



Tasmanian firm Hobart, Devonport, Melbourne

Focus on SME's

- Strategic Planning Days
- Strategic Business Coaching
- Modern Business Technology Solutions
- Accountable monthly accounting solutions

http://www.unicornbusinesssolutions.com.au/

Feedback form at end...







Why are we doing this?

Theory vs.
Practice

What's really driving this business

Hinducial Model as model as numbers

How do we make it happen







VISION Why are you in business?



- Income? Profits?
- Lifestyle?
- Superannuation / payday?
- Calling?
- Can't get a job?







What are you trying to achieve?

	The second secon			
	Jack		Jill	
Revenue	\$ 1,0	000,000	\$	1,000,000
Direct Costs	\$ 4	150,000	\$	450,000
Gross Profit	\$ 5	550,000	\$	550,000
Expenses	\$ 4	100,000	\$	425,000
Net Profit	\$ 1	150,000	\$	125,000

Both Jack and Jill draw from the business profits





What are you trying to achieve?

Jack

- Works 80 hours per week.
- He takes 2 weeks holiday a year.
- He needs to catch up on a lot when he returns.
- Sales are reliant on him.
- As is the key management of the business.
- He spends nights at home catching up on bookwork.

Jill

- Works 40 hours per week.
- She takes 4 weeks holiday a year.
- The business generally runs along while she's gone.
- She has a sales system, and a team member trained.
- Jill has systemised the day-to-day operations of the business.
- Has nights free to spend with her family.





What are you trying to achieve?

	Jack	<	Jill	
Revenue	\$	1,000,000	\$	1,000,000
Direct Costs	\$	450,000	\$	450,000
Gross Profit	\$	550,000	\$	550,000
Expenses	\$	400,000	\$	425,000
Net Profit	\$	150,000	\$	125,000
Minus Fair Wage	\$	150,000	\$	75,000
Adjusted Profit	\$	-	\$	50,000
Valuation Multiplier		1		3
Valuation	\$	-	\$	150,000





Vision

What are we trying to achieve?

Do we:

- Invest in systems?
- Invest in training?
- Invest in more staff?
- Invest in paying down debt?
- Invest in dividends for shareholders?

Vision = major driver of what we should reinvest in

Business Valuation Tool



http://www.unicornbusinesssolutions.com.au/tools.html



Vision

What are we trying to achieve?

Vision = major driver of what we should reinvest in

Exercise page 3:

What's the vision for YOUR business?





Why are we doing this?

Seinvestment vs.
Practice

What's really driving this business

Hinducial Model as model as numbers

How do we make it happen







What is reinvestment?





What is reinvestment?

Investing back into our business to generate greater returns in future





How much return should we expect on our reinvestment?

Financial measures:

- Net Present Value (NPV)
- Internal Rate of Return (IRR)
- k-factor (k)
- Etc.





Finance basics investment hurdle rate

What return does this project need to deliver to make it worth doing?

Depends on your cost of capital

The bank expects a return of 6.2% on their money

My investors want a return of 15% on their money

How risky is it?







	Now	Year 1	Year 2	Year 3	Year 4	Year 5
Base Case		\$100	\$105	\$110	\$115	\$120
Reinvestment	\$20	\$105	\$110	\$115	\$120	\$125

25% return forever!

GOOD???



Cost of capital = 13%

Cost of capital = 30%



THEORY	REALITY
Reinvest to strengthen business	New car ©
Reinvest in marketing to build income by \$5	Which bit of income was the new marketing?
Planned reinvestment program	Competitor selling up!
\$20 investment returns \$5.25 p.a.	Plus or minus 50%
Investment ≠ expense, asset on balance shee	t Investment builds tangible and intangible asset
Invest if return > cost of capital	My team is too busy!
Invest if return > cost of capital	Which bit of income was from the marketing?
Mathematical calculation	Emotional value based choice





		CONTRACTOR OF THE PARTY OF THE		
00	^ - -			ORS
			<i>/</i> L L I	<i>1</i> 1DC
			<i>,</i> – – 1	
	9 01			

BAD REINVESTORS

Vision & aspiration	Instant reward
Logical plan for success	See what tomorrow brings
Think about building a balance sheet of assets	s Just think profits
List of reinvestment opportunities	Get sold on latest fad
Know cost of capital and how to access	Look at bank account
Enjoy building	Enjoy spending
Understand risk and how to sit with it	Scared of unknown future

Don't



Do



Why are we doing this?

Theory vs.
Practice

What's really driving this business

Business model as numbers

How do we make it happen





Business Model

What's the logic behind this business?

Logic flow? Key drivers? Key numbers?

Therefore, how do we reinvest to strengthen?

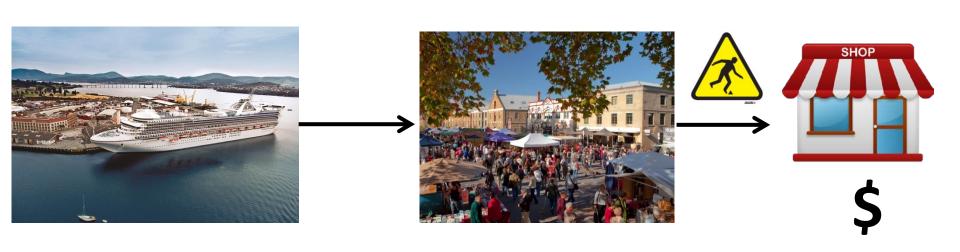
Think about **YOUR** business model...





Business Model

An example...

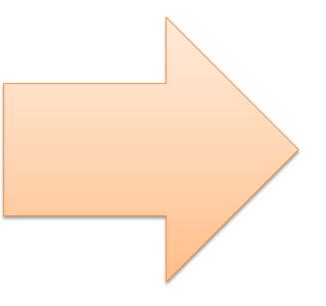






Business Model



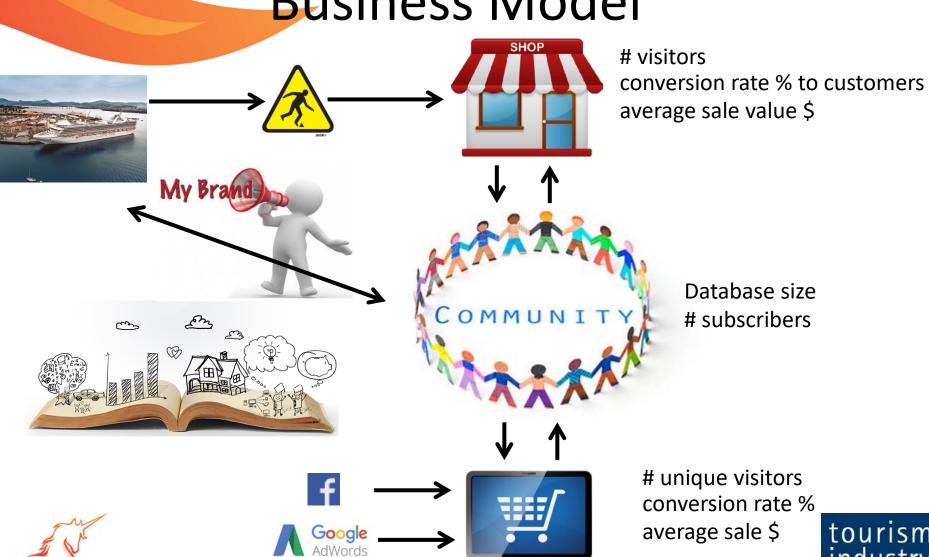












tourism industry **COUNCIL TASMANIA**



Why are we doing this?

Theory vs.
Practice

What's really driving this business

Business model as numbers

How do we make it happen





The financial model

How does your business fundamentally <u>make</u> money?

The fundamental drivers of your income / margin

E.g.:

= Number of products x	average price per product
------------------------	---------------------------

= Numbers of hours paid x staff productivity x gross profit per hour

= Number clients x average gross profit per seat

= Number rooms x occupancy x average nightly income









Big Results











Your latest Profit and Loss Statement

Sales	\$ 1,000,000
Purchases	\$ <u>700,000</u>
Gross Profit	\$ 300,000
Less Overheads	\$ <u>250,000</u>
Net Profit	\$ <u>50,000</u>





Your latest Profit and Loss Statement

Average Sale		\$ 100
# of Sales	X	10,000
Sales		\$ 1,000,000
Purchases		\$ 700,000
Gross Profit		\$ 300,000
Less Overheads		\$ <u>250,000</u>
Net Profit		\$ 50,000





Now lets apply the formula...



Based on Sales of \$1,000,000

1% Price Increase results in a \$10,000
Profit Improvement





1% Price Increase

	Original	Change	New Figures
Average Sale	\$100	1	101
x # of Sales	10,000		
Sales	1,000,000	10,000	1,010,000
Purchases	_700,000		
Gross profit	300,000		
Overheads	250,000		
Net Profit	50,000		





Based on 10,000 sales

Get the customers to shop more often or attract new customers

1% increase in number of sales

results in

\$10,000

and

\$7,000

increase in expenses

Resulting in Profit improvement of

\$3,000







1% Increase Number of Sales

	Original	Change	New Figures	
Average Sale	\$101	1	101	
x # of Sales	10,000	100	10,100	
Sales	1,000,000	20,000	1,020,000	
Purchases	700,000	7,000	707,000	
Gross profit	300,000	13,000	313,000	
Overheads	250,000	·	·	
Net Profit	50.000			





Based on average sale of \$100



\$10,000

and

\$7,000

increase in purchases
Resulting in Profit improvement of

\$3,000







1% Increase of Average Sale

	Original	Change	New Figures	
Average Sale (with prior	ce increase) \$101	1	102	
x # of Sales	10,000	100	10,100	
Sales	1,000,000	30,200	1,030,200	
Purchases	700,000	14,000	714,000	
Gross profit	300,000	16,200	316,200	
Overheads	250,000			
Not Profit	50 000			

Net Profit 50,000









1% decrease in overheads results in a \$2,500
Profit Improvement





1% decrease in Overheads

	Original	Change	New Figures	
Average Sale (with prior	ce increase) \$101	1	102	
x # of Sales	10,000	100	10,100	
Sales	1,000,000	30,200	1,030,200	
Purchases	700,000	14,000	714,000	
Gross profit	300,000	16,200	316,200	
Overheads	250,000	2,500	247,500	
Net Profit	50,000	18,700	68,700	







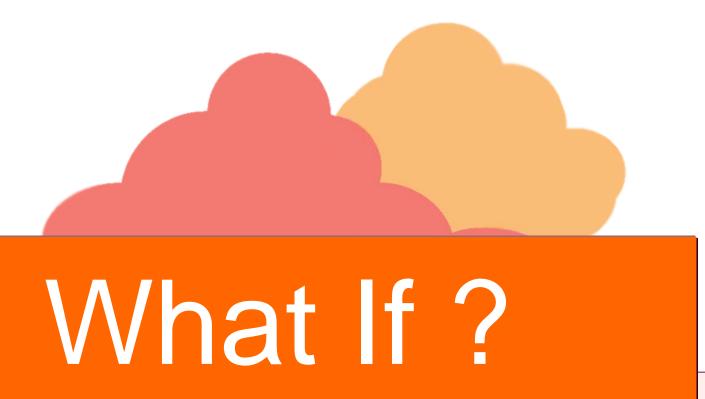
A profit improvement of \$18,700



And that's a 37% INCREASE!









Financial Model

Translating the business model into numbers



Microsoft Excel Worksheet







Discussion Points

- 90% of price resistance occurs between your ears
- Practice delayed gratification
- What products and services produce the profit?
- How much money do you have left on the table?
- You can't spend percentages
- True wealth is discretionary time
- Understand the model (What if)



Financial Model



How much should we be investing to <u>reimagine</u> this business potential?

Over what timeframe?

How do we manage the risks?





Why are we doing this?

Theory vs.
Practice

What's really driving this business

Business model as numbers How do we make it happen





Reinvestment Plan

Start by knowing the metrics we are looking to influence!

Reinvestment goals:



- Number of visitors (shop)
- Number of visitors (online)
- Conversion rate to customers (shop)
- Conversion rate to customers (online)
- Number active in our community / database
- Average spend / upselling





BUSINESS STRATEGY MAP

LEAD GENERATION

Ruld load certifility Colombi Escora Socies Coordinated matering strange Sifecentialine Source

contemplating, with an effect of Micha profiler, Foundarie Coeling, (colonier

Teal different approaches is ig 19 Costes evidencellisting video New Indiana New Indiana Leader tending page of the provided of the fire

(Min Two reports) inhibitations can had beginning the indicates Geographia Servings, worldings become expension (An installing specialis)

Moderations Subsects and of purey opportunity

Institute and pend offer Life one Name Stanfold & cold Stanform tensorting It is to toketty fewith i (harries of Communic

Needs and bedge at Sweet has produce

granting requipments

Brokens Bulking whele against Amin facilitie stance Sylve facilities White public page: Swelland Portugues and large provides often

Lond recognition than been biguished over basine. Substationally inscending then Hi Hi Lampsign. policity becomes began policity becomes began and the substation of the policity.

Contain of poleroidal containers presente their to flow. Container of poleroidal containers presente their to flow. Containers observing program. Transformações optionalities con ou flora paga (or Grangia.

included all projected translations: South Alang. One would be for the first \$1,00 and a school dis-ference the salt of yes than title is brought land and or off-refact. tals for the Replace
For League pates protes; burst a meeting from a meeting

Were a superinder salespecials Language, Tury to and Emergines for many character

Constitution. elicate for other side to colorer Harly-Miller July prosen following all Notes following and solve guestioning NAME AND ADDRESS OF THE PARK O beet gradfed bet histocold. Sex a Bray of Burn

5-5-A to: Sevilogo accessariadosco (goda Create sproblem organizate in con-lessorates: problem Stalker Minoration West Constituency Indian tensions Research Decompositivelies specifies to their Biological phase products from the London Bringligh for remoduling shall jut the policy

LESS VERTICATION REPORTS

Deline I bright 100 top Proposition Indices MERNANCHAL patrolish Scorporosal is used different Educate plicolastic reconstruit/poors, of different literar form he product visited

limplify-year metaller blacket separate: bull tower or bull-Boot draps only close Seturing-sent sets Blod topic consumption Projector Societ Bright In Your

Party Br. British

the bulk cross-code Missale spontage

Hipschool and presental

TOTAL CUSTOMERS

EDISTING CUSTOMERS

ACQUIRED CUSTOMERS

> Advisori gardines Address had not being every Reference and telephone during much common following benefit committee the final trafe to keep it or each. Social marks marks Milesand readments on sections. Hollow Brings (Highlander Their products and worse, effecting to and automorp used: Notice property and controllers what they must from the processed. Set up whether of contact united bel up the contago anticont has tooking at pay trake. Shake hard-due tiest your ottoker fitted phose, extrus

CER to be being his bearing district Common before furficionaria oficialesti. Societica with contorno subsetti idi landi Special assessments, safes Transmission to engine

Clear studio-amunit positiviti, and sentre effectings (Seale selling community for outstand) Tomosour base to purpose entire ungedly turning last E Class contractors, source structure to

locally progress

Storedo protect deless.

Supplications of Street Street incoming continues to call for support (selver than out 1922) Decreased Theological Intelligent States and Company

AVERAGE TRANSACTION VALUE

At Road of the Advances lettered sales repeting hours. Disposat his capitated progressed for larger transpositions. New complete prong Type topen ingred professor and Ancien person frame from our to saley rememand Sergetor for Enclarative enveloped Riverton Street colors Hundred Monday Thinks indicates on all products and products Free hit (commedit industrial) from on folia por esp. Brompto physically for flower ship districted vivus in frightermwight products and randow paintable plant Seatter-class two- sel-paintiens recoverage with a first during the compression chiesach Afric abass of made posited Naminance sels editi the Authority - Sent Authority of Section

shoodwall by water ispet shoul plufdable curbations in cell solidanced process brodylek patel dhe folout primy heighe priory of motion (state) Dowly defined with provide

a temperated with your offence. energy lebs inaught that also based their compare they start of remainments place

NO TRANSACTIONS PER **CUSTOMER PER YEAR**

Book a resembly floor a reasoning Dispatric production trainment compa-Calvolle of spokers Littlespolis productolamics facilité leursy tonier existence enfigue Charaka South-on Routing-space families Sen-Alls Accidenced pure The agest the infragment and put in the fact. Continue absorpt transpolent and an other trapposet. Productive Devict in colle. Tibe great customise comparé prospin Calculate correct average recrition of travers form 600 paks for WE cutows

REVENUE

COST OF GOODS SOLD

GROSS PROFIT

EXPENSES

LOWER INVENTORY DAYS

Minimum or of Sandardon full being to the base transferry than them. Inglement standay nanagement galete inglement stands so putations around security share Training for Incomplete police. Open numeral regarder conditions. 3rd estimates and resistance break Setropher schlosolipe sité repalere Date: Nitrary of Alex Inscise opply-bar-morae for marks sales will trad becoming investiga-Com with De authoritative safetana incomency in a firmana cons beginness and believe impedance or Promotion: Auctionia descriptions best antique with a hel-

LOWER DEBTOR DAYS

ART TO ARROW OF THE TITLE ATTO Throug world to dea to or before Communicates paper at the stant of title pile. Sincered for full paperage leaken stapt. 10% Explanations galleral.

Get trought upon any stat a charity on a back Not position; pedd colodler County and inglisment a fallest volkeriotropole Son't and platement with \$1.50, \$0, \$0 days Citization covered different days Instituted interest accountability procedulating days Insprience product travers a quality. Inscript Norwegard Street Singrounts and or palment years Mos Besid Selet, conflictedly People Dissentinal action by membring systems account and up to date Next collection right minimal distribution disconsist.

Security in a leastly consister.

+64 7 300Y-5660

Left / Military 5, TLNO James Street, Profitted Voltage

Arbitrario (B.II albit Androlla E hatcheandreams

CONTRACTOR MANAGEMENT AT ANY ASSESSED.

Achieve better receivers and stellahly proceditories.

PARKALOW Tarks account ents trads arrest traininess through the planning and delives of exceptional, wait time value added services. Der purpose for kolicitory's to qualifiedy followers firm through Accountains, on pass and your clients one actions the posts and Biopple Booked.



Reinvestment Plan



Project	Estimated investment \$
IT systems	\$20,000
Communication content development	\$3,800
In store sales techniques / scripting	\$800
Online marketing	\$8,200
Website improvements	\$3,700
Offline marketing	\$6,000
Supplier education cards	\$500
Total	\$43,000





Execution

- Know what is important
- Have some sort of plan (action plan and financial plan)
- Know you capital position (do we need to beg, borrow, steal to make this work?)
- Give reinvestment the priority it needs to see action taken
- Assign accountability and resources
- Measure and monitor progress regularly



Business owners financial best practice "tool kit"

- ☐ Business model
- ☐ A monthly budget built off activity metrics
- ☐ Efficient financial processes and systems
- ☐ Cash control
- ☐ Performance reporting vs. benchmark
- ☐ Forecast for key cash flow items
- ☐ Appropriate amount of debt
- ☐ Right people doing the right jobs







Budgeting

Failing to plan is planning to fail

- Built off activities that drive your business model
- Represent your <u>business plan</u>
- Sensible assumptions
- Used to help you manage cash
 - Capital investment
 - Debt repayment
 - Dividends

Benefits

- ✓ Forces financial planning
- ✓ Benchmark
- ✓ Decision making
- ✓ Accountability
- ✓ Continuous improvement



Article: "Business owners guide to budgeting"



Monthly review

By the 10th of every month you will:

- Have all revenue figures correct including sales credits
- Have all expenses entered
- Correctly run payroll as required
- Made system adjustments for depreciation, stock movements, purchases, loans etc.
- Have all KPI information in your data sheet

By the 15th of every month you will review an accurate report on:

- KPI's
- P&L
- Balance sheet
- Cash movements







Key Performance Indicators (KPI's)





Key Performance Indicators

- "Playing without keeping the score is just practice" ~ Vince Lombardi (famous American Football coach)
- Small changes make a big difference
- Regular feedback & employee involvement
- Non-financial KPI's





Having a scoreboard

Month Ending	August					
_	Month			Year To Date		
	Actual	Budget	Variance	Actual	Budget	Variance
KPI's						
No of Visitors (door counter)	5,374	5,328	46	15,085	11,387	3,698
No. Sales	535	525	10	1,269	1,122	147
No of Unique Visitors (shopify)	357	640	-283	962	1,140	-178
No. Sales	4	8	-4	12	13	-1
Average Sale	77	94	-17	73	94	-21
Subscribers added for month	62			87		
Total size of active database	912	n/a	n/a	758	n/a	n/a
<u>Incom e</u>						
Sales	41,538	50,161	-8,623	92,643	106,816	-14,173
Other Income						
Interest Income	0	0	0	3	0	3
Total Income	41,538	50,161	-8,623	92,646	106,816	-14,170

urism dustry

COUNCIL TASMANIA

Plan for today...

Why are we doing this?

Theory vs.
Practice

What's really driving this business

Financial Model Model as numbers

How do we make it happen?





Key take aways!

- What are we doing all this for?
 - What is our vision for this business?
- What is our cost of capital (roughly)?
- What's our business model?
 - How does this all flow from the customer?
- What's our financial model?
 - What are the key numbers driving this business?
- What's our reinvestment plan?
 - What are the <u>BEST</u> projects we can implement that will <u>IMPACT</u> on our business results?





Key take aways!







Do you know someone who will benefit from my next session?

Keeping the Dollar\$ Rolling

Understand and manage the financial health of your business

Bicheno: 22nd June

Launceston: 3rd August

Burnie: 4th August



