

REINVEŠT

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Tourism Industry Council
Tasmania



Plan for today...

1. Vision
Why are we doing this?



2. Reinvestment
Theory vs. Practice



3. Business Model
What's really driving this business



4. Financial Model
Business model as numbers



5. Execution
How do we make it happen

Rob Cameron



Strategic Business Coach
Unicorn Business Solutions

NOT an accountant! Or a banker!

General Management

Focus on results

Aim is success, not perfection

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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...



7-9-07

STRATEGY
SYSTEMS

MARKETING & SALES
PRODUCTS & SERVICES
PEOPLE
CULTURE & ENVIRONMENT
FINANCE

ROCKET
TO SUCCESS

KPI's





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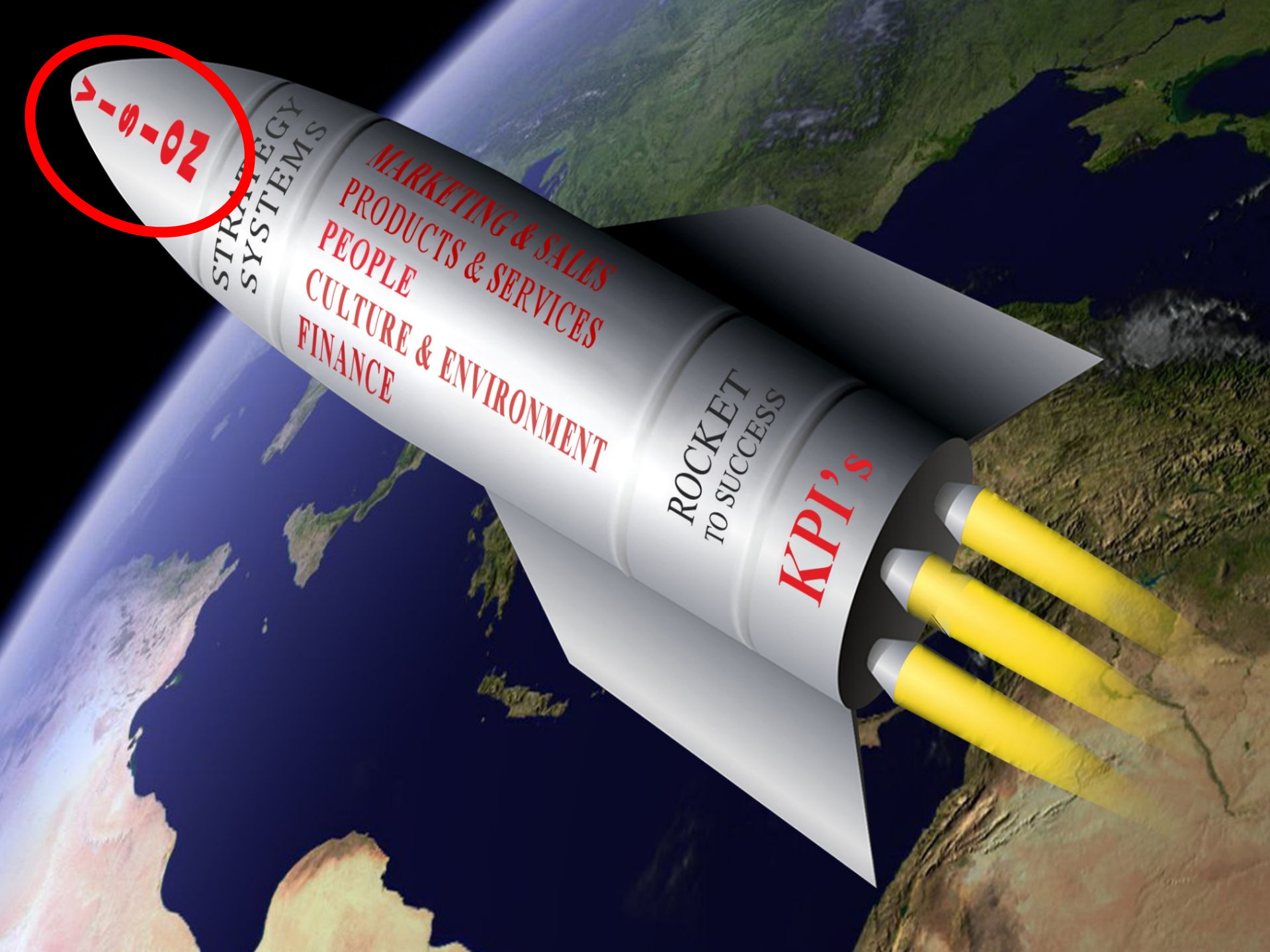
7-9-02

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VISION

Why are you in business?



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



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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

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?



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Reinvest – theory vs. practice

What is reinvestment?

**Investing back into our business to
generate greater returns in future**

Reinvest – theory vs. practice

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?



Reinvest – theory vs. practice

	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%

Reinvest – theory vs. practice

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 sheet

Investment builds tangible and intangible assets

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

Reinvest – theory vs. practice

GOOD REINVESTORS

BAD REINVESTORS

Vision & aspiration

Instant reward

Logical plan for success

See what tomorrow brings

Think about building a balance sheet of assets

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

Do

Don't



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Business Model

What's the logic behind this business?

Logic flow? Key drivers? Key numbers?

Therefore, how do we reinvest to strengthen?

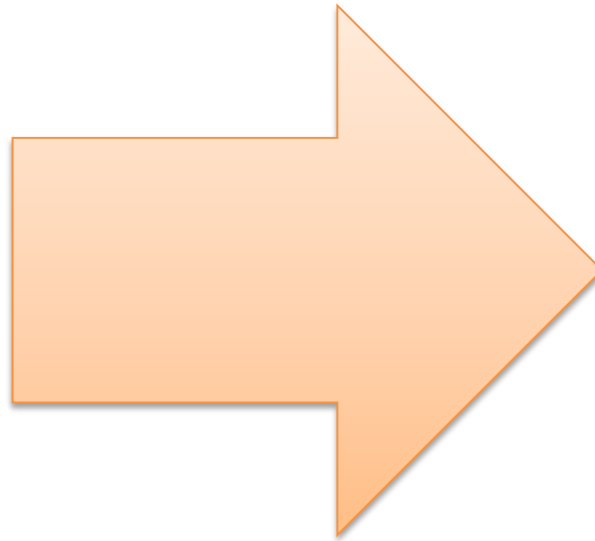
Think about YOUR business model...

Business Model

An example...



Business Model



Business Model



visitors
conversion rate % to customers
average sale value \$



Database size
subscribers



unique visitors
conversion rate %
average sale \$



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The financial model

How does your business fundamentally make 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





Finance

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>

Finance

Your latest Profit and Loss Statement

Average Sale		\$	100
# of Sales	x		10,000
<hr/>			
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>

Finance

Now lets apply the formula...

Based on Sales of \$1,000,000

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





Finance

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	<u>700,000</u>		
Gross profit	300,000		
Overheads	<u>250,000</u>		
Net Profit	50,000		



Finance

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





Finance

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		



Finance

Based on average sale of \$100

1% increase by upselling

results in a

\$10,000

and

\$7,000

increase in purchases

Resulting in Profit improvement of

\$3,000



+1+1+1



Finance

1% Increase of Average Sale

	Original	Change	New Figures
Average Sale (with price 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		
Net Profit	50,000		

Finance

**Based on overheads of
\$250,000**

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





Finance

1% decrease in Overheads

	Original	Change	New Figures
Average Sale (with price 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!



What If ?



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 reimagine this business potential?

Over what timeframe?

How do we manage the risks?



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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

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 your 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 **business plan**
- Sensible assumptions
- Used to help you manage cash
 - Capital investment
 - Debt repayment
 - Dividends

Benefits

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

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

Two stylized, rounded cloud shapes, one in a reddish-pink color and one in a light orange color, positioned above the title bar.

Key Performance Indicators (KPI's)



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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



Too Much Information!

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>Income</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

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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 **BEST** projects we can implement that will **IMPACT** 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