IMPROVING BUSINESS PERFORMANCE

AUGUST 2021

CPA AUSTRALIA

CONTENTS

BACKGROUND

This guide is the second in a three-part series providing guidance on enhancing business performance.

This guide has been developed to be used in conjunction with CPA Australia's **Business Evaluation Guide** and **Dashboard Reporting** guide.

INTRODUCTION

To improve business performance, you need to understand your business' current performance and be familiar with your business goals and targets. You should start by considering the following questions:

- What do I want to achieve in business?
- Am I achieving what I want to achieve or am I on track to achieving it?
- How is my business currently performing? Are profit levels rising, stagnant or decreasing?

Ultimately, you want to consider how to boost revenue and/or bring down expenses (cost control). So, as part of your assessment of business performance, you should consider:

- Do I have the right products or services to achieve my objectives?
- Which markets do I want my business to compete in?
- What does my business have to do to effectively compete in those markets?

Regularly identifying and understanding the key drivers of your business and evaluating them against key performance indicators (KPIs), business targets and industry benchmarks, will help to ensure business resources are efficiently and effectively utilised. You should consider:

- What skills, assets, finance, networks and technology you need to achieve the business's goals?

Improving business performance is also linked to appropriate risk management strategies. You should consider the following factors:

- What do my current and future competitors do better than my business? What does my business do better than them?
- What external factors are impacting my business and may continue to impact my business in the next few years?
- What internal factors are likely to disrupt my business in the short, medium and long term?
- How do I implement change with minimal disruption?

Having a strategy that focuses on continuous improvement will not only ensure that the business thrives, but also means that challenges can be identified and averted before they have a negative effect on the business.

Continuously bearing in mind the above questions and adjusting plans, policies and processes is essential to better business performance. It will help you answer the fundamental question of how to get your business from where it is today to where you want it to be.

In this guide, we will take a look at the key operational and financial drivers of business and consider practical approaches to implementing changes that optimise key business drivers. We will apply this to a case study – the Bundalong Plant Nursery (Bundalong) in Appendix A.

STEP 1: REVIEW YOUR BUSINESS GOALS & BUSINESS PLANS

What did I set out to achieve in my business?

In the Business Evaluation Guide, we looked at setting business goals, strategies, identifying key drivers for your business and evaluating business performance.

Successful businesses are those that have a clear vision and purpose, measurable goals aimed at achieving that vision and purpose, and a strategy to consistently meet those goals.

Strategic Planning	Financial Planning
Strategic planning is about determining the direction you want to take your business.	Financial planning in a business context is a continuous process of directing and allocating financial resources of the business to meet its strategic goals and objectives.
Strategic planning is done to: • set priorities. • focus energy and resources. • strengthen operations. • ensure employees and other stakeholders are working toward common goals. • establish agreement around intended outcomes/results. • assess and adjust the organisation's direction in response to a changing environment.	Financial planning involves the development of realistic financial targets that align with both the strategic plan and historical trading activities.

So, how is my business tracking against my goals?
Are my goals still relevant and appropriate?

When you have a formal process of regularly reviewing and updating your strategic plan, you will end up measuring and assessing your business' performance frequently as well. As part of the process you will end up reviewing and reallocating resources as necessary, as well as implementing changes to business practices.

Assess the actual business performance against objectives and criteria established in your business evaluation. This will assist you to identify and address critical performance issues.

Tips for improving strategic planning

1. Identify long-term objectives.
2. Recognise capabilities and resources needed to achieve these objectives (or identified gaps).
3. Document activities required to achieve these objectives and set specific time frames. Note that objectives need to be:
    - clear, concise and achievable.
    - focusing on the key drivers of the business.
    - regularly monitored and measured.

You should also review the potential future financial position of the business. This will assist you to clarify whether your business has the financial means to meet its strategic direction. Budgets[1] and forecasts[2] are critical tools that can be used to project the future financial position of any business. Review industry trends and other information available to assist in preparing credible assumptions and targets.

Tips for improving financial planning in your business

1. Document assumptions, including source of information.
2. Budget timelines should align to both the strategic plans and the preparation of financial statements.
3. Undertake regular ongoing comparison of budgets against actual financial results.
4. Have the scope to amend activities and targets where actual results indicate that budgeted outcomes will not be met.

Effective and on-going strategic planning will determine what business success looks like and what needs to be done to achieve it. It also informs and shapes how the business owner and employees react to opportunities and challenges.

STEP 2: REVIEW BUSINESS PROFITABILITY

How is my business currently performing? Am I achieving what I want to achieve or am I on track to achieving it?

Profitability is underpinned by business performance and is the essential driver of every business. However, it's not just about making money today but also securing the ability to grow the business in the future. Therefore, it must be a key focus of business owners and managers. Increasing profitability also boosts your ability to enhance performance.

A review of profitability should involve a **trend analysis** – a review of profit levels over time to identify dips and improvements, or if profit levels remained constant.

Sales (revenue) and costs data provide insights into factors impacting profitability at any given time. Drill down on sales and costs data to identify factors contributing towards increasing profits, or a depletion in profits or increasing losses. Consider measures that can be taken to improve the performance of those factors.

1. A budget sets out the financial goals of the business (per the strategic plan).
2. A forecast tracks the financial outcomes in line with the budget predictions. The forecast is valuable to assess the likelihood of achieving the budget.

Sales

There are three key components to sales revenue: price, volume, and customers. An improvement in one or more of these areas will contribute to increased profitability and business performance.

Pricing	The selling price of products and services is a big part of the profitability for every business. Price will determine the volume of sales and the type of customers the business attracts. When determining price, it is important to ensure that the prices and sales volumes allow the business to be profitable. Consider how pricing balances out across the entire range of your products and services. For example, a loss-leader[3] can be offset by other, more profitable products. Pricing decisions should factor in the level of competition and relative prices. Discounting products or services can increase sales volume, but it will erode the profitability of the transaction. Therefore, it is important to understand the impact of discounting on profit and customer demand.

Tips for improving pricing:

1. Understand how your customers react to changes in the price of your products or services.
2. Have a pricing policy.
3. Regularly review the pricing policy in line with costs – using "mark up[4]"and "margins[5]".
4. Include comparison of both gross and net margins.
5. Fully understand the impact of discounts on profits and customer behaviour, before offering discounts.
6. Record discounts separately and monitor its impact on profit and customer demand regularly.
7. Consider alternatives to discounting to maintain profitability (for example, customer credit, bundled sales, free gifts).
8. Review financial records regularly (at least quarterly) to ensure all stock costs and "on-costs" are included in the current pricing policy.
9. Analyse sales regularly and focus on identifying those that provide the highest margin.
10. Use key financial ratios to identify potential operational issues that may impact sales. The relevant key financial ratios are cost of goods sold margin, gross margin, average stock turn, mark-up, destroyed stock as a percentage of stock held, average stock held and staff productivity. See the Business Evaluation Guide for more information on financial ratios.

See the **Business Evaluation Guide** for more information on financial ratios.

Volume	Improving profitability can also be achieved through an increase in the volume sold. There are two ways to achieve this: • increasing level of sales to existing customers. • sourcing new customers. For existing customers, an increase in the overall volume of purchases is generally achieved by marketing techniques that entice further sales, such as "up-selling". A break-even calculation can be used to ensure that any sales strategy implemented will cover all costs and allow for realistic targets to be set that ensure profit is maximised.

3. A "loss leader" is a pricing strategy where a product is sold below its market cost to stimulate other sales of more profitable goods or services. One of the main purposes of "loss leader" pricing is to penetrate a market and attain a new customer base. This pricing strategy must be properly executed as it may lead to large losses if not implemented correctly.
4. Regular scrutiny of mark-up will ensure that the pricing policy continues to cover both fixed and variable expenses incurred. Refer to the Business Evaluation Guide for further information on "mark ups".
5. Margin management will assist in monitoring both stock costs and expenses in line with sales. Refer to the Business Evaluation Guide for further information on how to use "margins".

Tips for improving sales volume:

1. Understand the buying patterns of existing customers.
2. Focus on building customer/brand loyalty.
3. Train your staff to look for further sales opportunities, such as "up-sell". Ensure they are aware of what high margin products to offer.
4. Set sales targets at the team and individual level to focus/motivate sales staff. Use break-even calculations for this.
5. Regularly monitor your sales personnel's performance against targets.
6. Set marketing strategies that increase sales volume, such as using online sales platforms to reach a wider consumer base, offering a range of payment options, or offering delivery options.
7. Introduce marketing strategies that encourage customers to increase purchase volumes, such as loyalty programs, or increase customer bases, such as referral rewards.
8. Use visual display by placing products in groups.
9. Consider special offers, such as discounting bulk buys, to entice volume buying. However, do the numbers first to ensure you are not eating into profits by discounting.
10. Undertake regular research to tap into new markets and customer base.
11. "Bundle" products together to increase the volume of products purchased.

Customers	Good customer service is key to keeping existing customers and enticing new customers to the business. Understanding what customers want and how to meet their needs is a simple step in improving the performance of the business. This can be done through receiving and acting on customer feedback, building an understanding of customer preference and having a marketing strategy that encourages new customers to the business. A customer relationship management (CRM) system provides a vast array of information on the behaviour of customers as well as other information that can be utilised to increase the potential selling power of the business. This system can be purchased as software or could be as simple as detailed notes on each customer of the business. The data analytical tools on online sales/payment platforms are also able to provide insights on customer preferences and behaviours.

Tips for improving customer service:

1. Develop a system that will assist in understanding the needs of customers and use this information to develop improved customer service.
2. Measure customer service levels by implementing feedback or surveys for customers, monitoring items such as complaints, social media discussion and returns, sales by individual staff members and delivery processes.
3. Reward customers for loyalty. A loyalty program can also be used to increase sales volume and create a new customer base.
4. Keep records of requests from customers, including new products or services, packaging and delivery services. Often these requests can be useful when the business is looking to develop a new offer for customers or gain market share.
5. Consider using a "mystery shopper" to monitor customer service by your staff.
6. Keep the business "top of mind" with the customer through regular contact through social media, personalised communication, newsletters, special offers, customer events and reminders.

See **How to Manage Customer Risks** for more tips on retaining customers/expanding the customer base.

Costs

Simply put, you need to cover costs to make a profit. There are two categories of costs or expenses in a business: fixed or variable.

Fixed Costs	Profitability is impacted when sales decrease (and therefore gross margin is down) but fixed costs remain constant. These are costs that will remain relatively constant regardless of the level of sales. For example, rent, salaries, insurance and depreciation. These costs can increase in line with changing economic and other trading conditions.

Tips for improving management of fixed expenses:

1. Regularly review all fixed costs and compare against:
   a. other suppliers' pricing.
   b. industry benchmarks.

   This will help ensure that your business is paying competitive prices and is not experiencing "cost creep."
2. Review staffing levels to ensure it is in line with business activity and technology advances.

Variable Costs	Monitoring variable costs is critical to profitability. These expenses move relative to sales, for example, raw materials, freight costs, marketing, delivery charges, etc. Where sales remain flat or decrease, it is important to manage these costs in line with sales to reduce the risk of profit erosion.

Tips for improving management of variable expenses:

1. Know your variable costs and identify which ones contribute to sales. If profitability is declining, then reducing marketing expenses should be approached with caution.
2. Regularly review margins, mark-ups and break-even. We recommend building these reviews into the regular reporting by your accountant/ finance team.
3. Consider using part time, casual or job-share staffing arrangements to provide flexibility against changing trading conditions.
4. Consider embedding technology into business processes to reduced labour costs and free employees for more value-adding tasks.

Supplier Management

"Supplier management" is a factor in cost control, similar to how "customer management" is a factor of sales. A solid supplier relationship will enhance business operations by minimising sourcing issues and increasing the business's reputation for efficiency and good management. By keeping suppliers up to date on the business operations, they can often provide useful information and advice, including new products or services. Good communication with suppliers will ensure that the business is seen as a reliable customer and may encourage more favourable payment terms from the supplier.

See **Tips to Better Manage Your Suppliers** for guidance on improving supplier management.

STEP 3: LOOK AT BUSINESS EFFICIENCY

Are my business resources performing optimally?

Increasing business efficiency involves increasing the utilisation of company resources to produce more, reduce costs and increase profits. Improving resource utilisation may sometimes require improving working conditions, customer satisfaction and reducing the negative impact of the business on the environment.

IMPROVING PRODUCTIVITY

For operational efficiency, you need to balance and maintain a good relationship among people, processes and technology. "People" perform specific tasks for an organisation using processes. Often technology is used to streamline and improve these processes, making it possible for people to do more innovative work at a faster pace. Therefore, focus on people first and processes second to ensure you have the appropriate resources in place before implementing technology.

People

You could say that the people in the organisation are the most important of the three. Without them, nothing can happen. Having people with the right experience, skills, qualifications and attitude is necessary to realise business growth. Equally important is creating a working environment with the right culture. Truly engaged employees will play a significant part in the overall success of your business.

Therefore, employing and retaining employees who contribute to increased productivity should be a high priority. This is can be easier where the business has a clear vision and goals, and a culture based on trust, teamwork, effective communication and shared goals. Regular team and one-on-one meetings, employee surveys and feedback, and team building events are some ways to improve communication and feedback. Reward and recognition, be it in monetary form, a promotion, or some additional time off to encourage employees to meet and exceed targets may also encourage positive contributions.

Tips for improving employee performance

- Source employees with the skills and competencies your business requires.
- Ensure they understand and are aligned with the business' strategic direction and goals.
- Delegate responsibilities to qualified employees, and trust that they will do the task well. This gives them the opportunity to gain new skills and leadership experience.
- Know their skill sets and behavioural styles and match tasks accordingly.
- Communicate goals, performance and plans effectively. Sometimes, having a quick meeting or phone call can save time taken on back-and-forth emails.
- Set clear and focused goals to keep employees focused and efficient. If a goal is not clearly defined or is not achievable, it will reduce productivity. So, make sure your goals are "SMART", specific, measurable, attainable, realistic and timely.
- Incentivise employees by recognising when they perform well and encourage them to continue increasing their productivity. When deciding on incentives, consider what their individual needs or preferences are. One employee might appreciate public recognition, while others may appreciate some additional time off or a simple gesture, such as taking them out for a meal. And everyone appreciates monetary rewards.
- Invest in staff training and encourage continued development. Individual coaching, workshops, courses, seminars or mentoring – or even increasing responsibilities – are several ways in which you could support staff development.
- Give and receive feedback. Measure your employees' performance and have one-on-one meetings to let them know where they are excelling and what areas need to be worked on. Asking for feedback should give you clear and immediate ways you can help them improve.
- Consider flexible working arrangements. Allowing employees to work from home at times will allow them to save time commuting.

Processes

Identify and analyse the performance of all your existing business processes. Do they meet best practice standards? Can they be improved? Ask employees, customers and other stakeholders for their feedback on processes. Ask them what their irritants are and what they suggest for process improvement.

The goal of improving business processes is to minimise errors, reduce waste, improve productivity and streamline efficiency. Start by visually mapping out the process workflows in your business, identify the problem areas and look at small shifts you could make to daily work or organisation culture to prevent (not punish) errors and mistakes from occurring twice.

When implementing processes, ensure employees receive proper training on the new processes. Have a system for review in place before starting any new process and consider how you measure the success of a process.

Technology

The business process mapping exercise allows you to identify areas where technology could be used to reduce time spent completing a task or to minimise errors.

Before considering new technology solutions, take a critical look at the technology you already have and make sure that you are using all its functionality. You might find that your existing technology has functions you need but have yet to use.

Recognise and plan for the fact that your employees and processes may not be equipped to handle the drastic changes a new technology may create. Therefore, get the "buy-in" and backing of your employees from the start of technology projects – involve them in identifying the issues that require a solution, as well as the selection and implementation of the technological solution.

See **IT Checklist for Small Business** for tips on determining what new technology may be helpful.

Tips for improving performance of technology

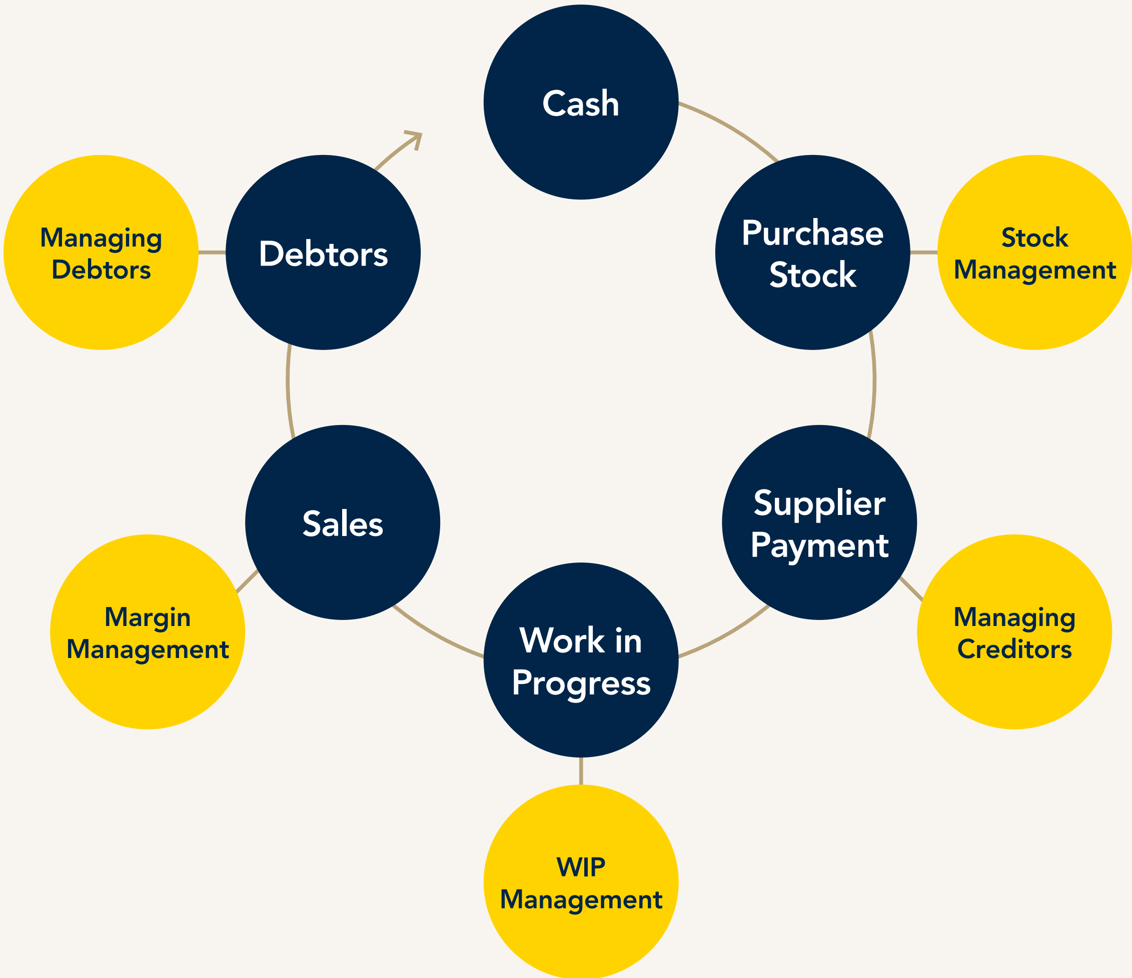
- Train all employees to use the technology, ensuring they understand the importance of the technology to their roles and the business. Ensure they are aware of the consequences of poor and inappropriate use of technology.
- Stay abreast of the existing and emerging technology solutions available in the market. You can do this by consulting your advisor periodically.
- Regularly review the technology used in other businesses in your industry.
- Take a considered approach to adopting new technology by ensuring that it is integrated with existing technology and not just an "add-on".
- Undertake a detailed cost-benefit analysis before introducing new technology.

Overall, keep in mind how people, process and technology interact. The people do the work; technology often helps them innovate. Strong processes can help people increase efficiency; technology can help automate these processes. Review these components against the strategic plan, to ensure they are all capable of achieving the objectives of the strategic plan.

OPTIMISING BUSINESS ASSETS

Effective management of working capital and capital investments can greatly contribute to improving business performance.

Working capital (WC)
Understanding WC is fundamental to operating a business effectively and efficiently. The key to successful WC management is reviewing all the essential components in the WC cycle. The diagram below demonstrates the WC cycle operates:



Effective WC management is crucial to the performance of any business and requires continual review and diligence in managing stock levels, debtor collection and creditor payment while growing profit margins.

There are many ways a business can improve the WC cycle. The following sections provide an overview of the key components of the WC cycle that should be addressed when looking to improve business performance.

Note: Managing creditors and margin management are covered in the "Profitability" section.

Stock management	Appropriate stock or inventory management can be a very effective means of improving overall financial performance. Proper monitoring, organising and coordinating of ordering inventory can substantially improve your cash flow and available WC. With the additional capital, you can reinvest more back into your business more regularly, enabling it to grow and to expand its market base. Inadequate management of stock can drain cash flow and directly impact sales. Inadequate record keeping, lack of understanding of stock movement and lax physical and procedural controls contribute to stock losses and/or overstocking,[6] which is costly.

Tips for improving stock management:

1. Understand the stock – what moves quickly, what contributes the highest gross margin, what are the core items, what has aged, what is in excess and what is seasonal? This will help determine how much of each line of stock to keep on hand and when a re-order is required.
2. Have a buying policy that covers areas such as:
   - identification of core stock items and stock levels needed on hand.
   - authorised suppliers, ensuring that there is not an over-reliance on one supplier.
   - policy on receiving discounts.
   - bulk ordering and timing of stock orders (at what point does stock need to be re-ordered).
3. Implement and maintain sound physical controls to minimise perished stock and/or the risk of theft.
4. For a business that holds large quantities of stock, utilise a stock management record-keeping system.

Work in progress (WIP)	Good management of WIP is supported by sound management systems for the efficient execution of customer orders. WIP is often only thought to be relevant in manufacturing businesses; however, some retail and service businesses also have a form of WIP – the time between the customer order to delivery can be defined as the WIP. WIP is often a source of inefficiency in business due to the complex nature of completing production. With poor processes in place, WIP can be delayed at various points in production and this can impact all aspects of the working capital cycle. The key to improving performance of WIP is to identify and act on both actual and potential "bottlenecks".

Tips for improving WIP management:

1. Monitor progress for each job, project or production run – this will improve efficiency and effectiveness of WIP.
2. Compare WIP within the business with other similar businesses and industry benchmarks.
3. Implement a good management system that records and identifies all the key process points within the WIP cycle.
4. Identify any bottlenecks in the production process, including the physical layout of production, and identify possible improvements to speed up the movement through the WIP stage.

6. It is estimated that holding stock can cost anything between 10 and 30 per cent of the value of stock. This includes storage, insurance, keeping accurate tracking records, obsolete and aged stock, and proper controls over theft.

Debtor management	A good customer is one that pays. If you are not collecting cash from your customers, then you are effectively funding their business as well as your own. Managing the payments due from debtors can involve a lot of (wasted) effort if proper controls and procedures are not put in place at the outset. Thus, it is important to encourage timely payment from the get-go.

Tips for improving debtor management:

1. Set up a credit control policy that includes credit checks and credit limits. Include a policy on when you will stop supplying a customer until all their debts are cleared.
2. Set a policy on payment terms. Payment terms should be negotiated before an order is taken and documented on each invoice.
3. Implement controls to ensure all staff adhere to the agreed terms when completing a sale.
4. Invoice promptly.
5. Train staff to encourage customers to pay up-front.
6. Minimise sales on credit and encourage immediate payment via the use of digital payment options, or a prompt payment discount.
7. Regularly review debtor ageing reports, identify slow paying customers and contact them early.
8. Set up payment arrangements early with non-paying customers.
9. Have standard procedures documented for debtor collection.

See also Tips for Improving the Management of Credit and Receivables.

Cash flow management	Watch all the steps in the WC cycle, the faster the cycle turns, the faster trading operations convert into available cash. Well planned and directed cash flow management will contribute towards: • maintaining or improving liquidity to meet obligations. • reducing reliance on external financiers. • complying with borrowing covenants. • avoiding a cash flow crisis. • maximising returns on surplus funds. • funding seasonal fluctuation in working capital. • funds for capital expenditure and investments. A **cash flow forecast**, monitored regularly, is the most effective method to manage cash flow.

Tips for improving cash flow management:

1. Prepare a cash flow forecast in line with strategic and operational timelines.
2. Understand what impacts the cash flow of a business. This is usually sales but all areas of the working capital cycle are potential “drivers” of cash flow.
3. Use financial ratio analysis with the cash flow forecasts to provide the best information on liquidity in the business. Refer to the Business Evaluation Guide for the relevant ratios.
4. Communicate the importance of cash flow throughout the business and promote cash-consciousness among employees.

Capital investments

Capital investments, when managed well, will translate into better cash flow, faster growth and competitive advantages. Therefore, include in your business improvement plan regular reviews of your existing capital investments and invest capital back into your business. The business will benefit from limited wastage and improved productivity.

Tips for optimising capital investment:

1. Maintain records of investments (assets) including purchase date, maintenance records and effective useful life (to identify when the asset may need to be replaced).
2. Ensure your investments are either cash-generating or enhance your business' operational stability.
3. Source project ideas from your business process reviews and employees.
4. Free up resources to increase capital investment, for example:
    - sell unprofitable, unused, or unnecessary assets. For example, if you have equipment that has outlived its useful life, selling it would allow you to channel some cash back into the business and save on the costs involved in holding the asset.
    - optimise inventory and working capital management to free up cash outflow.
    - pay off or restructure existing debts with more attractive repayment terms to release cash back into the business.

INNOVATION

Have a strategic focus on innovation because this ensures everyone in the business is working towards a better business. Therefore, your business model is continually evolving to match changing trading, market or business conditions.

Tips to encourage innovation in your business:

- Include innovation as a key driver in your business planning.
- Actively promote a culture of innovation within your business, starting with business owner, then managers and employees.
- Monitor customer requests, social media content and feedback, and implement business practices to meet customer needs and wants.
- Encourage employees to participate in the business innovation process. For example, by making it part of annual staff review, requesting suggestions to improve business performance in weekly or monthly staff meetings and include them in the strategic planning process.
- Prioritise the areas or processes that will experience the biggest impact from improvement.
- Regularly review the existing business model against your competitors and industry leaders and implement changes where necessary.
- Regularly review critical success factors and matching key performance indicators to ensure continuing validity to current and future business operations.
- Regularly measure outcomes of innovation changes to ensure strategic objectives are met.

STEP 4: RISK MANAGEMENT

Finally, as part of your ongoing business performance improvement review, check your risk management policies and frameworks to ensure that it's up to date and relevant. Sound risk management policies reduce the possibility of an adverse event taking place and minimise the potential impact of these events on business performance.

There are two sources of risk:

Internal Risks

When it comes to internal risks, you have some control over it.

Many of the risks can be mitigated or managed **using internal controls**. The objective of internal controls is **to protect staff and resources, encourage positive behaviour in the workplace and support efficient use of business resources**. These controls should ensure financial information is accurate and reliable, compliance with financial and operational requirements and generally assist in achieving the business' objectives.

Internal control activities generally include approvals, authorisations, verifications, reconciliations, reviews of performance, security of assets, segregation of duties, and controls over information systems.

Control activities will assist in preventing or highlighting risk events within your business. The implementation of internal controls should be part of the continuous improvement program of every business.

Tips for improving the management of internal risk

1. Comprehensively document the processes and controls and share it with your employees as a manual for business operations. This should include:
   - who is responsible for the implementation and monitoring of a control.
   - what the procedure for the control is.
   - why the control is required.
   - when the control is applicable.
   - how internal controls are communicated to staff.
2. Establish a framework within the business for employees to easily communicate a breach of internal controls.
3. Ensure there is a regular review of the efficacy of such controls.

See Internal Controls for Small Businesses

External Risks

These are events which the business typically has no control over. For example, increased competition; financial risks such as unfavourable movements in interest rates, exchange rates, availability of finance; economic risks, such as inflation; global health crisis and natural disasters.

Managing risk that you have little control over is more about minimising the impact rather than mitigating the problem.

There are many risk management strategies that a business can consider when it comes to unfavourable external events. **What's important is that you're aware of the potential risks** associated with changing political, economic, environmental, social, financial, trading and other conditions. Your business is capable and able to adapt to these changing conditions.

Tips for improving the management of external risk

1. Network with others in your industry, including industry associations to stay abreast of changing PESTEL[7] conditions.
2. Ensure the business has appropriate insurance in place.
3. Consider hedging strategies to minimise the impact of financial risk.
4. Have appropriate emergency, continuity, and disaster recovery plans in place.
5. Regularly review the above to ensure that the strategies remain relevant to current conditions.

See CPA Australia's resources on **managing treasury risk**, **business recovery**, **Supply Chain Resilience; Tips for building flexible and resilient supply chain**, and **Cybersecurity tips for small businesses**.

CONCLUSION

By focusing on improving the business' performance, you are not only ensuring that existing resources and assets are optimally utilised, but also developing a long-term sustainable model for your business. Implementing a culture of innovation and continuous improvement within your organisation and in partnership with other stakeholders will aid your business' survival in times of economic uncertainty or disasters.

The case study in Appendix A illustrates a business performance improvement review for a retail business.

7. Political, Economic, Social, Technological, Environmental and Legal.

APPENDIX A: IMPROVING BUSINESS PERFORMANCE – A CASE STUDY

The following case study is provided to assist in developing a model for undertaking an improving business performance review. It should only be used as reference.

BUNDALONG RETAIL PLANT NURSERY - BACKGROUND

Bundalong retail plant nursery is situated in a rural town that has a population of approximately 38,000 residents. The nursery has been operating for 15 years and, in the past few years, has been recording operational losses. A business evaluation was recently undertaken. This involved a review of the business' financial information against benchmark data for their industry, business documentation and physical processes noted during site visits.

FINANCIAL STATEMENTS OF BUNDALONG RETAIL PLANT NURSERY

Profit and loss statement for year ended 31 July

	Current year		Previous year	
	$	**% of sales**	**$**	**% of sales**
Sales	438,707		345,314	
Cost of goods sold				
Opening stock	119,979		71,573	
Purchases	224,938		214,050	
	344,917		285,623	
Closing stock	(96,490)		(119,979)	
Total cost of goods sold	248,426	56.6%	165,644	48.0%
Gross profit	**190,280**	**43.4%**	**179,670**	**52.0%**
Operating expenses				
Salaries	(233,294)	53.2%	(200,236)	58.0%
Overheads	(85,903)	19.6%	(96,691)	28.0%
Total operating expenses	(319,198)	72.8%	(296,927)	86.0%
Net loss	**(128,917)**		**(117,257)**	
Average stock held for each year	108,234		95,776	

Breakdown of operating expenses

Operating expense	Current year		Previous year	
	$	% of expense	$	% of expense
Cleaning contract	1,740	2.0%	1,160	1.2%
Repairs and maintenance				
Buildings	794	0.9%	656	0.7%
Equipment	978	1.1%	859	0.9%
Furniture and fittings	1,702	2.0%	1,626	1.7%
Grounds	4,656	5.4%	9,646	10.0%
Electricity	2,821	3.3%	2,729	2.8%
Vehicles				
Fuel	3,220	3.8%	2,578	2.7%
Registration	355	0.4%	352	0.4%
Insurance	1,250	1.5%	1,200	1.2%
Repairs and maintenance	1,712	2.0%	1,872	1.9%
Transport – contract	—	—	460	0.5%
Depreciation				
Equipment	5,152	6.0%	5,422	5.6%
Furniture and fittings	4,324	5.0%	4,961	5.1%
Motor vehicles	6,392	7.4%	6,578	6.8%
Advertising	14,515	16.9%	15,955	16.5%
Uniform costs	277	0.3%	451.54	0.5%
Printing and stationery	1,017	1.18	893	0.9%
Telephone	2,655	3.1%	2,961	3.1%
Staff provisions	1,431	1.7%	1,666	1.7%
Rent	22,455	26.1%	19,525	20.2%
Equipment	620	0.7%	1,222	1.3%
Staff training	310	0.4%	438	0.4%
Travelling	191	0.2%	77	0.1%
Materials and supplies	529	0.6%	582	0.6%
Bank charges	3,013	3.5%	2,809	2.9%
Memberships and subscriptions	579	0.7%	520	0.5%
Health and safety	259	0.3%	118	0.1%
Postage	364	0.4%	369	0.4%
Computers	—	—	4,504	4.7%
Sundry administration costs	2,583	3.0%	1,681	1.7%
Consultancy fees	—	—	2,818	2.9%
Total operating expenses	**85,903**		**96,691**	

Balance sheet

	Current year	Previous year
	$	$
ASSETS		
Current assets		
Cash/bank	16,320	65,778
Debtors	14,280	32,000
Stock	96,490	119,979
Other	4,210	5,500
Total current assets	131,300	223,257
Non-current assets		
Delivery vehicle	75,000	75,000
Less accumulated depreciation	(19,547)	(12,970)
Total	55,453	62,030
Nursery fit out	115,000	115,000
Less accumulated depreciation	(66,955)	(61,994)
Total	48,045	53,006
Equipment	50,000	50,000
Less accumulated depreciation	(41,021)	(35,599)
Total	8,979	14,401
Total non-current assets	112,476	129,437
Total assets	**243,776**	**352,694**
LIABILITIES		
Current liabilities		
Creditors	65,000	48,000
Credit card	15,000	12,000
Total current liabilities	80,000	60,000
Non-current liabilities		
Bank loan	20,000	20,000
Total liabilities	**100,000**	**80,000**
EQUITY		
Shareholders' funds (including retained earnings, losses)	272,694	389,951
Less current year accumulated losses	(128,918)	(117,257)
Total equity	**143,776**	**272,694**

Operational activities

Staffing	
FULL-TIME EQUIVALENT	**5.30, including**
Owner/manager	1.30
Apprentice	1.00
Six part-time	3.00
PART-TIME DUTIES	
General sales, orders, quotes	0.80
General sales, admin (0.1)	0.60
General sales, buying	0.60
General sales	0.60
Two staff general sales (2 x0.20)	0.40
Trading hours 59.50 hours per week, every day except major public holidays	

Documentation reviewed

Mark-up policy:	The standard mark-up policy is 110 per cent, meaning the sale price of all stock should be 110 per cent above the cost of that stock
Buying policy:	No formal buying policy held
Job descriptions	No formal job descriptions
Discount/VIP policy:	The discount policy noted the following:
Discount	**Category**
2.5%	Non-VIP members
10%	VIP members
	Schools
	Businesses
	Garden design customers
15%	Landscapers value to $200
20%	Landscapers value $201 to $500
	TAFE and other colleges
25%	Landscapers value over $500
	Nursery staff

Analysis of Bundalong retail nursery financial information in comparison to the industry benchmark in current and previous year

	Current year – Bundalong	Industry benchmark	Variance of current year to benchmark	Previous year – Bundalong	Variance of current to previous year	Variance of previous year to benchmark
Total income	$438,707	$446,556	($7,849)	$345,315	$93,392	($101,241)
Cost of goods sold	56.6%	49.0%	7.6%	48.0%	8.7%	(1.0%)
Gross margin	43.4%	51.0%	(7.6%)	52.0%	(8.7%)	1.0%
SELECTED OVERHEADS AS A PERCENTAGE OF INCOME						
Advertising and promotion	16.9%	2.3%	14.6%	16.5%	0.4%	14.0%
Salaries including staff on costs	53.2%	13.8%	39.4%	58%	(4.8%)	44.2%
Vehicle operating costs	7.6%	3.7%	3.9%	6.2%	1.4%	2.5%
Rent	26.1%	3.3%	22.8%	20.2%	6.0%	16.9%
Bank charges	3.5%	1.5%	2.0%	2.9%	0.6%	1.4%
Total overheads	72.8%	37.3%	35.8%	86.0%	(13.2%)	48.8%
Net profit margin	(29.4%)	13.8%	(43.2%)	(34.0%)	4.6%	(47.7%)
PERSONNEL NUMBERS (FTE)						
Working owners	1.3	1.5	(0.2)	1.3	0	(0.2)
Sales staff and nursery people	4.0	2.4	1.6	3.5	0.5	1.1
Any other staff	0	0.5	(0.5)	0	0	(0.5)
Total personnel	5.3	4.4	0.9	4.8	0.5	0.4
OTHER BENCHMARK INFORMATION						
Stock turn rate	2.3	3.5	(1.2)	1.7	0.6	(1.8)
Plants grown in house as a percentage of total sales	22.0%	20.0%	2.0%	20.0%	2.0%	0%
Trading hours per week	59.5	54	5.5	59.5	0	5.5
Percentage of sales made to account customers	58.0%	25.0%	33.0%	55.0%	3.0%	30.0%

For further detailed commentary on the analysis, refer to the Business Evaluation Guide.

ANALYSIS AND RECOMMENDATIONS FOR BUNDALONG RETAIL PLANT NURSERY

Business Planning

Bundalong has not undertaken any strategic planning for the past three years. It is evident that the absence of this planning process has contributed to the poor operating results and lack of controls.

The current budget also does not reflect the true trading conditions, indicating that the financial measures are not in line with current operating activities.

Recommendations

Strategic Planning	Financial Planning
1. Review existing operations and develop a strategic plan with longer-term goals for the business. Include financial metrics and staff performance targets. 2. Once the goals have been set, meet with all staff to discuss the goals and seek their opinion on processes and policies required to achieve the objectives. 3. Develop an implementation plan with senior staff members that measures and monitors the policies and procedures to ensure that the outcomes are in line with the overall objectives.	1. Develop a new budget aligning the business' finances with the strategic plan. 2. Develop profit and loss, and cash flow forecasts, and monitor it monthly to ensure that the short-term operating results are in line with the strategic plans. 3. Undertake a thorough review of the operating results after six months of trading under the new strategic plan to assess whether the business will return to profitability.

Productivity – People & Technology

Employees	• Staffing levels appear slightly higher than benchmark. • An analysis of per hour staff productivity results were as follows: **Previous year:** \$39.10 sales per hour. **First six months of current year:** \$46.33 sales per hour. **Last six months of current year:** \$31.90 sales per hour. • The numbers show productivity dropped significantly in the second half of the current year. Senior management and staff meeting minutes corroborate this. • When staff rosters were reviewed against daily trading, it was noted that the lowest staffing levels were present on the highest trading days (weekends). • Per the current policy on point of sales[8], only one staff member has been providing customer service and in-store selling in peak sales times.

Recommendation:

1. Restructure staffing levels and reassign responsibilities.
2. Detail the key areas of responsibilities and consider the current staff levels and availability to fill the responsibilities. Don't share key responsibilities between staff where possible.
3. Include adequate supervision of staff, especially on highest trading days, in the new structure.
4. Prepare formal job description for all employees, set KPIs for each role and seek agreement from each employee.
5. Have regular staff appraisals. Measure the employee's performance against the agreed measures. Provide coaching and growth opportunities for them.
6. Monitor and manage the staff roster.
7. Provide formal training for employees on financial aspects of retail selling, such as impact of discounting on mark-up, impact of stock write-offs and the benefits of "up-selling".

8. The current policy for point of sales is that one staff member should always be attending to the cash register.

Technology	
Technology	• The current financial system is a common system used by small businesses and adequately reports on the business' financial position. • The system is not being used to conduct financial analysis. • There is a stock management system that integrates with the point of sale system. However, the system has multiple issues impacting the data accuracy in the stock management process. For example, where one plant variety is purchased from multiple suppliers at different prices, the stock system records the value at average cost. This distorts the stock records as an average price is allocated to such plants. • The system does not provide easy access to aged stock or excess stock data. Nor does it provide information on re-ordering stock items.

Recommendation:

1. Train the staff to use the financial system to provide financial analysis.
2. Discuss the stock management issue with the systems provider and request that the systems be updated or changed so that more accurate and precise stock cost data is captured.

Working Capital Efficiency – Stock Management

Stock Management

- Gross margin has decreased by 8.7 per cent from the previous year and is 7.6 per cent below the industry benchmark. However, there has been a substantial increase in sales.
- Mark up decreased from 108.5 per cent in the previous year to 76.6 per cent for the current year.
- The stock turn rate for the current year is about 33 per cent below the industry benchmark. The previous year's rate is about 50 per cent below benchmark.
- These show that the fall in gross margin is due to stock issues.
- Although the mark-up on stock was adjusted twice during the current year to reflect higher purchase price of goods, further analysis into the decrease in gross margin highlighted an increase in freight charges. Total freight and potting charges (add on costs) amount to approximately 7 per cent of cost of goods sold during current year. These charges had not been accounted for in the mark-up calculation and account for most of the decrease in gross margin. These increasing costs were confirmed by the retail nursery association as an industry experience in the past 12 months.
- Also, included in the cost of goods sold is the amount of stock "written off" during the year. This is recorded as "destroyed stock" and unaccounted losses realised at stocktake. The current procedure for "destroying" stock is that any staff member can identify stock which is dead or not in a saleable form at any time. The owner has advised that at one stage this procedure had to be approved by the owner. However, this is not currently being adhered to. To record destroyed stock, the item is sold to the "destroyed stock" account on the register, and the plant and pot disposed of.
- At the end of each month, the closing stock balance is adjusted to reflect the lost stock. There is currently no review of destroyed stock, either physical or on regular reports.
- Further analysis of destroyed stock found that 15 per cent of all destroyed stock was recorded on weekends, when there is no management supervision.
- Following the current year stocktake, records show that a further $16,523 of stock was missing from the physical count, representing 6.65 per cent of the total cost of goods sold. The closing stock balance for the current year was reduced by this amount to record the shrinkage.
- Taking account of the destroyed stock and stock losses realised during the current year stocktake, the total shrinkage to stock at cost price amounted to $28,813, or 11.6 per cent of total cost of goods sold and 27 per cent of the average stock holdings for the current year. Consultation with the industry association indicated that destroyed stock should average approximately $4000 (at cost) per annum based on the total sales of Bundalong.
- An adjusted profit and loss statement "adding back" destroyed and written off stock provided the following result:

	Current year		With stock adjustment	
	$	% of sales	$	% of sales
Sales	438,707		438,707	
Cost of goods sold				
Opening stock	119,979		119,979	
Purchases	224,938		224,938	
	344,917		344,917	
Closing stock	(96,490)		(125,303)	(including stock adjustment)
Total cost of goods sold	248,427	56.6%	219,614	50.1%
Gross profit	**190,281**	**43.4%**	**219,094**	**49.9%**
Operating expenses				
Salaries	233,295	53.2%	233,295	53.2%
Overheads	85,903	19.6%	85,903	19.6%
Total operating expenses	319,198	72.8%	319,198	72.8%
Net profit/loss	**(128,918)**		**(100,105)**	
Mark-up	77%		100%	
Stock turn	2.30		1.79	

- The average stock holdings for current year was $122,641 (including stock losses from destroyed and shrinkage). The average level of stock holdings required to meet benchmark stock turn (where cost of goods remain the same) is $63,008.
- A physical analysis on aged stock (as currently the stock management software system does not allow for specific data on aged stock) found that aged stock (held for more than six months) was estimated at approximately $31,784. If the aged stock had been sold, the average stock levels would decrease to $90,857 (2.41 turns), still well above the average stock levels required to achieve benchmark stock turn.
- Low stock turn rate can lead to a higher probability of destroyed stock or increased resources to manage stock. Where stock turn is low, the ability to purchase new stock will be impacted due to constraint in space and maintaining acceptable stock levels. This in turn could result in lower sales due to high levels of aged stock held and lower than acceptable levels of "fresh" stock.
- The is no formal buying procedure. Currently, stock purchases are decided through discussions with employees. Details of stock movement, such as stock at low levels, high turnover, and plants that customers are requesting, is provided by employees. This, together with seasonal requirements will then form the basis for purchase. The informal nature of the buying procedure could account for the high level of stock holdings, excess stock and destroyed stock.
- Given the level of information held in the current stock management system, it is possible that this data can be used to assist in the buying procedures. Information on high volume of sales of certain stock items, stock held past a certain time frame and low levels of stock items should form part of the formal buying policies.

Recommendations to improve stock management:

1. Reduce average stock levels.

   With current aged stock at 33 per cent of year end stock levels, it is best to have a marketing strategy to sell this stock. If the stock cannot be sold, consider an alternative strategy, such as a donation to a community organisation to reduce stock levels (make sure the donation is promoted).

2. Monitor and manage ageing stock.

   Put in place a formal policy for ageing stock that defines "ageing stock" (for example, all stock over six months old) and provides guidelines on how to identify and sell or dispose of aged stock. Undertake regular reviews of the stock management system to identify slow moving stock at various ages to support this policy. This would then support a phased approach to managing slow moving stock. Further review of the stock management system may provide additional reporting to support this policy.

3. Implement a policy, as well as set out the process and controls for destroying stock.

   Develop and implement a policy on stock to be destroyed. This should include:

   - All stock to be destroyed is to be contained within one area of the nursery.
   - The business owner must review physical stock to be destroyed and approve.
   - Employees can only record stock to be destroyed after approval from the business owner.
   - Set acceptable levels of destroyed stock as a benchmark.

4. Regularly monitor mark-up to ensure all costs are covered in selling price.

   Review financial records on a regular basis (monthly or quarterly) to ensure that all stock costs and "on costs" are included in the current pricing policy.

5. Develop and implement a formal buying procedure.

   Develop a formal buying policy that will outline the guidelines for ordering. This should consider:

   - current stock levels.
   - high turnover stock.
   - low levels of certain stock held.
   - the selling history of different stock.
   - freight costs.
   - information from the stock management system.

   All stock purchases should be authorised by the business owner. This is the current procedure, however it should be included in the policy manual and adhered to.

6. Implement controls to minimise stock shrinkage.

   Change the physical layout of the nursery to ensure that all customers must pass through the shop front to exit the nursery. The person responsible for the cash register is not to move away from the area unless another employee can supervise the exit. Alternatively, tag your stock (using RFID tags, for example) and have scanners installed at the entrance.

Profitability – Sales

Sales

1. by 27.1% ($93,392) to $438,707, compared to previous year total sales of $345,315.
2. Detailed analysis of sales records (from the point of sale system) showed:
   - 36 per cent of all sales were achieved in three trading months: August, September and December. The analysis also indicated that approximately 30 per cent of sales were achieved in the slowest five months for the current year.
   - An analysis of the overall sales as a percentage achieved for each day of the week highlighted that trading on Saturday and Sunday generates 36 per cent of total sales (public holidays have been included in the trading figures for Sunday). The review noted that for most weekends and public holidays, staffing levels for these days was two full-time equivalents (FTE) with no supervision from management.
   - The official trading hours for the retail operation is 59.50 hours per week (8.30 am to 5.00 pm, including weekends). When compared to the benchmark data, this is a higher number of trading hours. However, it is within an acceptable range.
   - Figures showed that 86.4 per cent of overall sales (on average) are completed after 11.00 am each day.
   - The total amount of discount applied during the current year was $41,158 (9.4% of total income). No comparison to the previous year was conducted, as discount amounts were not separately recorded for that year. Under the current discount structure, it appears nearly all customers are eligible for a discount on sale.
   - Two competitors were "mystery shopped" to ascertain the discount policies they offer. It appears that Bundalong's discount policy is extremely generous. In particular, with 58 per cent of sales made to account customers (landscapers and other larger organisations) and the same customers receive the most beneficial discounts, it is evident that the discounting policy is having a significant impact on total income.
3. The profit and loss statement reflecting "add backs" of discounting and destroyed and unaccounted for stock losses provide the following result:

	Current year		With stock adjustments and add back of discount income	
	$	**% of sales**	**$**	**% of sales**
Sales	438,707		479,865	With discount removed
Cost of goods sold				
Opening stock	119,979		119,979	
Purchases	224,938		224,938	
	344,917		344,917	With stock adjustment
Closing stock	(96,490)		(125,303)	
Total cost of goods sold	248,427	56.6%	219,614	45.8%
Gross profit	**190,281**	**43.4%**	**260,252**	**54.2%**
Operating expenses				
Salaries	233,295	53.2%	233,295	48.6%
Overheads	85,903	19.6%	85,903	17.9%
Total operating expenses	319,198	72.8%	319,198	66.5%
Net profit/loss	**(128,918)**		**(58,947)**	

- An additional review of the percentage of sales attributed to applied stock (e.g. fertilisers) was undertaken. The review found that applied stock sold for the current year was $18,043 (4.1 per cent of total income). The industry standard is approximately 30 per cent to 35 per cent of all sales. This is particularly important as applied stock can carry higher gross margin.

Recommendations for improving sales

1. Ensure transparency of key financial accounts.
    - Update the current chart of accounts to include discounted sales amounts as negative income, to be offset against monthly gross sales amount.
    - Show destroyed stock as a separate item in the cost of goods sold calculation, rather than an adjustment to closing stock.

    This will provide transparency over the monthly value of discounts provided to customers and the level of stock destroyed in the financial records.
2. Prepare key financial ratios with the monthly profit and loss statement. This will assist the horticultural manager in identifying potential operational issues that may impact financial outcomes. The relevant key financial ratios are:
    - cost of goods sold margin.
    - gross margin.
    - average stock turn.
    - mark-up.
    - destroyed stock as a percentage of stock held.
    - average stock held.
    - employee productivity.
3. Review staff roster for weekends to maximise sales potential. This recommendation should be implemented in conjunction with recommendation #5 under "Staff", above.
4. Review trading hours and staffing levels. Given the low volume of sales in the first hour and a half of trading, where suitable, reduce employee numbers. This will ensure efficient staffing and reduce employee-related expenses.
5. Improve visual display in shop area. Revamp the shop layout to maximise the sales margin on supplementary (applied) products such as fertilisers and potting mix. Consider consulting a visual display expert.
6. Monitor and update the visual display on a regular basis to encourage customers to move throughout the nursery.
7. Train and encourage employees to "up sell" applied stock.
    - Instruct sales staff to approach customers to assist their search and introduce the applied stock at that point or direct their attention to relevant products as they browse.
    - Coach the employee at the register to engage the customer when processing the sale.
8. Regularly review pricing policy. Review financial records on a regular (monthly or quarterly) basis to ensure that all stock costs and "on costs" are included in the current pricing policy.
9. Amend discount policy.
    - Amend the current discount policy to reduce the value of discounts eroding sales. A flat discount for trade is recommended in line with current industry standards.
    - Remove the valued customer discount.
    - Regularly review the customer transaction list to identify anomalies in discount applied (such as discount applied on discounted sales amount).

Risk Management – Internal Controls

Internal Controls

Internal controls for sales procedures was reviewed following the above findings. This included physical, process and system controls.

It was noted that the policy of one person to cover cash register activity each day has been implemented. However, a review of the customer transaction reports indicated that this policy is often breached, particularly on weekends when only two employees are working.

Cash register sales are calculated at the end of the day to a tally sheet which details cash, credit, EFTPOS and sales to accounts. This sheet is then passed to the administration assistant the following day for banking. Takings for Saturday and Sunday are held in the safe until Monday. A review of the tally sheet with the customer transaction reports showed variances between the two records. The overall variance for the current year was considered immaterial and the owner took no further action.

The tally sheet is prepared by the person responsible for the daily register duties. There is no policy in place for a second review. However, if the sheet does not balance, a second person will review. This practice creates a high risk, as the person responsible for collection of cash from a sale is also responsible for end-of-day cash reconciliation. It is possible that sales may not be entered through the register, or voided or entered as returned and the cash not entered in the register. If this occurs, it would be very difficult to detect under current procedures.

A review of the customer transaction report also indicated that on many occasions employees were processing sales to themselves. This should not occur, particularly without supervision. All employee sales should be processed by senior manager on duty.

During each visit to the retail nursery, it was noted that there is an alternative exit from the retail premises available to customers without passing through the cash register area. On some occasions the register area was unattended. It is possible that customers may leave the premises without processing the sale. The high level of unaccounted stock at stocktake in the previous year confirms that stock has been removed from the premises without record.

Recommendations for improving internal controls

1. Improve the management of stock to be destroyed. Refer to recommendation #3 under “Stock management” above.
2. Implement controls to minimise stock shrinkage. Refer to recommendation #4 under “Stock management” above.
3. Regularly review pricing policy. Review financial records on a quarterly basis to ensure that all stock costs and “on costs” are included in the current pricing policy.
4. Amend discount policy and regularly review customer transaction list.
5. Develop and document current cash register responsibilities. Develop a policy on the current cash register responsibilities and include the following provisions:
   a. One employee is responsible for point of sales each day and only to be substituted for breaks.
   b. A second employee will be responsible for the end-of-day balancing the cash register. It is recommended that this is a senior manager.
   c. Senior management is to ensure a “presence” (discrete supervision) within the cash register area at all times. An alternative to this is to install a camera – this would also assist in detecting customers exiting the nursery without processing the sale.
   d. Reconcile the daily tally sheet to the customer transaction report daily and seek explanation for variances.
   e. Senior management should authorise the daily tally sheet and customer transaction report before it is sent to the head office.
6. Amend staff sales procedures.

   Develop and implement a policy on sales to employees prohibiting staff from processing their own sales. All employee sales should be processed by senior management.
7. Improve store layout.

   Ensure that there is only one exit available to customers and it’s within sight of the register staff.

APPENDIX B: IMPROVING BUSINESS PERFORMANCE CHECKLIST

Business planning		Yes	No
Strategic	Does the plan set out broadly what you want to achieve in the business?		
	Does the business have long-term objectives aligned to what you want to achieve?		
	Are the objectives clear, concise, and achievable?		
	Are the objectives aligned to the key drivers of the business?		
	Are the objectives measured and monitored?		
	Are the capabilities and resources needed to achieve the objectives considered?		
	Is the business subject to a regular review by an external adviser?		
	Are critical performance issues identified and addressed during formal reviews?		
	Are key employees involved in the strategic planning process?		
	Does the strategic plan incorporate key financial metrics?		
Financial	Do budgets align with the objectives set out in the strategic plan?		
	Do budgets align with the key financial metrics of the business?		
	Does the business have both short-term and long-term budgets?		
	When preparing budgets, does the business consider industry trends, and allow for current economic conditions?		
	Are assumptions for the budget documented and reviewed on a regular basis?		
	Are budgeted timelines aligned to the preparation of financial statements?		
	Are budgets regularly compared to actual results?		
	Where actual results indicate that budgets will not be met, is there scope to amend activities and targets?		
	Does the business prepare forecasts?		

Profitability		Yes	No
Sales			
Pricing	Is a comparison of both gross and net margin undertaken against both previous periods and industry benchmarks?		
	Are sales regularly reviewed to identify high margin sales items?		
	Are alternatives to discounting offered to customers?		
	Are discounts given recorded separately in the financial accounts?		
	Does the business have a mark-up policy?		
	Is mark-up regularly reviewed to ensure current selling prices match mark-up policy?		
	Are potential operational issues identified through the regular analysis of financial ratios?		
Sales volume	Does the business keep information on buying patterns of customers?		
	Are marketing strategies developed with a focus on increasing volume of purchases (for example, loyalty programs)?		
	Are employees trained and understand the value of "up-selling"?		
	Is the break-even calculation used to set sales targets?		
	Are visual displays regularly reviewed to induce an increase in sales volume?		
	Does the business undertake regular market research of current and potential markets?		
Customers	Does the business have a system in place to capture customer feedback, including through social media?		
	Is customer satisfaction measured?		
	Is action taken from customer feedback?		
	Are customers rewarded for loyalty or referrals?		
	Are requests from customers recorded to identify potential new products or services?		
	Does the business have regular contact with customers (contact could be made through newsletters, reminders, customer events and special offers)?		

Profitability		Yes	No
Costs			
Fixed	Are all fixed expenses regularly reviewed?		
	Does the business compare fixed expenses to industry benchmarks?		
Variable	Are suppliers' pricing regularly compared to alternative suppliers to ensure competitiveness?		
	Are salaries and wages reviewed regularly in line with employee productivity and sales levels?		
	Does the business undertake regular review of margin, mark-up and break-even to monitor variable expenses?		
	Does the business use flexible staffing arrangements, such as part-time and casual staff, to match changing trading conditions?		
Suppliers			
	Does the business have a supplier selection policy that identifies the key requirements from suppliers?		
	Are suppliers' contracts regularly reviewed in line with supplier selection policy?		
	Does the business have controls in place to ensure supplier payments are promptly paid?		
	Does the business have controls in place to ensure suppliers are not overpaid or paid twice?		
	Is an independent check of supplier information (include payment instructions) undertaken on a regular basis to reduce the risk of fraud?		
	Do you regularly meet with suppliers to discuss trading conditions and industry information?		
	Has the business identified alternate suppliers of key items in case an existing supplier cannot meet your requirements?		

Productivity		Yes	No
People	Are your employees aware of, and aligned with, the business' strategic direction and goals?		
	Do your employees have the skills and competency required to complete their tasks and take on higher responsibilities?		
	Is the staff headcount appropriate for the level of business activity?		
	Are there controls in place to ensure that the employee is carrying out their duties efficiently?		
	Are incentives to encourage improved performance?		
	Are the roles and responsibilities as well as performance targets clearly defined and agreed with each employee?		
	Is there adequate segregation of key duties between employees?		
Processes	Are you aware of the key business processes in your operations?		
	Have you mapped out the process flow including the employees involved and controls in place?		
	Can some of the processes be eliminated?		
	Do you need to introduce new processes?		
Technology	Is the existing technology regularly reviewed for relevance and upgrades?		
	Is existing technology capable of supporting the strategic plan?		
	Do you regularly review the technology used by others in your industry?		
	When adopting new technology, does the business take a considered approach to ensure integration?		
	Before making decisions on introducing new technology, is a cost benefit analysis undertaken?		
	Are all employees trained in using relevant technology?		
	Do all employees understand the consequences of poor or inappropriate use of technology?		

Working Capital Efficiency		Yes	No
Stock management	Do you know which stock items provide the highest margins?		
	Do you know which stock items move the quickest?		
	Do you understand what the core items of stock are?		
	Is stock monitored regularly for aged or excess stock?		
	Do you have systems in place that provide information on stock re-ordering (such as quantities, items and timing)?		
	Is there a policy in place for employee purchases?		
	Does the business have a buying policy?		
	Does the business have a heavy reliance on certain suppliers?		
	Are there adequate controls in place to avoid stock theft?		
	Is a physical stock count undertaken on a regular basis?		
Work in progress	Is a time schedule set for all work in progress projects?		
	Do you regularly compare your work in progress with others in your industry?		
	Do you have a management system in place that tracks all the key elements of work in progress (such as date of order, date of completion and each key process)?		
	Do you ensure that you have the required stock to complete work in progress for each job?		
	Are the cost components of each job regularly reviewed (such as direct stock, components, labour and administration)?		
	Are "bottlenecks" easily identified and regularly rectified in the process?		
	For large or special orders, are deposits or progress payments requested from the customer?		

Working Capital Efficiency		Yes	No
Debtor management	Does the business have a credit control policy?		
	Are credit checks on customers undertaken regularly?		
	Are there credit limits in place for each customer?		
	Can staff access credit information on customers?		
	Does the business have standard payment terms?		
	Are customers regularly notified of payment terms?		
	Are there procedures in place to ensure that payment terms are adhered to?		
	Is there a policy on returned or damaged goods?		
	Are invoices sent when work is completed (rather than at the end of the week or month)?		
	Where commission is paid to sales staff, is this paid when payment is received rather than when sale is made?		
	Is an aged debtors' report run regularly and late payers followed up immediately?		
Cash flow management	Do you understand what impacts cash flow in your business (for example, tax payments)?		
	Do you use a cash flow forecast to track cash inflows and outflows?		
	Does the business have effective systems in place to collect and track cash flow information?		
	Do you use the cash flow forecasts to get an idea of the impact of various scenarios on your business (such as decrease sales, decreased margins and increase in expenses)?		
	Do you use financial ratios to monitor liquidity and cash flow?		
	Does everyone in the business understand the importance of cash flow?		
	Does the business have strategies in place for potential cash flow crises (such as undrawn finance facilities)?		

Capital Investment		Yes	No
Capital investment	Is an asset register kept that records all important information for each asset held by the business?		
	Is capital investment considered separately during strategic planning?		
	Do you understand what capital items contribute to improving business performance?		
	Is productivity of capital invested in the business regularly reviewed?		
	Are there opportunities to free up more resources (for example, cash) for more capital investment?		

Innovation		Yes	No
	Does the business have in place procedures to encourage and reward new ideas from employees, customers and other stakeholders?		
	Does the business hold regular planning days or meetings to review and discuss possible improvements to the business?		
	Is regular contact maintained with others in the industry to remain up to date with industry information?		
	Do all key drivers of the business have targets or key performance indicators to monitor performance?		
	Are business activities continually monitored for improvements?		

Risk management		Yes	No
Internal	Does the business have internal controls in place?		
	Are the internal controls documented?		
	Does each internal control cover: • who is responsible for the implementation and monitoring of a control • what the procedure is for the control • why the control is required • when the control is applicable • how the internal control is communicated to employees?		
	Are employees notified of the internal controls and understand the importance of them?		
	Is there a framework in place that allows employees to easily communicate a breach of internal controls?		
External	Do the business owners and managers network with others in the industry to stay abreast of changing economic and trading conditions?		
	Is a regular review of business insurance undertaken to ensure that all business risks are managed?		
	Is the business exposed to financial risks such as exchange rate movement, commodity risk, interest rate risk or liquidity risk?		
	Where the business has financial risks, are these managed using financial risk management strategies?		
	Does the business have appropriate emergency, business continuity and disaster recovery strategies in place?		
	Does the business regularly review potential external risks to ensure that these are appropriately managed?		