Improving business performance

CPA AUSTRALIA

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Background

This guide is the second in a series of three guides on business performance published by CPA Australia.

Members and business can use this guide to help them identify and implement operational and financial activities to improve business performance.

This guide has been developed to be used in conjunction with the *Business evaluation guide*, which can be found at cpaaustralia.com.au/smallbusiness

This guide should also be used in conjunction with the third guide on reporting of key drivers of business performance. When published, this guide will also be available at cpaaustralia.com.au/smallbusiness

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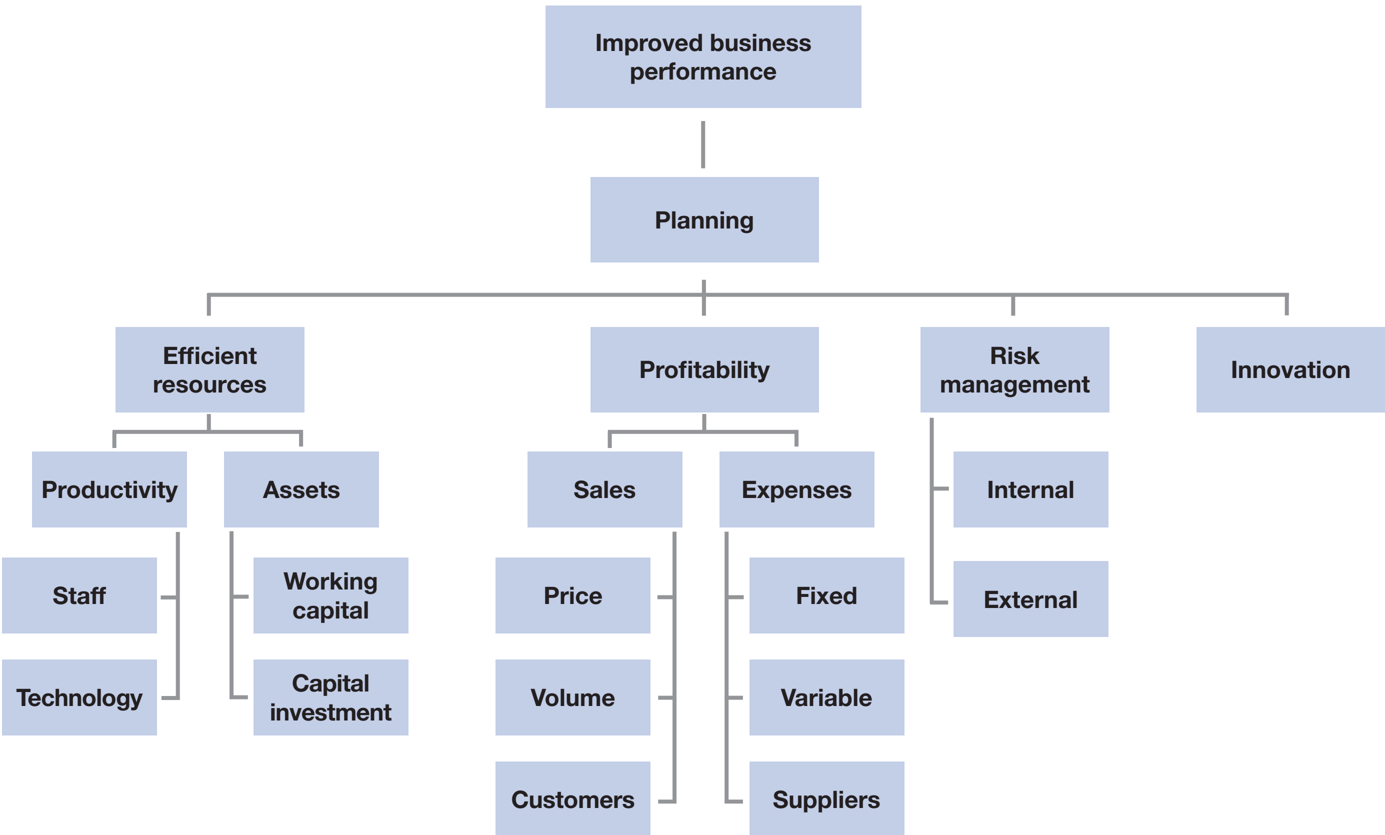
Introduction

For a business to be successful, every business owner or manager needs to ensure that their business is operating as efficiently and effectively as possible. Improving the efficiency and effectiveness of the business requires an understanding of the key drivers within the business and a practical approach to implementing processes that will optimise these key drivers.

The diagram below sets out many of the key drivers of business efficiency and effectiveness, or business performance. This guide will explore each of these drivers in more detail.

For improved business performance, all relevant key drivers should be identified and regularly evaluated against key performance indicators such as business targets and benchmark data. Implementing a continual improvement program will ensure that all key business resources are being utilised efficiently and effectively at all times.

In this guide, the key drivers within each of these areas are detailed to help a business ascertain which activities will be relevant to their business. A case study has been included to provide a practical example of the identification of key drivers of a business and possible processes to improve business performance.



Business planning

Successful businesses are those that have a clear purpose, set goals aimed at achieving that purpose and established procedures designed to meet those goals consistently. Good practice business planning will formalise these activities through regular review of both strategic and financial planning processes in the business.

Strategic planning

Strategic planning provides direction for the future of the business by establishing priorities and allocating resources to achieve the objectives outlined in the plan.

When a business implements a formal process of strategic planning on a regular basis, business performance is measured and assessed. The process allows for business owners and managers to allocate resources and implement changed business practices for improved business performance. Having a strategy in place that focuses on continual improvement will ensure that the business thrives, but it also means that many crisis situations that can be the undoing of a business may be identified and addressed before they have a negative effect on the business.

Tips to improve strategic planning

Good practice in strategic planning should incorporate a regular formal review that:

- addresses critical performance issues by assessing actual performance against objectives and criteria established during the business evaluation
- identifies long-term objectives
- recognises capabilites and resources needed to achieve these objectives (or identifies gaps)
- documents activities required to achieve the objectives within a specific time frame

Objectives need to be:

- clear, concise and achievable
- focusing on the key drivers in business
- monitored and measured

Effective strategic planning will determine what business success looks like and what needs to be done to achieve it.

Financial planning

Financial planning is a continuous process of directing and allocating financial resources of the business to meet strategic goals and objectives. Undertaking a regular review of the potential future financial position of the business will provide clarity on the ability of the business to meet its strategic direction. Budgets and forecasts are critical tools that can be used to predict the future financial position of any business.

The difference between a budget and a forecast is that the budget sets out the financial goals of the business in line with the strategic plan and a forecast tracks the financial outcomes in line with budget predictions, providing a valuable tool to assess the likelihood of the achievement of the budget.

Tips to improve financial planning

Good practice in financial planning in a business requires:

- development of realistic targets that align with both the strategic plan and historical trading activities
- a review of industry trends and other information available that will assist in preparing credible assumptions and targets
- documented assumptions, including source of information
- budgeted timelines that align to both the strategic plans and the preparation of financial statements
- regular comparison of budgets against actual financial results
- the scope to amend activities and targets where actual results indicate that budgeted outcomes will not be met

Efficient use of resources

Productivity

One of the simplest ways to improve business performance is to increase productivity. The two key areas where businesses can source additional resources is maximising staff potential and leveraging the use of technology.

Staff

Every business that employs staff must understand the value staff bring to the overall performance of the business. Truly engaged staff will play a significant part in the overall success of the business.

Employing and retaining staff who contribute to increased productivity should be a high priority for every business. This is relatively easy where a culture based on trust, teamwork, communication and shared goals is entwined in the business. To achieve this type of culture, business owners and managers need to ensure that staff are involved in the decision-making process. Weekly meetings, staff surveys and feedback and team building events are just some ways to improve communication and feedback. Bonuses and commissions that encourage staff to meet and exceed targets will also influence staff behaviour.

Tips for improving staff performance

Employers can engage staff in the determination of strategic direction by:

- allowing staff to contribute proposals for the future direction of the business
- ensuring that all staff have the capability and confidence to implement and deliver on strategy

Staff should understand:

- their roles and responsibilities, how their performance will be measured and how this interacts with others in the business
- the level of authorisation they have to do their job

Business owners and managers should:

- review all job descriptions to see if they align with the business's strategic direction to identify potential gaps and opportunities for reallocation of resources
- implement benchmarks to measure and monitor staff productivity, such as sales targets

Where possible, key responsibilities should not be shared between staff members.

Technology

Improving business performance through the better use of technology will require a thorough understanding of key processes in the business. Business owners and managers can then assess the areas where technology can enhance these processes.

It is important that staff are well trained in using the necessary technology and understand the importance of technology to the business. Staff also need to be well versed in the consequences to the business where technology is used inappropriately.

With a vast array of technological choices, it is important that a business takes a considered approach to the use of new technology with particular focus on integrating existing technology.

Tips for improving the performance of technology

The performance of technology can be improved if the following measures are in place:

- All staff are fully trained in using the business technology and understand the consequences of poor or inappropriate use.
- Time is taken to assess and document all business processes that use technology.
- Current technology used in the business is reviewed against the strategic plan, and it is determined whether the existing technology is capable of achieving the objectives of the strategic plan.
- The use of technology within other businesses in the same industry is reviewed.
- A considered approach is taken to the adoption of new technology, ensuring that it is integrated into the business rather than just being an add-on to existing technology.
- A cost benefit analysis is undertaken before introducing new technology into the business.

Assets

As one of the key drivers of business performance, maximising the use of assets is critical in improving business performance. Both the working capital and long-term assets managed effectively can contribute to the success of a business.

Working capital

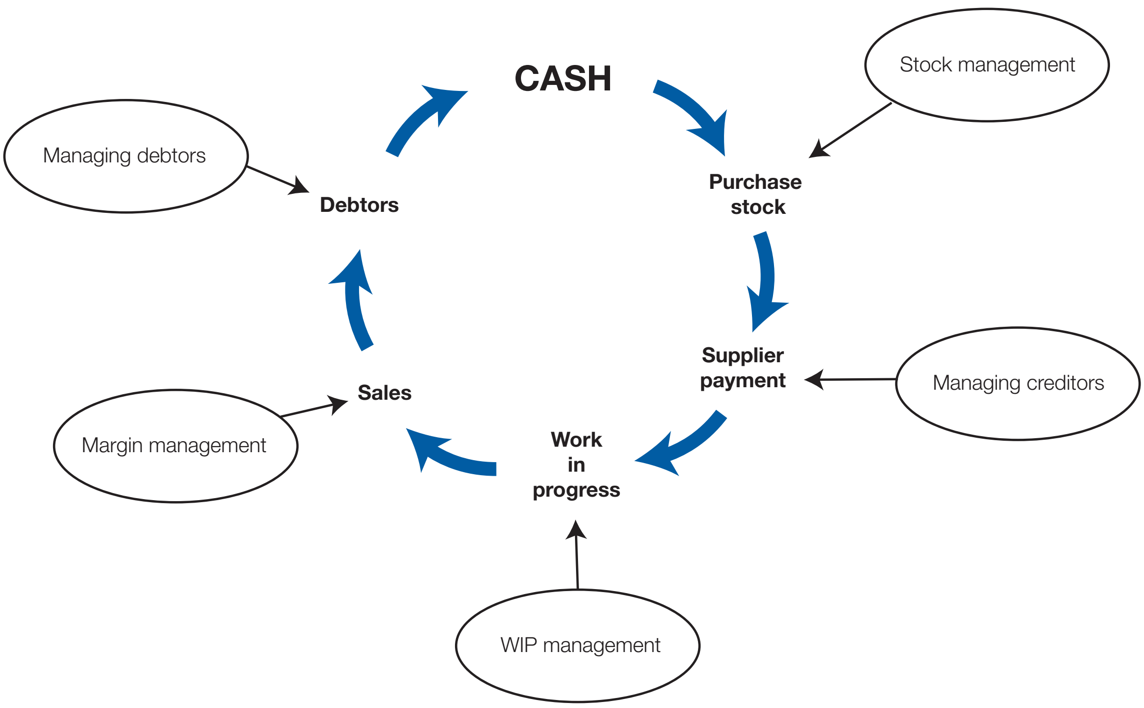
Effective working capital management is crucial to the performance of any business and requires continual review and diligence in managing stock levels, debtor collection and creditor payment while growing profit margins. Understanding working capital is fundamental to operating a business effectively and efficiently.

The key to successful working capital management is reviewing all the essential steps in the working capital cycle. The diagram below demonstrates how the working capital cycle operates.

With solid processes and procedures in place for managing all the elements of working capital, a business will have a continual improvement program that should lead to optimisation of business performance.

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

Working capital cycle



Managing creditors and margin management will be covered in the profitability section.

Stock management

Businesses that handle stock are often prone to inefficiency, wasting precious resources through inadequate record keeping, lack of understanding of stock movement and lax controls (physical and procedures) over stock. Inadequate management of stock can drain cash flow and directly impact sales.

Understanding the appropriate level of stock required to support the business operations is important. Stock management needs to focus on having the right level of stock to satisfy the needs of customers and the ability to identify excess or aged stock. There can be additional costs associated with holding stock (it is estimated that holding stock can cost anything between 10 and 30 per cent of the value of the stock). This includes storage, insurance, keeping accurate tracking records, obsolete and aged stock and proper controls to avoid theft.

Tips for improving stock management

The following tips will help improve the stock management of a business:

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

Work in progress

Work in progress is often a source of inefficiency in business due to the complex nature of completing production. With a number of processes in place, work in progress 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 work in progress is to identify and take action on "bottlenecks".

Good management of work in progress is supported by sound management systems for efficient execution of customer orders. Work in progress is often only thought to be relevant in manufacturing businesses; however, some retail and service businesses also have a form of work in progress – the time between the customer order to delivery can be defined as the work in progress.

Tips for improving work in progress

The following tips will help improve the work in progress of a business:

- Develop a time schedule for monitoring progress for each job, project of production run – this will improve efficiency and effectiveness of work in progress.
- Compare work in progress within the business with other similar businesses and industry benchmarks.
- Implement a good management system that records and identifies all the key process points within the work in progress cycle.
- Identify any bottlenecks in the production process, including the physical layout of production, and identify possible improvements to speed up the movement through the work in progress stage.
- Request a deposit of progress payment for large or special orders.

Debtor management

Good practice debtor management is critical to every business that sells on credit.

Solid policy on customer credit and efficient debtor collection will support business performance. Managing the payments due from debtors can consume a lot of wasted effort if proper controls and procedures are not put in place at the outset. It is important to manage all outstanding payments from customers appropriately to encourage timely payment.

It is important to remember that a good customer is only one that pays. If the business is not collecting the cash from customers, then the business is funding the customer's business as well as its own.

Tips for improving debtor management

The following tips will help a business improve debtor management:

- Have a credit control policy that includes credit checks for all customers prior to offering credit and set credit limits for each customer.
- Have a strict policy on payment terms – this is critical to successful debtor management. Payment terms should be negotiated before an order is taken and ensure the terms are documented on every invoice.
- Implement controls to ensure that all employees (particularly sales staff) adhere to the agreed terms when completing a sale.
- Send invoices to customers as soon as work is completed, not at the end of the week or month.
- Run regular reports to identify when payments are due (aged debtors report) and identify slow paying customers and make contact early to discuss any issues (e.g. faulty goods, inadequate service, inability to pay).

- Make arrangements for non-paying customers and have a policy to stop supplying a customer until all debts are cleared.

Cash flow management

The key to successful cash management is to carefully watch all the steps in the working capital cycle. The quicker the "cycle" turns, the faster the trading operations convert back into available cash. Effective working capital practices will lead to increased liquidity in the business and reduce the reliance on external stakeholders such as banks and suppliers for cash.

Well planned and directed cash flow management will contribute towards:

- maintaining liquidity to meet obligations
- complying with borrowing covenants
- avoiding emergency drawdowns
- maximising returns on surplus funds
- providing for orderly planning for funding seasonal fluctuation in working capital as well as funds for capital expenditure and investments

The most effective method to manage cash flow is to prepare a cash flow forecast in line with the strategic and operational timelines. The forecast should be monitored on a regular basis and variances between estimated and actual identified and action taken if required.

Tips for improving cash flow management

The following tips can help improve cash flow management in a business:

- Understand what impacts the cash flow of a business. In most businesses this will be sales; however, all areas of the working capital cycle are potential "drivers" of cash flow.
- Use a mix of financial ratio analysis and cash flow forecasting to provide the best information on liquidity and cash flow in the business.
- Ensure the importance of cash flow is communicated throughout the business and a cash-consciousness is promoted among all staff influencing the application of cash resources.
- Implement effective systems for collecting and processing cash flow information – monitor the working capital cycle regularly to identify potential cash flow issues.
- Prepare a cash flow forecast that aligns with budgets and strategic timelines (short- and long-term) and monitor and update on a regular basis.
- Use cash flow forecasts to run sensitivity analysis on various levels of business activities.
- Implement strategies for potential cash flow crises, such as undrawn finance facilities.

Capital investment

It is important for any business to secure long-term growth and viability by investing capital into the business. Capital investment supports the allocation of resources that are required to undertake business activities. Investment can be in assets or other resources used in the business such as staff.

To ensure that business performance is operating effectively and efficiently, continual capital investment should form part of the overall long-term objectives of the business. Where there is dedicated investment to maintaining and updating resources (such as technology), the business will benefit from limited wastage and optimal use of resources

Tips for improving capital investment

The following tips can help a business improve capital investment:

- Keep an asset register that records all important information of each asset, including purchase date, maintenance records and effective life (to identify when the asset may need to be replaced).
- Ensure that capital investment (both assets and other resources such as staff) are a separate item considered during each strategic planning stage.
- Understand which capital items contribute to the improvement of business performance.

Profitability

Profitability underpins business performance and is the essential driver of the future of every business. It is not just about making money today but also securing the ability to grow the business in the future. Therefore, increasing profitability will boost the ability of the business to enhance performance and must be a key focus of business owners and managers.

Sales

There are three key components to sales: price, volume and customers. An improvement in one of more of these areas will contribute to increase profitability and business performance. Price will determine the volume of sales and the type of customers the business attracts.

Pricing

An obvious part of the profitability for every business is the selling price of products and services. When determining prices it is important to ensure that prices and sales volumes allow the business to be profitable. Good practice will include a business having a pricing policy that is regularly reviewed in line with costs.

Business owners and managers should also take into account how pricing balances out across the entire range of products and services. For example, a loss-leader (which makes a small profit or even none at all) can be offset by other, more profitable products. Pricing should also take into account the level of competition and relative pricing.

Discounting products or services can entice higher sales volume. However, this will erode the profitability of the transaction. It is important to understand the impact discounting has on profit and customer demand. Discounts should be recorded separately and monitored regularly.

Using the two tools to monitor pricing – mark-up and margin – allows for the business to ensure that the pricing strategy continues to contribute to profitability. Regular scrutiny of mark-up will ensure that the pricing policy continues to cover both fixed and variable expenses incurred. Margin management will assist in monitoring both stock costs and expenses in line with sales. The *Business evaluation guide* has further information on how to use these two tools.

Tips for improving pricing

The following tips can help improve pricing for a business:

- Include comparison of both gross and net margins against previous periods and industry benchmarks in the review of sales.
- Fully understand the impact on profits and customer behaviour before offering discounts. In addition, record all sales discounts separately to provide transparency on sales.
- Consider alternatives to discounting to maintain profitability.
- Implement and regularly review a mark-up policy to ensure current selling prices match that policy.
- Review financial records on a quarterly basis to ensure that all stock costs and "on costs" are included in the current pricing policy.
- Analyse sales regularly, with a focus on identifying those sales that provide the highest margin.
- 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* at cpaaustralia.com.au/smallbusiness for more information).

Volume

Improving profitability can also be achieved through an increase in volume sold. There are two ways in which this can be achieved:

- 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 to entice further sales. In addition, many businesses overlook the opportunity to "up-sell", and business owners and managers should ensure that staff are well trained to look for further sales opportunities.

Setting targets for sales staff will assist in monitoring overall performance and enhance profitability. 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.

Tips for increasing volume

The following tips can help a business increase volume:

- Understand the buying patterns of existing customers.
- Set marketing strategies in place that increase sales volume.
- Introduce marketing strategies that encourage customers to increase their volume of purchases, such as loyalty

programs, and increase the customer base through referral rewards.

- Train staff to "up sell" products and services and ensure they are aware of what high margin products and services to offer.
- Use break-even calculations to set sales targets for staff.
- Use visual display by placing products in groups or consider special offers such as discounting bulk buys to entice volume buying.
- Undertake regular research to tap into new markets and customer base.

Customers

Good customer service is imperative to keeping existing customers and enticing new customers to the business. Understanding what customers want and how to deliver to their needs is a simple step in improving the performance of the business.

Every business should have a policy that addresses the needs of existing customers and allows for sourcing of new customers. Such a policy should include receiving feedback from customers, good customer service and a marketing strategy that encourages new customers to the business.

A customer relationship management (CRM) system will provide 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.

Tips for improving customer service

The following tips can help a business improve customer service:

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

Expenses

Every business needs to cover costs in order to make a profit. Essentially there are two types of expenses in business – fixed and variable. Further, effective supplier management is important in managing expenses.

Fixed expenses

Fixed expenses are those that remain relatively constant regardless of the level of sales. Examples can include rent, salaries and insurance.

Profitability can be impacted where sales decrease and fixed costs remain constant. Additionally, although termed "fixed", these costs can increase in line with changing economic and other trading conditions.

Tips for improving the management of fixed expenses

The following tips can help a business improve the management of fixed expenses:

- Regularly review all fixed expenses and compare against other suppliers' pricing to ensure that the business is paying competitive prices for goods and services.
- Salaries and wages are often classified as fixed expenses, however staffing levels should be reviewed regularly to keep these expenses in line with business activity.
- Compare fixed expenses to industry benchmarks regularly to ensure that the business is not experiencing "cost creep".

Variable expenses

Variable expenses are those that move relative to sales. Examples can include freight, marketing and casual labour.

Monitoring variable costs is critical to profitability. Where sales remain flat or decrease, it is important to manage variable costs in line with sales to avoid erosion of profits.

Tips for improving the management of variable expenses

The following tips can help a business improve the management of variable expenses:

- Business owners and managers must recognise which expenses contribute to sales. If profitability is declining, then reducing marketing expense should be approached with caution.
- Regularly review margins, mark-up and break-even – this will highlight potential problems with variable expenses.
- Consider using part-time, casual or job-share staffing arrangements to provide flexible expense against changing trading conditions.

Supplier management

The relationship with suppliers, if handled well, will provide clear benefits to any business. By keeping suppliers abreast of the business operations, they can often provide useful information and advice including new products and/or services.

A solid supplier relationship will enhance business operations by minimising sourcing issues and increasing the business's reputation for efficiency and good management. Payment terms with suppliers will be an important part of maintaining the relationship. Good communication with suppliers will ensure that the business is seen to be a solid reliable customer.

Tips for improving supplier management

The following tips can help a business improve supplier management:

- Leverage good relationships with suppliers to ensure that the business is receiving quality service and products at competitive pricing.
- Implement a supplier selection policy that identifies the priorities the business has in place for a supplier, such as quality, timely delivery and advice on new products.
- Ensure your systems have good controls so that suppliers are not:
  - paid early or late
  - overpaid
  - paid twice
- Continually review supplier contracts for opportunities such as:
  - improved pricing
  - effective discounting
  - improved delivery
- Meet regularly with suppliers to discuss trading conditions and other industry-specific issues.

Risk management

Businesses need to have sound risk management policies in place to reduce the possibility that a particular event will take place and minimise the potential impact on business performance. Risks to the business can be from activities within the business and also from events external to business operations.

Internal risks

Internal risks are those risks which the business has some control over. Many of these 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 will also ensure financial information is accurate and reliable, compliance with all financial and operational requirements and generally assist in achieving the business's 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 deterring, preventing or disclosing risk events within the business. The implementation of internal controls should be part of the continuous improvement program of every business.

Tips for improving internal controls

Good internal controls should be documented and cover the following:

- 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

For effective internal controls, business owners and managers should ensure there is a framework within the business for staff to easily communicate a breakdown of internal controls.

External risks

External risks to businesses are those events which the business typically has no control over. Examples of these types of risks include: increased competition, financial risks such as unfavourable movements in interest rates, exchange rates, availability of finance, economic risks, such as inflation, and natural disasters.

Managing risk that the business has 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 to reduce unfavourable outcomes from external events. What is important is that the business is aware of the potential risks associated with changing economic, environmental, social, financial, trading and other conditions that are likely to influence business activities and are capable, willing and able to adapt to these changing conditions.

Tips for improving the management of external risk

The following tips can help a business improve the management of external risk:

- Business owners and managers should network with others in their industry, including industry associations to stay abreast of changing economic and trading conditions.
- Ensure the business has appropriate insurance in place.
- Consider financial risk management strategies where the business is exposed to these risks.
- Have appropriate emergency, continuity and disaster recovery plans in place.

Regularly review all of the above to ensure that the strategies remain relevant to current conditions.

Appendix A: Improving business performance – a case study

To assist in developing a model for improving business performance, the following case study is provided as a guide. This case study should only be used as reference in developing your own business improvement model.

Bundalong retail plant nursery

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. The business evaluation was undertaken in July of the current year.

The business evaluation for this case study will involve the review of the financial information against the benchmark information together with a review of documentation provided and physical procedures noted during site visits.

Financial statements

Profit and loss statement for year ended July

	Current year ($)		Previous year ($)	
Sales	438,707.15		345,314.93	
Cost of goods sold				
Opening stock	119,979.00		71,573.65	
Purchases	224,938.00		214,050.11	
	344,917.00		285,623.76	
Closing stock	96,490.49		119,979.00	
Total cost of goods sold	248,426.51	56.63%	165,644.76	47.97%
Gross profit	190,280.64	43.37%	179,670.17	52.03%
Operating expenses				
Salaries	233,294.80	53.18%	200,236.01	57.99%
Overheads	85,903.42	19.58%	96,691.18	28.00%
Total operating expenses	(319,198.22)	72.76%	(296,927.19)	85.99%
Net loss	128,917.58		117,257.02	

Average stock held for each year	$ 108,234.75	$ 95,776.33

Breakdown of operating expenses

Operating expenses	Current year		Previous year	
	$	% of expense*	$	% of expense*
Cleaning contract	1,740.00	2.03	1,160.00	1.20
Repairs and maintenance				
Buildings	794.26	0.92	656.39	0.68
Equipment	978.22	1.14	859.64	0.89
Furniture and fittings	1,702.80	1.98	1,626.81	1.68
Grounds	4,656.30	5.42	9,646.20	9.98
Electricity	2,821.48	3.28	2,729.10	2.82
Vehicles				
Fuel	3,220.07	3.75	2,578.55	2.67
Registration	355.00	0.41	352.20	0.36
Insurance	1,250.00	1.46	1,200.00	1.24
Repairs and maintenance	1,712.51	1.99	1,872.71	1.94
Transport – contract	—	—	460.04	0.48
Depreciation				
Equipment	5,152.84	6.00	5,421.84	5.61
Furniture and fittings	4,324.41	5.03	4,961.39	5.13
Motor vehicles	6,392.29	7.44	6,577.53	6.80
Advertising	14,515.12	16.90	15,954.60	16.50
Uniform costs	277.89	0.32	451.54	0.47
Printing and stationery	1,017.50	1.18	892.62	0.92
Telephone	2,655.50	3.09	2,960.61	3.06
Staff provisions	1,431.55	1.67	1,665.49	1.72
Rent	22,455.00	26.14	19,525.00	20.19
Equipment	620.00	0.72	1,222.22	1.26
Staff training	310.09	0.36	438.18	0.45
Travelling	191.07	0.22	76.63	0.08
Materials and supplies	529.48	0.62	581.65	0.60
Bank charges	3,013.19	3.51	2,809.30	2.91
Memberships and subscriptions	579.32	0.67	520.00	0.54
Health and safety	259.30	0.30	117.79	0.12
Postage	364.70	0.42	369.44	0.38
Computers	—	—	4,504.14	4.66
Sundry administration costs	2,583.53	3.01	1,681.39	1.74
Consultancy fees	—	—	2,818.18	2.91
Total operating expenses	85,903.42		96,691.18	

Balance sheet

	Current year ($)	Prior year ($)
Assets		
Current assets		
Cash/bank	16,320.00	65,777.82
Debtors	14,280.00	32,000.00
Stock	96,490.00	119,979.00
Other	4,210.00	5,500.00
Total current assets	**131,300.00**	**223,256.82**
Non-current assets		
Delivery vehicle	75,000.00	75,000.00
Less accumulated depreciation	(19,547.35)	(12,969.82)
Total	55,452.65	62,030.18
Nursery fit out	115,000.00	115,000.00
Less accumulated depreciation	(66,955.45)	(61,994.06)
Total	48,044.55	53,005.94
Equipment	50,000.00	50,000.00
Less accumulated depreciation	(41,021.20)	(35,599.36)
Total	8,978.80	14,400.64
Total non-current assets	112,476.00	129,436.76
Total assets	**243,776.00**	**352,693.58**
Liabilities		
Current liabilities		
Creditors	65,000.00	48,000.00
Credit card	15,000.00	12,000.00
Total current liabilities	**80,000.00**	**60,000.00**
Non-current liabilities		
Bank loan	20,000.00	20,000.00
Total liabilities	**100,000.00**	**80,000.00**
Equity		
Shareholders' funds (including retained earnings, losses)	272,693.58	389,950.60
Less current year accumulated losses	(128,917.58)	(117,257.02)
Total equity	**143,776.00**	**272,693.58**

Operational activities

Staffing	
Full-time equivalent	5.30
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

8.30 am to 5.00 pm every day except Christmas Day, Good Friday, Easter Sunday and in the morning of Anzac Day.

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 held
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 benchmark in current and previous year

	Industry benchmark	Current year	Variance of current year to benchmark	Variance of current to previous year	Previous year	Variance of previous year to benchmark
Total income	$446,556.00	$438,707.15	($7,848.85)	$93,392.22	$345,314.93	($101,241.07)
Cost of goods sold	48.99%	56.63%	7.64%	8.66%	47.97%	(1.02%)
Gross margin	51.01%	43.37%	(7.64%)	(8.66%)	52.03%	1.02%
Selected overheads as a percentage of income						
Advertising and promotion	2.26%	16.90%	14.64%	0.40%	16.50%	14.00%
Salaries including staff on costs	13.77%	53.18%	39.41%	(4.81%)	57.99%	44.22%
Vehicle operating costs	3.74%	7.61%	3.87%	1.40%	6.21%	2.47%
Rent	3.32%	26.14%	22.82%	5.95%	20.19%	16.87%
Bank charges	1.53%	3.51%	1.98%	0.60%	2.91%	1.38%
Total overheads	37.25%	72.76%	35.75%	(13.23%)	85.99%	48.75%
Net profit margin	13.76%	(29.39%)	(43.15%)	4.57%	(33.96%)	(47.72%)
Personnel numbers (FTE)						
Working owners	1.52	1.30	(0.22)	0	1.30	(0.22)
Sales staff and nursery people	2.36	4.00	1.64	0.50	3.50	1.14
Any other staff	0.49	0	(0.49)	0	0	(0.49)
Total personnel	4.37	5.30	0.93	0.50	4.80	0.43
Other benchmark information						
Stock turn rate	3.50	2.30	(1.20)	0.57	1.73	(1.77)
Plants grown in house as a percentage of total sales	20.00%	22.00%	2.00%	2.00%	20.00%	0%
Trading hours per week	54	59.50	5.50	0	59.50	5.50
Percentage of sales made to account customers	25.00%	58.00%	33.00%	3.00%	55.00%	30.00%

For further detailed commentary on the analysis, refer to the CPA Australia publication *Business evaluation guide* at cpaaustralia.com.au/smallbusiness

Detailed recommendations from analysis for improving business performance

Business planning

Strategic

Bundalong retail plant nursery has not undertaken any strategic planning for the past three years. Given the poor operating results and lack of controls in place, it is evident that the absence of this planning process is a contributing factor to the downturn in operations.

Recommendations

1. The business owner should review existing operations and develop a strategic plan with longer-term goals for the business. Goals include: financial metrics and staff performance hurdles.
2. Once the goals have been set, the business owner should meet with all staff to discuss the goals and seek their opinion on processes and policies required to achieve the objectives.
3. An implementation plan should be developed by the business owner and senior staff members that measures and monitors the policies and procedures to ensure that the outcomes are in line with the overall objectives.

Financial

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

Recommendations

1. Once the recommendations on strategic planning are implemented, a new budget should be developed to align the finances of the business with the strategic plan and to assess the financial results of the long-term strategic plans.
2. Forecasts for both profit and loss statement and cash flow should be developed and monitored on a monthly basis to ensure that the short-term operating results are in line with the strategic plans.
3. After six months of trading under the new strategic plan, a thorough review of operating results should be undertaken to ensure that operations will see a return to business profitability.

Efficient use of resources

Productivity

Staff

Analysis of staffing indicated that staffing levels were slightly higher than benchmark. In addition, an analysis of staff productivity produced the following results:

Previous year	$39.10 sales per hour paid
First six months of current year	$46.33 sales per hour paid
Last six months of current year	$31.90 sales per hour paid

This indicates that during the second half of the current year, productivity has dropped significantly. These numbers appeared to be supported by senior management and staff meeting minutes.

Productivity is a component of sales income. To increase productivity, an increase in sales income or decrease in salaries is required.

When staff rosters were reviewed against daily trading, it was also noted that the lowest staffing levels were present on the highest trading days (weekends). The current policy for point of sales is that one staff member should be attending to the cash register at all times. This indicates that the current roster system for weekends allows for only one staff member to provide customer service and in-store selling in peak sales time.

Recommendations

1. A restructure of staffing levels and responsibilities.

   A full restructure of staffing levels and responsibilities is paramount to the viability of the retail operations. The key areas of responsibilities should be detailed. Current staff levels and availability should then be considered to fill these responsibilities. Key responsibilities should not be shared between staff members, where possible. Adequate supervision of staff, particularly on weekends (highest trading days), must be included in the new staffing structure.

2. Develop position descriptions for all staff positions.

   All staff roles are to be supported with formal documented position descriptions that are to be agreed with each staff member.

3. Implement staff accountabilities through key performance indicators (KPI) for each staff member.

   Once each staff member has agreed to the position description, key performance measures should also be agreed. The business owner will then measure each staff member's performance against the agreed measures.

4. Regular staff appraisals should take place.

   A formal policy of staff appraisal should be implemented to support the above recommendations and appropriate outcomes documented.

5. Monitor and manage a staff roster.

   A more rigorous approach to staff rostering is to be undertaken. The roster should be the responsibility of the business owner and administration assistant and set taking into account the various statistics highlighted during this review for high/low volume trading days and times.

6. Arrange formal training for staff on financial aspects of retail selling.

   Implement a training program for staff in key financial aspects of retail selling such as impact of discounting on mark-up, impact of writing off stock and financial benefits of "up selling".

Technology

The current financial system is a frequently used system for small- and medium-sized businesses and currently provides adequate reporting on the financial position of the business; however, the system is not being used to undertake financial analysis.

Bundalong also has a stock management system that integrates with the point of sale system. This system appears to have a number of issues that are impacting on the operating performance and accuracy of the stock management processes. An example is where one variety of plant is purchased from a number of different suppliers at various prices, the stock system records the value at average cost. This then distorts the stock records with an average price allocated to all of the one variety of plant. In addition, the system does not provide easy access to information on aged stock or excess stock, nor does it provide information on re-ordering stock items.

Recommendations

1. The business owner should arrange for further training to ensure that the financial system is being used to provide financial analysis.
2. The business owner should discuss the key stock management issues with the provider of the point of sale system and request that the system be updated to ensure accurate and informative records are generated that will improve stock management.

Assets

Working capital

Stock management

Gross margin for current year has decreased by 8.66 per cent from the previous year and 7.64 per cent below benchmark data. Given that there has been a substantial increase in sales, it appears that this reduction will be due to stock issues.

The stock turn rate provides some indication of stock issues, with the current year rate approximately 33 per cent below benchmark and previous year rate almost 50 per cent below benchmark.

Taking into account the variance in stock turn to benchmark and the decrease in mark-up from 108.46 per cent in the previous year, which was broadly in line with mark-up policy of 110 per cent, to 76.58 per cent for the current year, further investigation was undertaken. This further investigation provided the following information:

- 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. On some occasions, freight charges were as high as $1.00 per freighted plant. Total freight and potting charges (add on costs) amount to $17,001, approximately 7 per cent of total cost of goods sold during current year. These charges had not been accounted for in the mark-up calculation and account for the majority of the decrease in gross margin. These increasing costs were confirmed by the retail nursery association as an industry experience in the last 12 months.
- 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 is 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. There is a brief reference to destroyed stock in the general procedures and instructions on how to record destroyed stock in the computer procedures. 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, 11.65 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 provides the following result:

	Current year ($)		With stock adjustments ($)	
Sales	438,707.15		438,707.15	
Cost of goods sold				
Opening stock	119,979.00		119,979.00	
Purchases	224,938.00		224,938.00	
	344,917.00		344,917.00	
Closing stock	96,490.49		125,303.49	(including stock adjustment)
Total cost of goods sold	248,426.51	56.64%	219,613.51	50.06%
Gross profit	**190,280.64**	**43.36%**	**219,093.64**	**49.94%**
Operating expenses				
Salaries	233,294.80	53.18%	233,294.80	53.18%
Overheads	85,903.42	19.58%	85,903.42	19.58%
Total operating expenses	**319,198.22**	**72.76%**	**319,198.22**	**72.76%**
Net profit/loss	**(128,917.58)**		**(100,104.58)**	

Mark-up	77%	100%
Stock turn	2.30	1.79

- The average stock holdings for current year was $122,641.35 (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 $63,007.73. A physical analysis on aged stock was undertaken by the owner (currently the stock management software system does not allow for specific data on aged stock). Aged stock (held for more than six months) was estimated at approximately $31,783.86. In the event that the aged stock had been sold, the average stock levels would decrease to $90,857.49 (2.41 turns), still well above the average stock levels required to achieve benchmark stock turn.
- Low stock turn rate can lead to either or both higher probability of destroyed stock and/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.
- No formal buying procedure is documented. Currently, stock purchases are decided through discussions with staff. Details of stock movement such as: stock at low levels, high turnover and plants that customers are requesting is provided by staff. 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 hence 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

1. Reduce average stock levels.

   With current aged stock at 33 per cent of year end stock levels, it is recommended that a marketing strategy is implemented to sell this stock. It is noted that at the time of writing, a three-day sale has been scheduled to move this stock. In the event that this stock is not sold, it is recommended that an alternative strategy (such as a donation to a community organisation) is implemented to reduce stock levels.

2. Monitor and manage ageing stock.

   A formal policy for ageing stock is required. The policy should define "ageing stock" (for example, all stock over six months old) and provide guidelines on how to identify and sell/dispose of aged stock. Procedures to support this policy could include a regular review of the stock management system to identify slow moving stock at various ages. 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 for destroying stock.

   A policy on stock to be destroyed is to be developed and implemented. This will include the following:

   - All stock to be destroyed is to be contained within one area of the nursery.
   - The business owner reviews physical stock to be destroyed and approves accordingly.
   - Recording of stock to be destroyed is managed by staff only after approval from business owner.
   - No stock is to be destroyed without the business owner's approval.
   - Set acceptable levels of destroyed stock as a benchmark.

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

   Financial records should be reviewed on a quarterly basis to ensure that all stock costs and "on costs" are included in the current pricing policy.

5. Develop and implement a formal buying procedure.

   A formal buying policy is to be developed. This policy will outline guidelines for ordering. This should take into account current stock levels, high turnover stock, low levels of certain stock held, the selling history of different stock, freight costs and information from the stock management system. All stock purchases should be authorised by the business owner – this is the current procedure and should be included in the policy.

6. Implement controls to minimise stock shrinkage.

   The physical layout of the nursery is to be amended to ensure that all customers must pass through the shop front to exit the nursery. To support this, the person responsible for the cash register is not to move away from the area unless another staff member can supervise the exit.

Sales

Total sales for current year increased by 27.05% to $438,707.15, compared to previous year total sales of $345,314.93, an increase of $93,392.22.

Detailed analysis of sales records (point of sale) provided the following information:

- Thirty-six 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 the majority of 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 is within an acceptable range.
- Figures showed that 86.44 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 (9.38% 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 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 receiving the most beneficial discounts, it is evident that the discounting policy is having a significant impact of total income.

The profit and loss statement reflecting "add backs" of discounting and destroyed and unaccounted for stock losses provide the following result:

	Current year ($)		With stock adjustments and add-back of discount income ($)	
Sales	438,707.15		479,865.15	With discount removed
Cost of goods sold				
Opening stock	119,979.00		119,979.00	
Purchases	224,938.00		224,938.00	
	344,917.00		344,917.00	With stock adjustment
Closing stock	96,490.49		125,303.49	
Total cost of goods sold	248,426.51	56.64%	219,613.51	45.77%
Gross profit	190,280.64	43.36%	260,251.64	54.23%
Operating expenses				
Salaries	233,294.80	53.18%	233,294.80	48.62%
Overheads	85,903.42	19.58%	85,903.42	17.90%
Total operating expenses	319,198.22	72.76%	319,198.22	66.52%
Net profit/loss	(128,917.58)		(58,946.58)	

Additional areas of review

- At the request of the owner, the percentage of sales attributed to applied stock (such as fertiliser) was evaluated. This identified applied stock sold for the current year was $18,043 (4.11 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 often carry higher gross margin.

Recommendations

1. Ensure transparency of key financial accounts.

   Current chart of accounts to be updated to include discounted sales amounts as negative income to be offset against monthly gross sales amount. In addition, destroyed stock should be shown as a separate item in the cost of goods sold calculation, rather than an adjustment to closing stock which is the current practice. This will provide transparency over the overall monthly value of discounts provided to customers and the level of stock destroyed in the financial records.

2. Include key financial ratios.

   The preparation of the monthly profit and loss statement should be supplemented with key financial ratios that 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, staff productivity.

3. Review staff roster for weekends to maximise sales potential.

   Current staff levels for weekends should be reviewed to ensure potential sales are maximised, particularly for the high turnover months. This recommendation should be implemented in conjunction with Staff recommendation 5.

4. Review trading hours/staffing levels.

   Given the low volume of sales in the first hour and a half of trading, where suitable, staff numbers should be reduced. This will ensure efficient staffing and reduce staff related expenses.

5. Improve visual display in shop area.

   To maximise the sales margin on supplementary products such as fertilisers, potting mix and the like the shop area requires refurbishment. A visual display expert can be consulted or one of the existing staff members trained to maintain "best practice" standards within the shop front.

6. Align the visual display to encourage sales.

   Monitor the visual display on a regular basis to encourage customers to move throughout the nursery.

7. Regularly review pricing policy.

   Financial records should be reviewed on a quarterly basis to ensure that all stock costs and "on costs" are included in the current pricing policy.

8. 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. The valued customer discount should be removed. A regular review of the customer transaction list will also highlight anomalies in discount applied (such as discount applied on discounted sales amount).

9. Arrange formal training for staff on financial aspects of retail selling.

   Train staff to "up sell" applied stock to maximise sales returns.

Risk management

Internal controls

A review of internal controls for sales procedures was undertaken. 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 members of staff are working.

Cash register sales are tallied 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 Friday and Saturday 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, although if the sheet does not balance, a second person will review. This particular 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. In the event that 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 staff were processing sales to themselves. This should not occur, particularly without supervision. It is recommended that all staff sales are processed by senior manager on duty at all times.

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

1. Review the staff roster for weekends to maximise sales potential.

   Current staff levels for weekends should be reviewed to improve sales potential and internal controls. This recommendation should be implemented in conjunction with Staff recommendation 5.

2. Improve the management of stock to be destroyed.

   Refer to Stock management recommendation 3.

3. Implement controls to minimise stock shrinkage.

   Refer to Stock management recommendation 4.

4. Regularly review pricing policy.

   Financial records should be reviewed on a quarterly basis to ensure that all stock costs and "on costs" are included in the current pricing policy.

5. 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. The valued customer discount should be removed. A regular review of the customer transaction list will also highlight anomalies in discount applied (such as discount applied on discounted sales amount).

6. Develop and document current cash register responsibilities.

   A policy on the current cash register responsibilities is to be developed to include the following provisions:

   - One staff member is responsible for point of sales each day and only to be substituted for breaks.
   - A second staff member will be responsible for the end-of-day balancing the cash register. It is recommended that this is senior management.
   - Senior management is to ensure a "presence" (discrete supervision) is kept within the cash register area at all times. An alternative to this is to install a video camera – this would also assist in detecting customers exiting the nursery without processing the sale.
   - The daily tally sheet is to be reconciled to the customer transaction report on a daily basis and variances noted and explained.
   - The daily tally sheet and customer transaction report is to be authorised by senior management before being sent to head office.

7. Amend staff sales procedures.

   A policy on sales to staff is to be developed and implemented that prohibits staff from processing their own sales. All staff sales should be processed by senior management.

8. Improve store layout.

   A review of the register area is to be undertaken to ensure that this is the only exit available to customers.

Appendix B: Checklist for improving business performance

Business planning		Yes	No
Strategic	Does the plan set out broadly what the business wants to achieve?		
	Does the business have long-term objectives aligned to what the business wants to achieve?		
	Are the objectives clear, concise and achievable?		
	Are the objectives focused on the key drivers of the business?		
	Are the objectives measured and monitored?		
	Are the capabilities and resources needed to achieve the objectives considered?		
	Does the business have a regular formal review?		
	Are critical performance issues addressed during the formal review?		
	Are key staff 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 regularly develop both short-term and long-term budgets?		
	When preparing budgets, does the business use industry trends and allow for current economic conditions?		
	Are assumptions documented with the budgets and reviewed on a regular basis for relevance?		
	Are budgeted timelines aligned to the preparation of financial statements?		
	Are budgets regularly compared to actual financial results?		
	Where actual results indicate that budgets will not be met, is there scope to amend activities and targets?		
	Does the business prepare forecasts?		

Productivity		Yes	No
Staff	Does the business have job descriptions for all staff?		
	Do job descriptions include: • staff performance hurdles • performance measure details • timelines to meet performance measures • job authorisation details • a description of the role and how this interacts with other roles and responsibilities		
	Are job descriptions regularly reviewed for alignment with strategic direction and available resources?		
	Are staff encouraged to contribute suggestions to improve both their own role performance and that of the business?		

Productivity		Yes	No
Staff	Is the staff roster regularly monitored against trading activity?		
	Does the staff roster ensure that staff are not always paired with the same person?		
	Is there adequate segregation of key duties between staff members?		
Technology	Is the existing technology regularly reviewed for relevance and upgrades?		
	Is existing technology capable of achieving the objectives of the strategic plan?		
	Are other businesses in the same industry reviewed regularly to identify the uses of technology?		
	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 staff trained in using relevant technology?		
	Do all staff understand the consequences of poor or inappropriate use of technology?		

Assets		Yes	No
Stock management	Do you know which stock items provide highest margin?		
	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 staff 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 theft of stock?		
	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 other businesses in the same 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 all 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?		

Assets		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 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 the business (for example, key drivers such as sales and GST payment)?		
	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 forecast to run sensitivities to various business scenarios (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	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?		

Profitability		Yes	No
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?		

Profitability		Yes	No
Pricing	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?		
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 staff trained and understand the value of “up-selling”?		
	Is the break-even calculation used to set sales targets?		
	Is the visual display regularly reviewed to entice an increase in sales volume?		
	Does the business undertake regular market research with a view to tap into new markets?		
Customers	Does the business have a system in place that assists in understanding the needs of the customer?		
	Is customer satisfaction measured?		
	Is action taken from customer satisfaction results?		
	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 me made through newsletters, reminders and special offers)?		

Expenses		Yes	No
Fixed	Are all fixed expenses regularly reviewed?		
	Are suppliers’ pricing regularly compared to alternative suppliers to ensure competitiveness?		
	Are salaries and wages reviewed regularly in line with staff productivity and sales levels?		
	Does the business compare fixed expenses to industry benchmarks?		
Variable	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?		

Expenses		Yes	No
	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?		

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 staff		
	Are staff notified of the internal controls and understand the importance of them?		
	Is there a framework in place that allows staff to easily communicate a breakdown 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?		

Innovation		Yes	No
	Does the business have in place procedures to encourage and reward new ideas from staff, 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?		

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