

BATES|COSGRAVE

Building the  
Right Business

[www.batescosgrave.com.au](http://www.batescosgrave.com.au)

# Building the right business for you

Whether you're just starting a business or are an existing business it is never too early or too late to build an even better business.

Bates Cosgrave has the expertise to help you to deliver the business you want. It's just a matter of putting your best foot forward.

## Whole of life cycle plans for success

No matter what your stage in the business life cycle, our whole of life approach is designed to create a road map that is appropriate to your circumstances and needs by creating, managing and protecting your business right through to the stage of ensuring that your business wealth is realised.

## Not a one-size-fits all approach

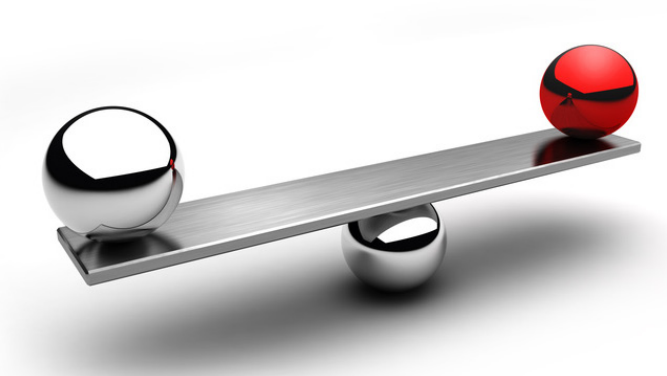
We tailor strategies to your business and your needs which are in turn classified into 5 areas of strategic focus:

- Growth
- Profit
- Cash
- Protection
- Succession

Building the right business for you is not a generic solution but often there are some very similar issues that present themselves to all SME operators. Our role is to guide you through the effects these issues have on your business, relative to whether you're starting out, growing, maturing or planning to exit your business.

## Achieving balance

In our experience, the typical small business will have only considered 2-3 of these items when thinking about what they need



to achieve. However a healthy balance should be given to all factors, including short and long term objectives otherwise the growth momentum can be unpredictable and this can lead to poor decision making and business inefficiency.

Understanding the dynamics of the life cycle elements will help you to plan and manage the growth cycle.

## How we work with you

Since you know your business best, we apply our expertise and resources to helping you get the best outcomes possible.

We have a range of programs that are designed to empower your business. Many business owners don't apply transparent goals in their business nor do they provide management with a mandate to effect change. The result is that decision making and responsibilities of the business default back to the director, hampering growth.

We start by gaining an understanding of what works and what does not so that we can help you resolve road blocks in a way that your business becomes empowered to achieve on its own.

We work with directors, business owners and management teams to build strategy around their knowledge and experience of the business and blend this with techniques designed to get results.

The types of techniques we use with clients include:

- Strategy sessions
- Coaching programmes
- Management focus groups
- Advisory boards
- Director-mentor programmes

We simply see ourselves as the navigator and specialist crew facilitating the journey. Bates Cosgrave supports business owners to transition through the many stages of the business life cycle.

## Success guarantee

The success of these programs is dependent on a needs assessment being properly conducted before embarking on any programme. Ensuring that you plan and revisit processes throughout your strategy development is essential for its ongoing success and your ability to adapt when conditions change.

All that is required is a desire to achieve great results and to have an open mind to ideas, challenges and business improvement conditions.

## A long term approach with a long-term partner

We have assisted many clients through the transition of their business from establishment and commercialisation through to selling the business and retiring - with some fantastic results.

# Typical business life cycle

Every business will have its own nuances and often the nuances can be allocated to core stages in a business life cycle best represented as stages of **Startup, Growth, Maturity and Exit.**

## The Startup phase

There are few well documented systems in the business and there is very little cash available, the business is cash starved and the marketing program has not gained a lot of traction.

Products and services are still being developed and resources are stretched, most of the efforts coming from owners and key personnel.

## The Growth phase

There is a lot of activity not previously experienced and there becomes little time as the lack of resources and working capital prohibits further investment.

Some haemorrhage occurs as systems fail and processes struggle to deal with the volumes necessary to keep momentum.

The later stages of growth see this settle down and this certainly is the phase where the business owner has to let go of the reins to

allow the business systems to perform. Often this phase can prove very time consuming and many inefficiencies have crept in.

## The Maturity phase

The business systems have settled down, the personnel are fully functioning, inefficiencies have been eliminated and the business is getting payback on its investment in stages one and two.

The risks concerning business continuity start to increase unless strategies are put in place to re-generate the business and ensure another growth period exists.

The planning for the next stage needs to be well considered as these transactions and momentums are slower moving.

## The Exit Phase

This is an implementation or re-birthing phase where the owner moves out of the business or there is fresh injection of new owners and or product. It is a time for change and the propensity of the business to cope with this change is important to the success of transition.

Our approach to building you the right business is to present common issues that we believe a business owner will relate to, then align contextual framework to the issue and the typical methodologies that might be best used to overcome those barriers.

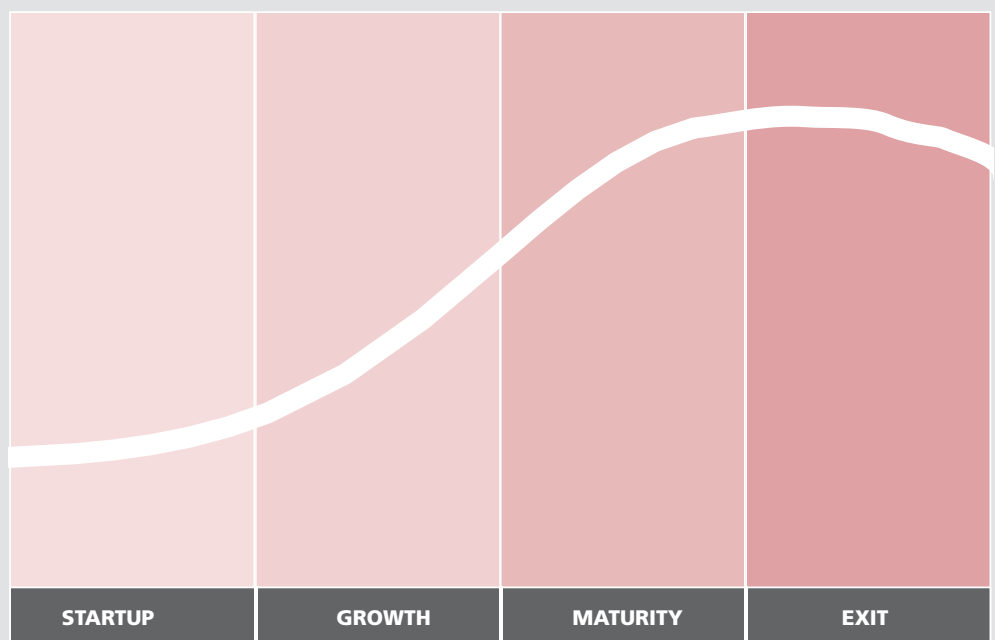
Whether you've just started out on your own or are moving into a growth phase with your business, as an SME owner, you're likely to face the same questions throughout the life of your business.

Where your business sits on the curve dictates the strategies you need to implement.

No one business strategy can be applied across the spectrum. A number of strategies evolve as your business needs change.

What's important is that you understand what stage you're at and that what your business is today isn't what it will be tomorrow.

Having the right resources and support in place helps to transition your business from one stage to the next efficiently and effectively.



# Lifecycle stages

## Startup

The startup is the first phase of the business life cycle and its name fairly represents the style of the business and its growth initiatives.

The business at this stage is pulling together framework, collateral, regulatory approvals, standards and processes. It will engage people and professionals with a view to gaining business activity and momentum.

This is a development phase and not every element of the startup phase can be addressed until the path to growth is well on its way and thus allows fine tuning and further development.

### There is never enough cash to get to the next stage in your business

**Why:** Most small business have to earn sufficient income to allow for themselves to be paid as well as generate enough to invest in their business.

This ratio compared to larger business is significantly higher placing strain on the owner and often keeping it from growing. Often alternate funding sources are rare but for some government initiated support schemes.

**Solution:** Bank support, Investor capital, critical path mapping, commercialisation and research grants.

### You work 14 hours per day doing 30 different tasks but nothing's getting done

**Why:** Business operation can be complex, but does it need to be the burden of one or a few. Often, to save a few dollars or just through the urge to control, the owner will try to do everything. Many of these tasks may be done inefficiently or do not need to be done at the expense of another.

**Solution:** Critical path mapping, division of labour, outsourcing, time waste management.

### My products or services are not selling but I don't know why

**Why:** Often products are created to meet the perceived needs of the customer in the eyes of the owner, rather than the actual needs of the buyer. It is important to differentiate your product from others in the market and ensure you understand its perceived value to the market.

**Solution:** Competition analysis, customer testing, selling techniques, value assessment, marketing strategy.

### Your business is busy but its performance is mediocre and not progressing

**Why:** The phrase busy being busy can often apply to any business. There are many reasons for this but essentially there is process waste and often no one is motivated to create efficiency changes except for the owner who has no time.

**Solution:** Business planning and strategy articulation, Management structure, Performance reporting, Performance reward system, Critical decision support systems.

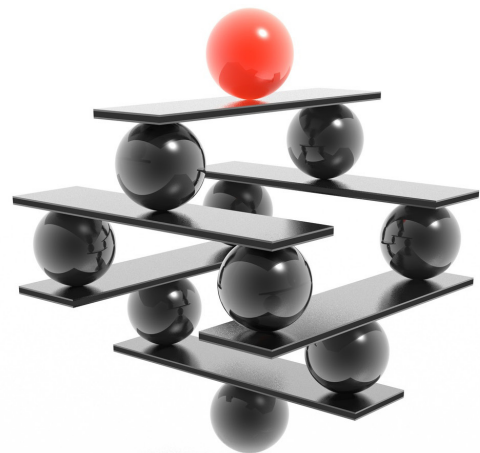
### There is not enough resource and so much energy gets wasted chasing tails and putting out fires.

**Why:** It is so easy to get caught up in the detail that one cannot see the forest for the trees. Knowing how to create a critical path to get on the front foot takes experience, courage and discipline.

Business that dictates its process rather than reacting to its haemorrhage is often strong and profitable, has great client relations and is growing as the good word spreads.

**Solution:** Work on the business, not in the business. Division of labour, critical process mapping, process waste elimination.

In general, the business in the startup stages are trying to get a great product to market, to get their systems ship shape and to get client base momentum.



## Growth

Businesses entering a growth phase have experienced considerable difficulty as they have lost day to day and in-depth control of the operations of the business and are forced to rely upon others to assist in the delivery of client products and services.

Often the people, policies and procedures that were in place during the startup period may not longer be appropriate once a business enters a period of growth. The crossover between startup and growth usually requires changes to the business to ensure it can make the most of new opportunities as they arise.

During this phase and certainly leading up to it is highly important for the business owner to consider and adjust the business framework to enable an efficient and manageable transition as the rate of business activity changes.

Failing to address this means that as the business grows, constraints are more noticable and client satisfaction, cashflow and efficiency are harder to manage well.

### We are growing and are busy, gross revenues are up but profit ratios are declining

**Why:** This situation is most common with business that has just entered the growth phase and have inappropriate processes, systems and KPIs that concentrate effort towards generation of revenue. In some cases there is a blowout of expenditure as the owner has often had to let go of the cost control functions to others.

**Solution:** Critical path mapping, lean management systems, training and systems improvement, effective management structures and reporting systems

### We have taken on new contracts but have increasing levels of client dissatisfaction as the believe they're not getting the same service

**Why:** The sales and service experience delivered to clients changes when the owner, who is often very hands on with their first clients, is required to pass on responsibility to sales and operational people who are often less vested and less passionate than the owner.

Often the transfer of skills and client focus is a handball rather than a considered and planned transition. There is often also a lack of cohesion and structure between areas of responsibility in the business.

**Solution:** Process and systems improvement, sales training, critical path mapping, management team implementation

### You cannot get appropriate and timely information concerning your business operation

**Why:** Businesses that experience rapid growth often find within a relatively short period that their information needs exceed the ability of the business and in particular the finance function to report on what has happened and where the business is heading.

Businesses will nearly always invest in their products and methods to create activity without an investment in their internal systems and reporting mechanisms including that of acquiring appropriate skills.

The lag tends to become problematic as it fails to keep up with the volume and the technical elements of the business. Business owners need to properly plan for future activity and information needs.

**Solution:** System and process re-engineering or implementation, replacement of technology sets and people, outsourcing of financial reporting, business planning, management structure implementation

### Inventories levels appear to be out of control which in turn drains cash flow

**Why:** Businesses experiencing rapid growth often have a fear of not fulfilling sales obligations and there is also typically a lack of sophistication in the ordering and fulfilment process together with managing bills of material and individual stock lines.

Many businesses carry excessive levels of inventory for various reasons many of which can be eliminated or at least more efficiently managed.

**Solution:** Establish efficient economic ordering processes, develop internal control and KPI targets concerning inventory management, systems and process review

### We have received express interest to acquire our product offshore but have no idea what we are getting into

**Why:** For good reason there is little definitive data on trading across international borders due to the myriad of laws relevant to each jurisdiction including incentives and even revenue protection policies of those countries.

It can be a minefield often left for the big firms to navigate to the specific factual patterns of business structure and trading activities.

**Solution:** It is imperative that good help is sought prior to setting up and trading as often it is very difficult to undo poorly constructed arrangements.

## Maturity


A business that enters its maturity stage for the first time presents some interesting possibilities to the business owner but also can come with great risk for owners that are not prepared.

Maturity refers to a phase in time that follows a period of rapid growth in activity, profits and value of the business but will plateau at the maturity level in terms of rate of growth unless some definitive change occurs in the business.

There are many factors that contribute to a slowdown in growth which may include a saturation of the market, a lack of evolution in product and service of the business, or a bottleneck or evolving staleness they can cultivate into management and ownership after a prolonged period of time.

What is important to note is that a business experiencing slower growth may enter into a vicious cycle of ambivalence contributing in time to negative growth and perhaps the eventual collapse of the business.


Bates Cosgrave understands many of the issues that are experienced by business owners in this maturity stage but it is most certainly not time to despair as it can represent a moment in time where opportunity is ripe.

 **After a decade of double-digit growth and solid earnings but interest in the flagship products has diminished in favour of newer cheaper more functional products and services.**

**Why:** Businesses like some musicians can be one hit wonders. To be fair a business can enjoy the fruits of a single very good product and not feel the pressure to develop diversified products that assist in preserving the value of the business beyond the life cycle of a single product.

To achieve this goal is the hard part as without appropriate investigative technique and product development strategy the potential for a business, owners and employees to evolve is cumbersome and potentially risky to the existing business activities.

**Solution:** Customer and market feedback, product and new business development programs, internal product brainstorming, marketing and rebranding, business exit.

 **After working in the business for two decades and business is trading well, you have lost interest in putting in the time and effort necessary to continue the growth**

**Why:** SME business owners tend to be people with some entrepreneurial traits and after dedicating prolonged periods of time


and effort the issues faced in the particular business become less challenging particularly where effective leverage has been established. It is difficult at the best of times to maintain focus and concentration towards a goal for a long time and accordingly there must be time when a complete change is necessary.

**Solution:** Exit strategies may exist in the form of a management buy out, trade sale or retirement.

 **You have been enjoying great profit and growth over a decade but want to get out while the going is good**

**Why:** This situation is more common with business owners on their first business or with owners that seek a payout as a reward for their efforts in building to this point. This is a view generally supported where the owner considers a downward event may occur or the success of the business depends on them.


**Solution:** Business enhancement and exit planning, sale preparation, MBO or trade sale.

 **You have had a great business but are not really interested in selling up or retiring? You love being in it and it keeps you feeling alive but you do wish it did not absorb all of your time.**

**Why:** This situation manifests when business founders have devoted all their time to the operation and have some form of heartfelt sentiment and a sense of belonging with the business.

Intergenerational ties often are associated with this position which enables transition of the family values and knowledge. This transition can be a slower process than in direct business transfer as in that case parties are trained and business ready.

**Solution:** MBO or intergenerational succession are the most popular forms of transition allowing partial divestment of interests and allows continuance of operations. Business and product re-engineering or diversification

 **I'm thinking about selling my business but don't know what the next steps are**

**Why:** Selling a business is not a skill learned in the ordinary course of business activities and depending on the size of the business and the possible purchasers there is a great many options available to deal structure, negotiation and taxation. There are opportunities and there are significant risks which is why this process is often outsourced to businesses like us to manage the process.

**Solution:** Get sale ready, lean management, structural assessments, valuations and business risk analysis.

## Exiting a business

Business activities, if run and planned appropriately, are perpetual in nature and therefore, as part of releasing value to the owners an exit strategy exists.

Business exit is something that needs to be planned and managed as there are significant opportunities to manage structure and to materialise improved value to the owners.

Bates Cosgrave has had considerable experience in assisting company shareholders divest business interests in a way which maximises value and the after tax position.

There are many options for exiting a business and may include asset realisation, share sale, public float and share buy backs, or in some circumstances by way of share cancellation and liquidation. Each method has a profile concerning duty, value, income and capital gains tax, risk and indirect tax methods.

Exiting a business tends to release value to a director or shareholder, or even a key employee - the impact of which is considerably different for each circumstance.

### Why do I need to support a business after I sell it and for how long?

**Why:** To maximise a sale amount for a business an effective transfer must be made and this is more important from the SME business perspective.

Often to protect the price paid as a reasonable investment, the purchaser requires the vendor to stay in the business supporting the transfer of client relationships and other sensitive matters to the new owners.

At the completion of the term or some other guaranteed minimum prerequisite the owner may be released from his obligations and this may be associated with the release of any escrow or indemnity or warranty.

**Solution:** Understand what form of support level is palatable to the directors and owners and at what value may be attributed to this in context of warranty and compensation concerning the guarantee of time.

### Why should I be concerned about warranties, indemnities and escrow?

**Why:** Apart from price these terms are considered a most important part of a business or share sale agreement. When a business is sold particularly in the case of a company limited by shares there is an element of risk transferred to the purchaser and as a result the purchaser seeks compensation or at least a promise

of compensation in the form of cash or transferred obligation. The existence of same does allow a higher price to be paid if the vendor will assume this risk.

**Solution:** Seek guidance from a legal practitioner to limit and advise of the obligations in relation thereto.

### I have not contributed much to super but is there a way I can tuck away some money?

**Why:** Most SME business owners invest all of a business surplus into private real estate, maintaining their lifestyle, or back into the business operations. Very little tends to be allocated into superannuation for retirement.

**Solution:** Depending on the size of the business it is opportunity to transfer an amount in an efficient manner to private super.

### How do you maximise the sale value of your business?

**Why:** The purchaser often pays an amount that reflects the underlying value of the business however there is opportunity to organise the business in such a manner that the purchaser is willing to pay more.

This could be through boosting efficiency and profitability and even organisation of management and business functions that have no reliance upon the director. This makes the business infinitely more transferable and improves the value regardless of the ownership structure.

**Solution:** Risk assessment, lean management, management, infrastructure development.



## Contact Us

To find out more about how Bates Cosgrave can help you to improve the management of your accounting, taxation and financial needs, contact us to arrange a time to chat with you over the phone or an appointment at our North Sydney office.

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First comes thought; then  
organisation of thought, into  
ideas and plans; then  
transformation of those  
plans into reality.

The beginning, as you will  
observe, is in your imagination.  
- Napoleon Hill

### **Disclaimer**

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