
The 7 Steps to Business Success

A Quick Guide for SMEs



ezyCollect

Table of Contents

1

Introduction: 7 Steps to Business Success

2

Writing your business plan

3

Monitoring your financial position

- Steps to the Financial Operating Cycle
- How can profits be used?
- The Financial operating Cycle: Link between Balance Sheet and Income Statement

4

Price, Volume and Costs

- The Breakeven Analysis

5

Managing cash flow

- The Working Capital Cycle
- Why do we need to understand the Working Capital Cycle?

6

Managing Growth

7

Borrowing properly

8

Planning for transition and succession

Introduction

Many business owners look to marketing and increasing sales and incentives as indicators of their business success. But whilst these things are essential, many aspects of a business could be even more helpful that you hadn't thought about previously.

Together with Westpac's Davidson Institute, we created this simple guide on the seven other aspects that will help make your business more successful.

7 steps to business success

1 Have a plan (not just a vision)



2 Monitor your financial position



3 Understand price, volume, costs



4 Manage cash flow



5 Manage growth



6 Borrow properly



7 Plan transition/succession





1 Have a plan, not just a vision

The adage goes, “Fail to plan, plan to fail.” Many business owners have grand visions for their businesses, but the ones that tend to be more successful have a written business plan.

Here are two main reasons to write your plans:

1. Planning works on your subconscious: If you write your plans down, you’re subconsciously committing to setting out and achieving goals and objectives.
2. Writing a business plan allows you to keep track: If you got your plans written down, you can pull them out now and then and look at them and ask yourself questions like, “Am I still heading here or have I let myself be distracted or pulled off course due to other things?”

But while writing your plan is important, it’s the planning process that you get the most benefit.

“You can look at different scenarios and outcomes and decide which is best for you and your business. Then committing to that course of action allows you to focus on what you want to achieve.”



2 Monitor your financial position

Now that you’ve got your plan, it’s important to monitor how you’re faring against it. There’s a wealth of information in your financial statements if you know how to read them and get drilled down into the story those numbers are trying to tell you.

Understanding the financial operating cycle is a good starting point for knowing what your financial reports are telling you.

The Financial Operating Cycle

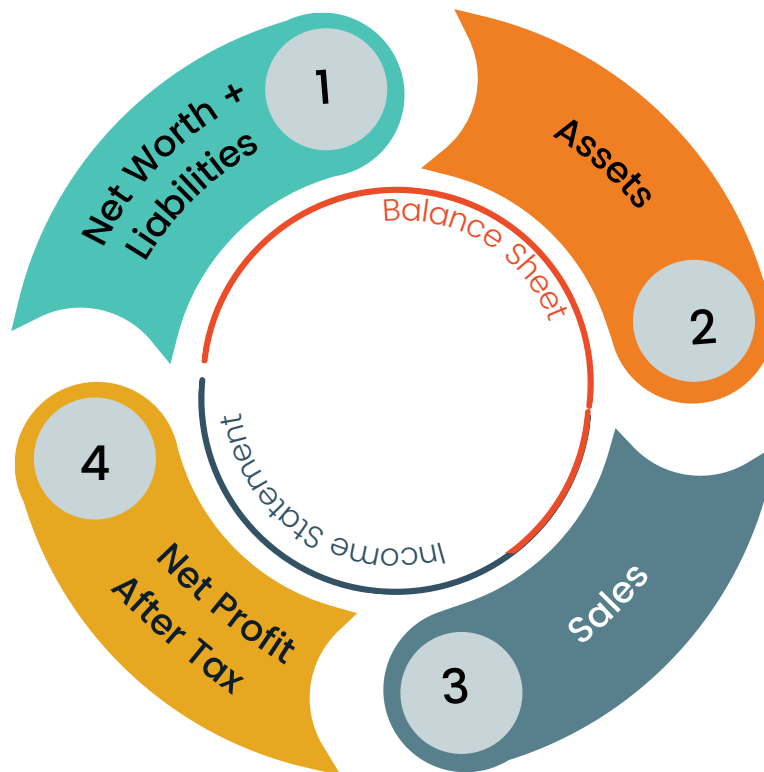
The financial operating cycle is how every business in the world operates financially. And the key to long-term sustainability is keeping that cycle running smoothly and efficiently.

Step 1: You start with the money you need to run your business, which can come from your Net Worth or your own money you invest in the business. Or when it's insufficient, you can borrow money or stock bought on credit – also called liabilities

These will be used to buy assets.

Step 4: After making a profit, the tax office will take a share, and at the end of the day, you are left with Net Profit after Tax (NPAT).

You can invest the profit to run the business or buy more assets.



Step 2: Assets are all things you need to operate your business like cash, stocks, plants and equipment, vehicles, etc.

These assets are then used to make sales

Step 3: Once you're making sales, you will have a series of expenses

If expenses are managed well, and sales are greater than expenses, you make a profit.

Net Worth, Liabilities, Assets and Sales make up the Balance Sheet, while Sales and NPAT make up the Income Statement.

We can see that these two financial statements are intrinsically linked and that we now have a more holistic picture of the business instead of just concentrating on profits or sales. Understanding this cycle and how it works in your business will help you begin to monitor your financial position.

How can profits be used?



- Reinvest in assets to continue to grow the business
- Reduce debt and risk exposure to your business
- Take profits out of the business to grow your personal wealth

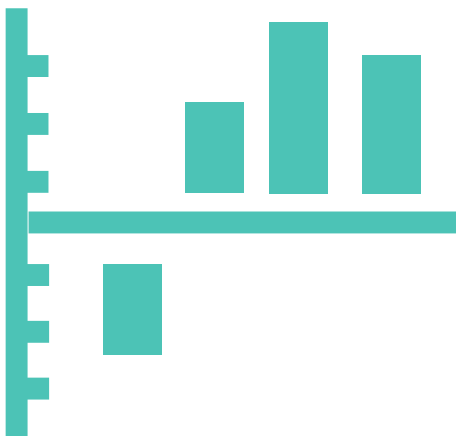


3 Understand the relationship between price, volume and costs

Understanding the relationship between price, volume, and costs is crucial as it's about the profitability of your business.

Price is how much you sell your goods and services, volume is how much you can sell in cost, and costs is how much it costs you to do that, leaving you to the profits. So if your costs are going up and you want to stay as profitable as you are now, then you either need to sell more or put up your prices.

The Break-even Analysis



The break-even analysis can help you understand the relationship between your price, volume, and costs. Break-even, of course, is where a business makes no profit but also makes no loss.

Another way of thinking about it is the point you need to get past to start making profits. But it's more than just telling you what level of sales you have to get over before you start making a profit.

It can also help you make more informed decisions about growing your business, such as putting on additional employees if appropriate, purchasing new equipment, matching the competitor's pricing or putting up your pricing.



4 Manage cashflow

U Making a profit is one thing, but you must manage your cash flow sustainably. Cash is the lifeblood of your business – if you run out of cash and cannot pay your bills, you risk running out of business.

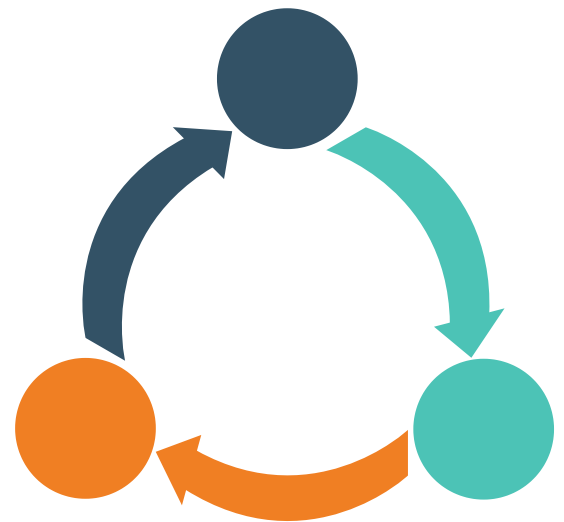
An excellent starting point to understand how cash flows through a business is the Working capital Cycle.

The Working Capital Cycle

This cycle is measured in terms of the number of days it takes to turn assets and liabilities (such as stock) into cash .

How many days, on average, does that stock sit on the shelf before you sell it? How many days, on average, does it take to collect from your debtors?

The terms are days. Days are time, and time, of course, is money. Turning your working capital cycle faster helps free up your cashflow.



Understanding how the cash flows through your business is crucial to finding where your cash is hiding and speeding up your working capital cycle.

The faster you turn the cycle, the more cash is available for you to:



- Grow your business rapidly
- Reduce risk and cost of short-term debt
- Improve the profitability of your business



4 Manage growth

A business aims to make more profit, and the most common way to do so is to increase sales. And when you're growing sales, you need more customers, meaning you need more products or stock to sell to your customers. If they're buying credit, you're going to have more debt.

As your business grows, you may need more staff and equipment, and you may need to move into larger premises to give you more space. More sales mean you need more resources.

As your sales go up, your cash goes down.

So, where does the money come from to pay for these additional resources?

Net Worth – Investment from owners

Liabilities – Cash borrowed from bank



6 Borrow Properly

When a business grows rapidly, you often see it becoming more reliant on its overdraft or line of credit.

Stepping in there is quick and accessible cash, but is this the right type of borrowing for the business?

In structuring and borrowing properly, you should match the repayments with how fast cash comes back from using long-term assets. Getting your borrowing structure right can take a lot of pressure off your cash flow and stress off yourself as the business owner.



The cardinal rule in borrowing money: Match the life of the loan to the life of the assets.



7 Plan for transition and succession

The first six steps are about preparing you for the end game – getting out of your business. This last step is about extracting the value you’ve created in your business.

The best way to extract the maximum value is to plan for it. And that plan should start the day you start the business.

There are three main ways to exit your business. Whichever you choose will impact how you run the business on a day-to-day basis and what planning you need to put into place.

Business exit strategy	Planning	Things to consider
Closing your business	Takes the least amount of planning. However, this also gives you the least value for your business.	Is closing the business the best strategy? Consider the worth of all the time, effort, and money you put into building up that customer base and profitable business.
Selling your business	Takes considerably more planning. The better you plan, the more value you are likely to extract.	Once you settle on who the most likely buyer will be, you got to make your business as attractive as possible to that buyer. The key thing here is demonstrating profitability and ongoing business viability.
Passing your business on	Often takes the most planning and difficulty. But it’s worth the effort to ensure you extract the value you worked on worked so hard to build.	Who wants the business – your family or management? How do you ensure that the heir has the right business skills and the finances to buy you out when the time comes?

Run a successful business with AR automation

A successful business is not just about more sales. Have your plan, monitor your financial position, understand the relationship to price, volume, and costs, manage your cashflow, borrow well, and plan for how you will exit your business.

By taking these seven steps in your business, you'll go a long way to making it even more successful.

AR automation software can help you manage your cashflow, so you can focus on what you do best – growing your business.

[Speak with our AR experts](#)



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