

Small business LEARNINGS FROM 2013

A new year is the perfect time to assess your business and get plans in place for the future, writes John Corias.

This article is being penned as we reflect on 2013 after winding down and stopping for a short break to catch our breath, spend time with family and friends and then launch into 2014 with renewed vigour and vitality. This time of year is also a natural period where we reflect on our achievements, ponder our failures and chart a course into the new year with our eyes firmly fixed on our goals, sailing through the storms, riding the winds and achieving positive outcomes.

“...It’s an old cliché but cash really is king...”

On reflection, many of the discussions we have had in our preliminary client meetings tended to focus on the very basics of starting a small business. The most important issue that we see in this regard is ensuring that each and every small business starts with the most appropriate legal structure in place. Finding the proper balance between initial cost, personal goals (both short and long-term), income tax minimisation and asset protection can be a delicate balance and has involved many discussions, all of which resulted in enlightened small business owners. Much of what follows in setting up new businesses revolves around this step, and getting non-accountant/legal individuals to conceptualise the benefits and potential disasters that this entails is never simple but always fruitful.

Keeping costs to a minimum in the initial phases of starting a business is often the only thought of the start-up small business owner. That’s why using the services of experts can help in protecting you from yourself. Micro-managing

small businesses can often see the business owners become distracted and lose focus on the big picture. Keeping both eyes firmly focused on the long-term big picture combined with carefully implemented systems and procedures will ensure that you aren’t sweating over the small stuff.

Following on from those discussions, setting up key procedures for managing your finances and paperwork is another area where many small businesses fall down. Unless you’re starting an accounting or bookkeeping business you really aren’t going to be looking forward to the paperwork and red tape that naturally comes with running a small business. Work with your accountant, know your key dates and obligations to the key bodies, namely the ATO, ASIC and superannuation requirements. We find that the clients who succeed in this area are the ones who develop regular routines to manage the administrative side of the business. Creating a virtual ‘too hard’ basket only delays and heightens the pain.

A further side of small business that we see in our office is the growth phase. Once a small business has been successfully launched the next phase begins.

The most critical aspect of growing a small business is cash flow. It’s an old cliché but cash really is king; the greatest business idea in the world isn’t really worth anything until it results in cash in the bank. For some businesses getting to this stage can take longer than others, but it’s a destination you need to reach as soon as practicably possible. Learning to manage the cyclical flow of cash in, through and out of a business can be a real art. Most often, businesses

that fail do so due to poor cash flow. Once it gets out of hand, the downward spiral can be difficult to reverse which is why keeping on top of your cash flow from the beginning is a key factor to success. This aspect has been the subject of entire business books but the key pointers revolve around managing your customer’s expectations.

Clear and well known payment terms presented upfront will generally result in earlier payment of your invoices. Knowing your customers well and using payment services that will suit them and make it easier for them to pay you can often be rewarding. New cloud-based online invoicing and accounting systems such as Xero integrate well with payment providers such as PayPal and Eway as one option to explore. Preparing a well thought out budget for the year ahead can also allow you to manage expectations on the outward flow of money from your business. Every small business will have a break-even point that must be calculated and set as a minimum benchmark to achieve for sales vs. costs.

Chronologically speaking, a side aspect of the growth phase can often come about where potential third party investors come along and want to add to and share your journey in business. This can be a great boost for those

businesses in the growth phase that have the correct legal structure in place to facilitate such opportunities. Fresh ideas can be as beneficial as the extra cash these investors bring to the table; just be certain that their goals are aligned with your own. If you couldn’t see it before, hopefully this point clarifies just how critical it is to create the legal structure that allows for long-term goals such as allowing new investors to become stakeholders in your business.

“...The greatest business idea in the world isn’t really worth anything until it results in cash in the bank...”

The adventure that is small business can be a wonderful experience filled with rewarding learning curves, much like a game of snakes and ladders. Of course, you never know how the dice will roll but looking out for the right ladders to climb and planning ahead as much as possible to avoid those slimy snakes will see you get ahead of the competition in 2014. TGR



John Corias is a senior partner at m.a.s accountants, the original accounting office for small business - Celebrating over 50 years in small business accounting.

www.masaccountants.com.au