

2010 – new decade, new gen, new trends

Not only will we have a new generation of consumers, future employees and business owners but we can expect other significant changes in the coming decade. Here's a quick birds eye view of some of the coming changes we can expect in the way we run our businesses.

Gen Alpha starts now

Babies born during the next 15 years officially belong to the next generation, named Generation Alpha. (That's because, having used up the end of the Roman alphabet, we are switching to the Greek one.) After years of declining birth rates in the Western world we are set to experience a massive spike, even larger than the post war baby boom. Alphas are going to be the most formally educated in history. "They will begin schooling earlier and study for longer" says social researcher Mark McCrindle. With information overload the established norm they will outpace even Gen Z in being more tech savvy and more materialistic.

Greater input from consumers

"Consumers will have much greater input into product design and development" predicts Jim McKerlie, noted writer and speaker on issues related to privately owned businesses and CEO of digital agency Bullseye. Dell and its IDEASTORM (www.ideastorm.com) is a good example of this in practice. Mass production will be replaced with volume-based personalised production. Consumers will place orders so that they can get exactly the specifications they want, i.e. they will custom order goods or services, much as they did for bespoke goods in the past. This might even result in consumers holding on to goods longer since they will fit their needs better.

Changes in supply chains

Supply chains will probably polarise into those that produce the goods and those that manage the customer relationship. Businesses will need to outsource those functions not core to their business. Knowing your business model and your unique value proposition will be vital to understanding what to manage and protect in-house and what to outsource.

GET THE EDGE

Getting customers to give you referrals can be difficult. A better method is to start recommending other businesses. Create a circle of influence by getting in touch with like minded businesses and sending them opportunities. Watch the habit spread amongst the group.



“Take cars for example,” McKerlie says in *Business @100MBS*, “a buyer will log on and itemise exactly what make, model, options and colour they want. They may even negotiate the warranty terms, financing terms and service agreements they want, and the respective price adjustments will be made to their order. This is a far cry from the current situation of selecting a car that is in stock or in transit, and then dealing with separate financing and after-market suppliers.”

Product tracking systems

Product tracking systems will be developed that maintain details of a product’s location, usage rates, service history and condition. Post-sale product management could take on a whole new meaning. If a small transmission device was placed within a product which recorded the level of usage then signals could be sent back to the supplier indicating when a product service was due or when the product was nearing the end of its useful life.

Personalisation vs specialisation

Personalisation will replace even specialisation. Look at the music industry where consumers download song by song exactly what they want from a variety of sources and construct their own listening programmes. Niche operators of the future will need to consider how they might compete with this.

Collaborative networks rather than distribution channels

The new social media and tools such as wikipedia are good examples of the way customers will work with businesses to create solutions. This kind of collaboration will improve customer loyalty as well as the customer experience and client service. “The current one-way distribution networks where consumers are provided with information and products according to what producers decide will cease”, says McKerlie.

Analysing your company’s performance using financial ratios

Financial ratios can be helpful tools in understanding a company’s financial health. They are a benchmark by which you can compare your business to industry standards and analyse changes over time.

By using financial ratios you can determine just where you stand in relation to liquidity, debt levels and profitability.

Liquidity ratios

Current ratio

The current ratio measures a company’s ability to meet its short-term obligations.

Current ratio = current assets ÷ current liabilities

Current assets and liabilities are short-term assets and liabilities – it is expected that current assets will be turned into cash and current liabilities paid within one year.

For example, a company with current assets of \$1,500,000 and current liabilities of \$700,000 has a current ratio of 2.14. A current ratio of 2.0 is often seen as acceptable but this depends on the industry. In general, the more liquid a company’s current assets the smaller the current ratio can be without causing concern.

Quick ratio

The quick ratio (also called acid test) is similar to the current ratio but it doesn’t include inventory.

Quick ratio = (current assets – inventory) ÷ current liabilities

A quick ratio of 1 is generally recommended but the ideal does vary between industries. When inventory cannot be easily converted into cash the quick ratio provides a more accurate measure of overall liquidity. When a firm’s inventory is liquid the current ratio is better for measuring liquidity.

Debt ratios

Debt ratio

The debt ratio measures the proportion of a firm’s total assets that are financed by its creditors. The higher the debt ratio, the more credit is being used by the firm.

Debt ratio = total liabilities ÷ total assets

For example, a company with \$2,500,000 in total liabilities and \$4,200,000 in total assets will have a debt ratio of 0.60, or 60 per cent. This debt ratio shows that 60 per cent of this company’s assets are financed with debt. Companies with high debt ratios are ‘highly leveraged’.

Times interest earned ratio

This ratio measures a company’s ability to make contractual interest payments.

Times interest earned = earnings before interest and taxes ÷ interest



The higher the times interest earned ratio, the greater the firm's ability to meet interest payment obligations.

For example, a company with earnings before interest and taxes of \$1.9 million and annual interest obligations of \$450,000 will have a times interest earned ratio of 4.2. A times interest earned ratio between 3.0 and 5.0 is considered to be acceptable in most cases.

Profitability ratios

Gross profit margin

The gross profit margin measures the percentage of profit remaining after the cost of goods sold – but not other expenses – have been paid. This ratio gives an indication on whether the average mark up on goods and services is sufficient. The larger the gross margin, the more able a firm is to cover expenses and make a profit.

Gross profit margin = (sales – cost of goods sold) ÷ sales = gross profits ÷ sales

For example, a company with \$6.5 million in sales and \$4.7 million in cost of goods sold will have a gross margin of 28 per cent.

Net profit margin

The net profit margin measures the percentage of sales dollars remaining after all the expenses, including the cost of goods sold and taxes, have been paid. It is considered a key performance indicator of a firm's success.

Net profit margin = net profits after taxes ÷ sales

If a company has sales of \$2.1 million and a net profit after taxes of \$260,000, its net profit margin is 12 per cent.

What can be considered an acceptable net profit margin varies between industries. A net profit margin of 1 per cent is not unusual for a supermarket while a software company might have a net profit margin of 25 per cent.

Financial ratios can be an effective way to analyse your business performance over time and against industry averages. Your accountant can help you determine your financial ratios and how your business compares against standard benchmarks.

family business transition dilemma – who gets the baton?

Family business transition planning is frequently predicated on the assumption that someday the parents will be passing on the baton to one (or several) of their own children. What more satisfactory way of crowning their lifelong efforts and hard won success than to pass on the legacy to their own kin so they too can continue to enjoy and prosper from it.

However, children are never clones of a parent and generations also vary one from another so that we can, these days, point to enough commonalities among age cohorts to be able to characterise this person as a baby boomer, that one as a Gen X and another as a Gen Y. Changes in educational opportunity, in affluence, and especially in technology have created a different life style and set of expectations among these generations from that of the business' founder. This may translate as a lack of any particular commitment to the family business or a desire to take a different career path altogether.

Where there is absolutely no interest demonstrated by the next generation in the business, then, blasphemous as it may sound to the senior generation, selling it to a third party could well be the best decision – for the business and the heirs.

Though commitment towards the family business itself has been identified as a key desirable attribute in potential successors the situation can be more subtle than simply a committed/uncommitted divide. When you think about it, different people may be committed to a situation for different underlying reasons. In some instances a child may feel committed, but based on feelings of obligation to continue on in the family business – that they 'ought to'. Another may have made a commitment based on their calculation of the opportunity costs and threatened loss of investments or value of not pursuing a career in the family business - this person will feel that they 'have to' pursue such a career. For offspring who experience feelings of self-doubt and uncertainty over their ability to successfully

develop a career outside the family business commitment will be based on a feeling that they 'need to' continue in it.

These types of motivation may deliver on 'commitment' but not necessarily on another vital contributor to business success - passion. That can only come from a person whose commitment is based on a strong belief in, acceptance of, and an excitement about the business' goals combined with a desire to contribute to furthering them and confidence in their own ability to do so. The ideal successor 'wants to' pursue a career in the family business.

Before attempting to develop a business transition plan based on passing it to the next generation you must ask yourself this key question: do the proposed successors have the necessary passion for the business that will see them through the long hours and tough times that are part of managing and growing a business?

If you are still some way off the transition point there may be time to develop a grooming programme for candidate successors including working up through the company to establish their knowledge of operations and their credentials with employees and customers, management training and so on. This provides you with the opportunity to evaluate their aptitude, reason for commitment and level of passion. Creating a family council opens up a formal forum for discussing succession planning openly and assessing the real wishes and passion of potential heirs to the business.

If a child doesn't want a role in the family business then it's no use kicking against the traces. Better to arrange an alternative transition strategy that recognises the fact. This may not necessarily involve selling to a third party though. It may be possible to hedge bets by bringing in external managers or transferring ownership to a trust to delay the need for a decision, at least for a period.

WEB PICK OF THE MONTH

Businesses like www.tripadvisor.com and craigslist.org are excellent examples of how a site can generate great content by allowing customers to supply information.

FINDING THE RIGHT NEW CUSTOMERS

Nearly every business is dependent on a constant flow of new accounts. It's easy to ignore this because most businesses earn most of their revenue from old, established customers. The problem is that a certain percentage of old customers will drift away or change their focus every year. They'll change their buying habits, often for reasons that you can't influence.

So you need to continually market to recruit new customers, establish them, and start promoting them up your customer ladder, so that one day they'll be part of your staple business clientele. It's easy to forget to do this - you're so busy making money that you have no time to market. But then one day you wake up and find that several of your major customers have defected and you're left with a gaping hole in your revenue and you have no easy means to fill it.

So you need to be systematic. Think like a commercial fisherman. You go out every day, invest and organise. Commercial fishermen never tell tall tales about the ones that got away. They don't have to. Their livelihood depends on keeping every bit of their catch and therefore the focus is always on retention.

Step one in this systematic approach is to identify the sort of customer you're looking for. You can use a range of criteria, including:

- geography (how close they are to you)
- their capacity to make repeat purchases
- their capacity to grow and extend their purchasing
- their preference for quality over price
- the likelihood that they will value your business
- their payment habits (prompt payers being obviously preferred)
- their industry sector

This way you make up a profile of the sort of customer that is likely to be of value to you in the long-term. Then you go out and prospect for them. This doesn't have to cost you a lot of money. You can do a lot of research merely by surfing internet directories and Yellow Pages, selecting likely candidates and doing some online or other research on them. You can also get information from the directories of trade associations, clubs, chambers of commerce and trade magazines.

Once you've got a list of likely candidates, go into more depth. You might want to check out their credit records. Use your industry contacts to see what the 'buzz' is about them. Once you've done that, you start to make your pitch, whether that involves cold calling, sending out brochures or networking. The main thing is that, at the beginning of your sales process, you're focused on your final goal, which is to develop a long-term relationship with a valuable customer.

Of course, you've still only cast your hooks into the water at this stage. There are other stages to the process. If you want more information, see your accountant and discuss how they can help you segment your customer base and design a new customer acquisition marketing programme.

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We understand that in helping you achieve financial growth and success, personal goals can be as important as the bottom line. We aim to help you make the most of these opportunities, whilst minimising the risks along the way.

We tailor our range of services to meet your specific needs- no matter how large or small. We realise that 95% of our growth has been through recommendations from our existing clients. Such recommendations are testimony to our ability to not only meet, but exceed our clients expectations.

Whether it's an issue concerning taxation planning, business and succession planning, superannuation advice, assistance with obtaining finance or bookkeeping matters, we have the people, the experience and the systems to help you.

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300B Gillies Street, Wendouree VIC 3355
 Postal: PO Box 380W, Ballarat West VIC 3350
 Phone: 5330 7200
 Fax: 5330 7250
 Website: www.mulcahy.com.au
 Email: info@mulcahy.com.au