

UBTA Bulletin

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Taking Advantages for Growth

You will learn

- **Managing inflation in a post-Covid economy**
- **Funding Growth: Bootstrap or Debt?**
- **At a Glance: Inflation in Australia**
- **Tax Box: Hitting \$10 Million turnover threshold means an earlier payment and lodgement date**

Managing inflation in a post-Covid economy



Marcus John
Manager

As the country is emerging from lockdowns, logistical issues, a shortage of workers, COVID related factory closures and surging consumer demand are among many factors causing huge disruption to global supply chains. Costs have increased by more than 3 times the expected level in the last year (Gottlieb, R. The Australian).

There are a number of ways you can manage or minimise the impact of inflation in your business.

Put prices up

As the cost base of products and services may have increased significantly, review gross profit on each product/service offered. Some offerings may require

significant price increases.

Act immediately and focus on delivery of the message to your customers. Consumers are more open to price rises than you may think. It would be much preferred to pay more for a delivered product/project than get 'cheapest price' on an order that is never fulfilled. Consider devoting the same attention to communicating pricing increases as you would with a marketing campaign.

Evaluate your supply chain risk

It is critical to evaluate and understand the key risks in your supply chain. This may include dependency on single or limited suppliers, geopolitical issues, one type of inventory/material representing a large percentage of your cost of sales, or suppliers with long lead times.

To mitigate risk, you may need to consider strategies such as obtaining alternate supply chains/suppliers and stocking up on critical inventory/supply lines with low holding costs before the prices go up.

Again, understanding where your profits are coming from is essential; with scarce resources there may be some offerings that are more important than others to winning short term and long term.

Get Spending Visibility

Business owners and decision makers need to fully understand where money is spent and who is spending it. This will provide accountability throughout the organization and ensure that all decisions are made with the understanding of the impact on the Profit & Loss. This will also enable you to differentiate between strategic and non-strategic spending. Reduce costs, buy smart and conversely keep spending where you must.

Forecasting

In order to make decisions with confidence, every business must be looking ahead. Forecasting and forward planning is critical as this will enable business owners to review their plans and make

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Managing inflation in a post-Covid economy Cont.

required changes. This may also reveal the need for borrowing or reallocation of financial resources.

Examine your contracts

Review your terms and conditions with both suppliers and customers. This is particularly applicable for businesses that enter into fixed price contracts to be fulfilled in the future. Do your contracts allow for the passing on of unexpected increases in costs? Consider a review by an experienced lawyer.

Summary

The demand may be strong and opportunities abundant, but increasing costs have the potential to wipe out margins, so much that your bottom line won't see any benefit from the increase in sales. This increased risk in business is showing up the importance of having up to date finances, and being able to see within a week or a month what is working and what is not. What has worked for you in the past will not necessarily work in the future.

At a Glance: Inflation in Australia



The Consumer Price Index (CPI) rose

0.8%

in the Sep 2021 quarter
Australian Bureau of Statistics



The most significant price rises were for New dwelling purchase by owner-occupiers (+3.3%) and Automotive fuel (+7.1%).

Australian Bureau of Statistics



The import price index rose

5.4%

in the Sep 2021 quarter
Australian Bureau of Statistics

Tax Box: Be mindful of the \$10 Million turnover threshold of your business moving from small to Large/medium for tax lodgements.

When your annual total income surpasses \$10 million, you are now considered a large/medium taxpayer. Your lodgement due date moves from 31 March to 15 January, and payment date becomes 1 December (unless you are required to lodge earlier). Avoid putting unnecessary stress on your business and cashflow by being aware and prepared.

Takeaway: If you are getting close to \$10 Million turnover, it is good practice to review your turnover periodically to check your requirements.

Funding Growth: Bootstrap or Debt?



Lionel Dunlop
Manager

When companies plan and make goals for growth, the question of where to obtain capital to fund such growth needs to be addressed. Two common options are borrowing the required funds (a.k.a. going into debt) or reinvesting the profits of the business to grow much more slowly (a.k.a. bootstrapping or running on 'survival mode').

As your business expands, you need a source of funds that will meet your appetite for growth. Businesses just starting out are advised to run in survival mode as they test the viability of their business model, consumer demand, and get themselves established in the marketplace. But as a business proves itself and is successful, it may need external finance to allow growth at a greater rate than before. At what point should a business use external lenders to fund capital growth?

Start small

Many large and profitable businesses started off using very little resources and 'sweat equity' from the owner in their garage, using their own computer and their personal savings. It is hard work and encourages businesses to be creative and find ways to raise

profits without external sources of finance. Such businesses will often see low revenue numbers at the beginning, and profit may not be sufficient to meet all costs.

When to take the plunge

When demand exceeds your production capacity, and you don't have the resource to adequately fund growth, your limitations may cause your clients to seek alternative companies that can meet their requirements. Alternatively, you may need to make a hire for specialised talent outside of your area of expertise. This is where debt becomes a good decision. Investing in key machinery or having breathing space with working capital may make all the difference.

Benefits of bootstrapping

An advantage of bootstrapping is that your business may be worth more due to less money being borrowed. Also, when you do decide to raise money through external lenders you are a larger and more attractive client and will have better negotiating ability as to the terms.

Disadvantages of bootstrapping

Bootstrapping is a slow process and requires a significant amount of work on the part of the founder. Growth is capped at the amount of profits being funnelled back into the business.

Borrow mindfully

Interest rates are currently at record lows, which makes loans much more attractive than they have been in the past. Be mindful that interest rates are not permanent and ensure your business can withstand changes. To manage debt closely and effectively, plan out exactly what the capital will be used for and when. It is important that debt is only used to provide working capital or capital expenditure and not to fund overheads.

Debt is generally the fastest way to provide business growth, and by accommodating the disciplines of hard work and budgeting associated with successful bootstrapping, sound resilience can be formed to control and steer your business through all stages of its cycle.





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