

## HOW TO STRETCH – PRACTICAL ADVICE FOR THE SMALL BUSINESS OWNER (PART 2 OF 2)

*(7 Minute Read)*



I received a newsletter recently, opening with the following innocent welcoming message *"It is with a joyful spirit that we can say that we have finally reached the end of the year..."*. Something about these words simply didn't resonate with my own experience of this year. Owning a business while having to try and keep its doors open, during a pandemic, couple to the nightmares of lockdown and Covid protocols, was something closer to surviving a few weeks at sea clinging to a life raft! *Joyful spirit* – how about screams of frustration; tears of fear; financial panic attacks; wide eyed presidential announcements – doesn't *that* sound closer to the truth? One thing is for sure, owning a business is not for the fainthearted, this year stands out as a public testimony thereof.

Join me now as we unpack *Part 2* of this two-part blog series about what it takes to own and run a business, what it means to really *stretch*. As a short introduction, if you haven't yet had the time to read [Part 1](#), we focused on how

the behavior and decisions of the small business owner impacts the business. Some of these decisions related to time management, working with smart apps and software, utilising the power of outsourcing and the power of social media. In this blog post we will specifically look at key business functions and strategic elements and how the management of these elements can increase profitability.

## **PLAYING “WHEN THE PRICE IS RIGHT” AND OTHER GAME SHOWS**

Few gameshows lay bare our misconceptions about pricing as *The Price is Right*, an American TV game show with an addictive appeal. Contestants are shown a range of household appliances and they need to guess the correct retail price, if they get it right, they get to keep the item and move on to the next game. Watching the show is like opening a bag of crisps, once you start munching away, you can't help yourself.



Equally embarrassing to admit is our tendency to take a similar approach to the pricing of our own products and services – it's a guessing game. One such oversight is the importance of adding variable costs to pricing. A product on your shelf should not simply retail for the sum total of a procurement price with a percentage mark-up. The same principle holds true for the pricing of services and professional rates. A competent pricing policy should include, for example, the cost of the owner's time, property rates and taxes, rent or bond payments, and other business costs. To ensure that regular price revisions (at least once per quarter) can be done accurately, it is advisable to keep proper records and statistics of all operational costs.

## WHY YOU SHOULD NEVER LIE TO YOUR MOTHER

My mother, like most, possess a sixth sense, I am rather sure of this. As a child she just knew when I was re-telling my own version of the truth. My dry mouth; her silences; the sideways looks; the devastating cross examinations; it often caused my knees to buckle under the weight of her piercing eyes. I once asked my mother, a much older lady now, how she always knew when I was spin-doctoring the truth, all those years ago? “Well”, she explained, “you had freckles, and when they stood out on your pale little face like mud spatter on a painted wall, I just knew”. Who knew – freckles, I would never have guessed it.



As much as you may think differently, you *are* the mother of your business and like your own mother, you need to know, when what you notice, is not making sense or doesn't feel right. I am referring to the checks and balances on items where revenue can easily appear to vanish without a trace. Things such as stock, fuel, vehicles, overtime, maintenance, and repairs, to name a few. These items have already been paid for, so any loss, miss-management, abuse, damage or theft, will result in lost revenue.

Appoint people with integrity and a solid track record and seek proof that they can exercise good judgement, control their duties and assets under their management and take responsibility for their role. A good way to test this is to implement a notice period, with regular performance assessments, as part of

their employment contract, to give both employer and employee an opportunity to test the relationship.

Consider implementing logbooks and tracking systems for the company vehicles to account for each tank of fuel and every kilometer traveled. Another useful tool is automation, and, as a business owner with limited time, try to automate as many of your operational processes as possible. A business owner quickly runs out of time to keep an eye on all the moving parts of the business. Automation ensures that you keep important checks and balances in place and will assist you to create more comprehensive monthly performance reports for each department and to hold your teams accountable for their performance. Be the mother of your ship!

## **IN THE LAND OF DEBT, CASH IS KING**

It took me some years to figure out what it meant when my teacher said “In the land of the blind, one-eye is king”. In my minds eye I always conjured up a hideous looking monster with his one eye in the center of his head, but why make him king? It baffled me. Of course, I laughed at my own ignorance when I later understood the metaphor.



I have since realised that there is a similar metaphor in business; *in the land of debt, cash is king*, and it has a similar meaning. Money in your bank account is always better than in someone else's. Keeping expenses low and in check, while aiming for increased income, will result in increased profitability. A positive cashflow means less interest payable on overdraft facilities or other forms of finance. Cash on hand can greatly contribute to bargaining power and will secure

stock purchases at more reasonable prices. The challenge for the business owner is to try and build up enough cash on hand to be able to buy stock *and* pay the bills. Sometimes this is easier said than done and a business might need a more sustainable finance solution in the meantime. Be cautious to carefully read the fine print as interest on repayments on finance, at the best of times, is excessive.

An easy, and often overlooked method to ensure lower repayments, is to negotiate better finance terms with suppliers. Will they consider giving you a 30-day account, or will they consider a bulk discount on larger order quantities, or free delivery? Get into the habit of asking your suppliers about this and get comfortable to negotiate better payment terms. It is quite surprising, once you add up the small beneficial increments, to notice what difference it makes to the business bottom-line. *Become the king!*

## **DEATH AND TAXES**

I first heard the famous line from the successful 1998 film [Meet Joe Black](#) (starring Brad Pitt and Sir Anthony Hopkins) and I remember, just like Joe Black, my surprise at the accuracy of this statement. The complete statement is of course *“The only things that are certain in life are death and taxes”*. Argue as we may, this is a timeless statement of truth.

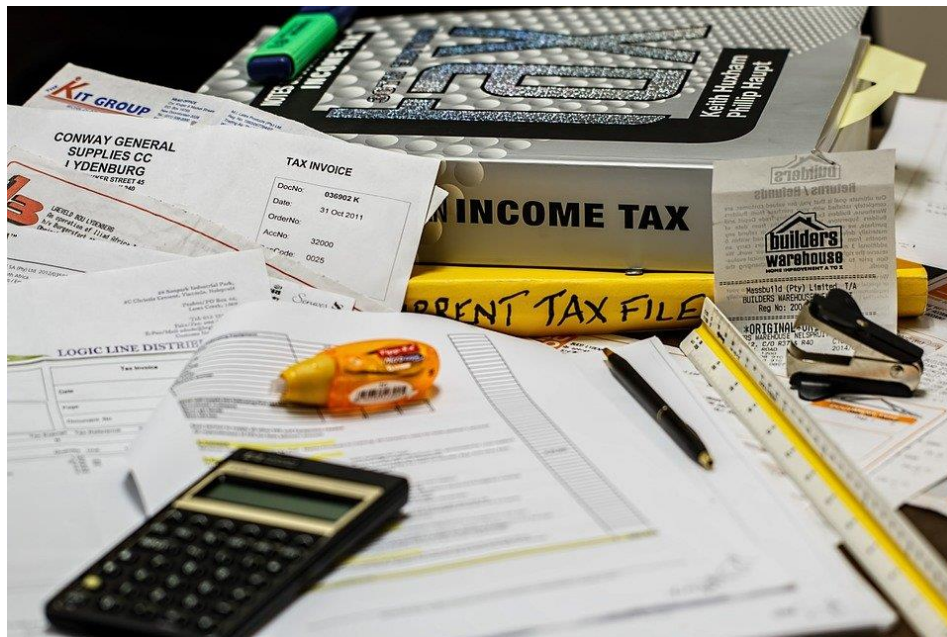
It is critical that a business is structured in the correct way, if not, it can turn out to be a costly error. Think for example about the risk of trading in your own name and using your main property as security to obtain finance. How safe is your property should your business fail? What about if you are married in community of property, does the legal liability end with you, or is your wife also liable? You need to establish what your potential risks are and decide which is the best trading vehicle for your business, and you must do this early in the process.

Second to this, and still part of the process of structuring the business, is your tax liability. In which trading vessel are you likely to achieve optimal tax benefits? Should you trade as a sole proprietor, or a company? Should you work from home



or from an office? Should you register for VAT right away? How easy is it to change between different forms of ownership?

These are some of the toughest decisions, and you need to make the right ones from the start. Take the time and make use of professional advice (such as Professional Accountants, Attorneys and Chartered Accountants) and be willing to pay for their services, it is an investment in the future of your business.



Always keep in mind that payments due to SARS in the form of taxes and penalties, are firstly payable by the business, *then* contestable. This can take time and will cause the business to lose money. It's better to make sure you do things the right way from the start. The long-term benefits of a correctly structured business, by far, outweighs the risk and hassles of doing it the wrong way. Pay for professional advice, it will be money well spent.

Part 2 of this two-part series was really aimed at highlighting the importance of the “early days” in the life of a start-up or small business. The decisions made daily by the owner of the business, have real implications that can hurt a business while it is still in a sensitive establishment phase. Be sure to surround yourself with qualified professionals who can assist you during this delicate phase.

As we said in *Part 1* of this series, owning a business is never just plain sailing or easy, it requires your full attention and it doesn't stop or get easier, in fact many times just quite the opposite happens, but you can ensure that the management thereof is a smoother affair. Take the time to work *on* your business and not just *in* your business.

Your business is destined to bring you great joy, numerous financial rewards, and give you freedom to express yourself, but it will also require you to *stretch!*



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