

NEW REFERENCE SHEETS

These reference sheets and more are available from our website. We will be adding more reference sheets to our online library from time to time.

- [Doing Your Homework](#)
- [Staff Performance and Remuneration](#)
- [Risk Management](#)
- [Budgets - A Tool for Success](#)
- [Financial Planning](#)

SERIES COLOUR GUIDE

- **START**
- **RUN**
- **GROW**
- **MOVING ON**
- **FINANCE**

REFERENCE SHEET WEBSITE

www.bendigobank.com.au/business/businessfocus/library/



FEATURE STORY

Staff Performance and Remuneration

By: Peter Armstrong

There has always been a strong mental and emotional link with staff between performance reviews and salary increases, but in reality the link is not as strong as most people think.

For a start, direct remuneration is not everything. A business should consider the total employee value proposition, with a view to encouraging staff engagement and alignment beyond money. Ideally staff should want to be part of the business keen to make a contribution. Often if a business is prepared to show some flexibility and understanding of an employee's personal circumstance it will be rewarded in spades.

Also the performance review should not be done in isolation. Ideally it is part of a total performance management process. This process should have a natural cycle of setting objectives, measuring outcomes and reviewing results. This may sound ominous but it can be relatively simple, perhaps just a dozen points on a single piece of paper. What is important is that the individual and the business have a shared and documented understanding of what should be done, how it will be measured and what the targets are.

continue page 2

REGULAR

Business Outlook

BUSINESS SNAPSHOT

Overall Economy (GDP):	(Q2 +0.3%)	↑ 1.9%
Inflation (CPI):	(Q3 +0.9%)	↑ 3.9%
Unemployment:	(September)	4.8%
Retail Sales:	(August +0.3%)	↑ 5.6%

Percentage is Annual Rate of Change.
Data are latest figures as published by Australian Bureau of Statistics 01/11/2006

For more up to date Business and Market trends and analysis, visit your local Bendigo Bank branch and speak to your Branch Manager.

The Australian economy continues to experience positive leads from the jobs market and retail trade, although concerns around inflation and the worsening drought are making the outlook less than certain. Last month's growth figures revealed GDP growth of only 2%

annualised, however with unemployment at generational lows and considerable regional divergence (WA and Queensland surging ahead due to the resources boom) the Reserve Bank is faced with a challenging monetary policy environment.

Not only is unemployment at multi-decade lows, but the participation rate (65%) is also at an all-time high, so the positive impact on consumer sentiment from labour markets is clear. There are also inflationary risks from this tight jobs market, and with core inflation above 3%, the markets are bracing for higher interest rates. Capacity utilisation is at high levels and labour shortages are reported to be a problem in some sectors.

Offshore the global economy continues to power ahead, providing positive export

driven demand for Australia, with healthy growth in Europe, UK, Asia (especially China) and to a lesser degree the US. The US is experiencing a significant downturn in its housing market; however this does not seem to be flowing through to consumption at this stage.

Equity markets are at record highs - the All Ordinaries has reached a fresh all-time peak at 5378, and the Dow Jones reached above 12,000 for the first time ever last month. The Aussie Dollar is also performing well - back above 77 cents and with its eyes set on the decade high of 80 cents.

David Robertson
Senior Manager Financial Markets
Bendigo Bank

Subscribe to receive
the next issue
of Business Focus

Get the Business Focus Newsletter delivered to your email once a quarter, in August, November, February and May, and have access to all of the reference sheets in the online library.

To subscribe simply go to the business section of our website at www.bendigobank.com.au/business and follow the prompts.

continued from page 1

There is no one right way to do performance reviews. Personally I think that they are more effective if chunked into smaller more frequent reviews. While some businesses may think this is too time consuming, in the long run it can often save time and be more productive.

Business owners and managers should take the performance review seriously. It is a very important part of the employer/employee relationship and should be given appropriate respect. The owner or manager must be prepared in advance. They should arrange a time and commit to it, uninterrupted. They should ensure that they listen as well as talk, and take the time to understand what the employee's needs are.

Remuneration settings are based on three key components:

1. Performance (individual and more broadly);
2. The organisation's capacity to pay;
3. The organisation's position in the salary market, i.e., what they are willing to pay compared to the norm.

As performance is only one aspect of the remuneration it is not necessary to relate the timing of the performance review with the timing of the remuneration review. In fact separating them can reduce the link and therefore the tension between the two.

If business conditions are volatile then it is a good idea to use incentives or bonuses to drive performance and provide flexibility rather than focus solely on base pay. Reducing pay can be difficult to achieve as it forms part of the contract of employment and a reduction will require negotiation .

Much of the stress, tension and conflict can be eliminated from the performance review process and remuneration discussions providing a number of steps are taken. Firstly it is essential to establish a performance management process that goes beyond an annual performance review. Secondly it is important to get a common understanding throughout a business that performance is just part of the remuneration consideration. Thirdly it may be appropriate to keep base salaries

modest and introduce bonus and incentive components to maximise flexibility and drive performance. Finally it is extremely important to give the performance reviews, and by implication the staff, the time and respect they deserve.

Peter Armstrong is Senior Manager Remunerations and Benefits for Bendigo Bank.

More in  **Salaries and Remuneration Reference Sheet.**

If business conditions are volatile then it is a good idea to use incentives or bonuses to drive performance and provide flexibility rather than focus solely on base pay.



ARTICLE

Budgets – A Tool For Success

By Andrew Kent

Budgeting is about setting meaningful measures and milestones to guide the business toward its strategic goals. While the focus is usually on financial measures and milestones, non-financial items should also be considered.

With this in mind, a good starting point for the budgeting process is an understanding of the strategic goals of your business. In simple terms this is what you want the business to be five and ten years from now. For budgeting purposes simply roll that back to where you need to be one year from now. It is a similar process to planning a journey - setting your destination and then planning where you will need to be along the way in order to arrive at the destination on time.

With the big picture in mind, it is also important to keep an eye on the business necessities. Just as you need to eat, sleep and breathe on a journey, a business needs customers, internal processes and cash flow. Budgeting can be a very useful tool in ensuring these things are not overlooked while you are striving for the end goal.

Too often budgets are set before sales staff like a series of hurdles before a runner. The sales staff attempt to clear their budgets in the shortest possible timeframe, which in a service business may be quite detrimental.



One of the common mistakes of solo operators is to think that budgets are irrelevant to them. Quite the opposite is true.

Sales - Too often budgets are set before sales staff like a series of hurdles before a runner. The sales staff attempt to clear their budgets in the shortest possible timeframe, which in a service business may be quite detrimental. If the business has a maximum level of output, this should also be reflected in the sales targets.

Production - Prior to getting the sales team up and firing, it is important to understand just how much you can produce. In a services business this might be measurable in hours, in a products business it might be in the number of items or units. Careful consideration needs to be given to how transferable these things are between production processes. For example, electrician hours cannot be sourced from an underutilised plumber. In this circumstance it is important to set production targets based on what is achievable, with appropriate adjustments when capacity changes.

Delivery - It is one thing to produce things, another to provide them to your customer. Delivery is concerned with transferring your goods or services to the customer as per their requirements and receiving payment in return. This may be through a checkout in a retail store, via delivery to the customer's premises, or even a custom build and installation at the customer's location. Payments might be a simple cash transaction, the payment of accounts, or contracted instalments. Regardless of the level of complexity, the delivery process has inherent costs and capacity issues. These should be analysed, planned and budgeted.

Finance and Administration - In addition to its own budgets, the finance and administration function should ensure that there is some cohesion between the sales targets and the capacity of the organisation to produce and deliver at the required volumes. On an ongoing basis, the finance and administration function should also be monitoring for significant departures from the budgets and flagging these and their implications to senior management.

Flying Solo - One of the common mistakes of solo operators is to think that budgets are irrelevant to them. Quite the opposite is true. A sole operator has a very finite resource which needs to be used to maximum capacity. The purpose of budgets in any organisation is to direct resources and effort for the maximum benefit of the organisation. This is particularly true of the sole operator who can so easily be distracted by what is urgent and neglect what is important. However the sole operator's budget can be a lot simpler.

Done properly a budget is not an administrative overhead; it is a roadmap for business success. Take the time to do it well and to monitor your progress and you are much more likely to achieve success.

Andrew Kent is the CEO of Business Gear Change www.businessgearchange.com

More in  **Budgets - A Tool For Success** Reference Sheet.

ARTICLE

Risk Management

By Richard Forrester – Senior Business Development Manager - Bendigo Bank Insurance.



Christmas brings with it many things, and what some businesses may not realise is that one of these things is increased risk to their business.

Risk management is about understanding the risks your business is facing and deciding how you are going to address these risks through a combination of preventative measures and insurance. In doing so it is important to know how far you are prepared to go to address the risks and where you might still be exposed. Below is a list of business risk areas to consider:

- Property Damage
- Business Interruption
- Theft
- Cash
- Glass
- Public & Product Liability
- Professional Indemnity
- Machinery

- Computers and Electronic Equipment
- General Property
- Tax Audit
- Workplace accidents
- Other

The first part of getting the appropriate insurance cover for your business is ensuring you have identified the risks. You then need to develop a risk strategy that combines risk prevention and insurance cover to cost-effectively reduce the level of risk to your business. Reviewing your risk management strategy with an insurance advisor on a regular basis ensures you are aware of the potential impacts to your business, and the best ways to control the risks to a level acceptable to you.

More in  **Risk Management** Reference Sheet.

ARTICLE

Financial Planning – Thinking Long Term

By Chris Warner – Senior Manager - Dealership for Wealth Solutions - Bendigo Bank

Too often the financial plan is regarded as a nice to have rather than a must have. However the earlier you tackle financial planning the greater the rewards and the lower the risk.

For many small business owners the business is their financial future, with any spare money being reinvested in the business with a view to funding retirement from the sale of the business. This has some inherent risks:

- It assumes the business is able to be sold;
- It assumes the market will be buoyant when the owner wants to sell;
- It assumes the owners/key persons are able to maintain their health and mental capacity until the time the business is to be sold; and

- It assumes the relationship between the partners is able to be maintained.

Financial planning is a service not a product. Its purpose is to provide advice that will enable business owners to achieve their financial goals and objectives. Done ahead of time this can provide an essential foundation for business continuity in the event that a partner is no longer able to work or the relationship between partners is no longer viable.

The financial planning process is the same for individuals and businesses and is inevitably intertwined. Some of the issues that will need to be addressed in the financial plan are:

- Succession Planning
- Saving for hard times
- Exit Strategies and retirement

Business financial planning should not be done in isolation; it should involve the financial planner, the business owners, the bank manager and the accountant. By working together they can ensure the business has addressed the tax, business planning, ownership structure (corporate/sole trader), financial planning and financial services issues in a cohesive and holistic manner.



More in  **Financial Planning** Reference Sheet.

For more Business Focus Reference Sheets visit:

www.bendigobank.com.au/business

Accuracy of information and disclaimer of warranties

This material contains general advice or factual information only. It is not intended as personal advice and must not be relied upon as such. You should make your own inquiries and take independent advice tailored to your specific circumstances prior to making any decisions. The Information is derived from various sources believed to be accurate and current as at the date of publication. Your use of the Information is at your sole risk. Neither Bendigo Bank Limited, its related bodies corporate or any of their directors or employees make any representation or warranty that the Information is reliable, accurate or complete at the date of publication and do not accept any liability for any loss resulting from any action or decision by you in reliance on the information or for any loss resulting from any interruption, delay in operation or transmission, virus, communications failure, internet access difficulties, or malfunction in equipment or software resulting from you subscribing to, downloading or accessing in any way the Bendigo Bank Business Focus Newsletter.

© Copyrights 2006.

Copies of this newsletter and related Business Focus Reference Sheets are available from your Business Banking Manager or from our website:

www.bendigobank.com.au/business