

Business Focus



Business news for busy people

Edition 13 - November 2008

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.

- Marketing Without a Budget
- Sector Report
- Food for Thought
- Business Risk Protection
- Debt Equity

SERIES COLOUR GUIDE

● START ● RUN ● GROW ● MOVING ON ● FINANCE

REFERENCE SHEET WEBSITE

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



Time of Change

A lot has changed in the last three months. In the last issue our headline story was on inflation, as at the time the media and the Federal Government were concerned that the economy was over-heated. Just

three months later and the same people are talking of global recessions and how Australia might fair in the storm. We have always attempted to relate general business issues to your business and so in this edition we explore how to deal with the likely economic downturn.

REGULAR

Business Outlook

BUSINESS SNAPSHOT

Overall Economy (GDP): (Q2 +0.3%) ▲ 2.7%
 Inflation (CPI): (Q2 +1.2%) ▲ 5.0%
 Unemployment: (October) 4.3%
 Retail Sales: (Sept. -1.1%) ▲ 1.6%

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

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

It is difficult to put a positive spin on the economy (both domestically and offshore) or any aspect of the global financial crisis - put simply, the global economy faces the prospect of a much deeper recession than we predicted earlier this year, and the impact will be broadly based and will last for many years. The latest data here in Australia last week was a cocktail of poor news - retail sales fell sharply in September as discretionary spending was pared back, Australian house prices had their largest fall since the mid 1970s, and job ads plunged in October; although interestingly the

unemployment rate remained at 4.3% at the latest reading.

The Reserve Bank has plenty of ammunition to throw at the economy to attempt to avoid a recession, and has already decreased rates by 2% over the last 3 months as a start. There is a strong chance that our official RBA cash rate will fall below the 2001 low of 4.25%, possibly as low as 3.5%. Recently the US dropped their rates to 1%, the UK slashed their rates by 1.5% to 3%, and most major economies around the world are following suit. The key to Australia's ability to withstand the full force of the global recession will be the ongoing demand from China and India primarily, so yesterday's announcement of a US\$586 B stimulus package for China is significant. The lower Aussie dollar (remarkably in the 60s, just a few months after a record high of .9850) is an excellent safety valve for our export sector, as it was in the Asia crisis a decade ago, but despite these factors it is will be difficult to avoid a recession here altogether. The latest prediction for GDP is growth slowing to 1.5% by next year, forecast in the November Reserve

Bank 'Statement on Monetary Policy'. The RBA SMP also predicted that inflation will not return below 3% until 2011; however it became clear in August that the RBA was suddenly less concerned about CPI and (correctly) more concerned about maintaining growth.

So much has changed from three months ago that it is impossible to provide an exhaustive list, but some highlights are:

- The All-ordinaries fell 30% from its peak on September 2 to the October 28 low of 3694
- The Aussie dollar experienced a wider range on the 6th of October than it did for the entire year of 2005
- The US government were forced to bail out mortgage giants Fannie Mae and Freddie Mac, as well as ploughing over US\$80 B into insurance giant AIG
- With governments around the world moving to guarantee wholesale deposits in their jurisdiction, the Australian government announced on October 12 that all bank deposits (wholesale and retail) would be fully guaranteed

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ARTICLE

How is your sector faring in the downturn?

By James Thomson

There are very different reports on how various sectors of the economy are faring. Things are clearly tough in the financial services and property sector, but our contacts in the advertising and pockets of the IT sector are still reasonably bullish. Let's have a quick look at how some of Australia's key sectors are performing.

Advertising and marketing

This is one sector that appears to be holding up reasonably well at this stage, with advertising spending still fairly strong across most sectors and marketing budgets holding up. One PR executive I spoke to this morning said he is yet to see any drop off in clients' budgets. "In fact, while we're keeping everything crossed, we're actually seeing a lot of new business walking in the door."

Agribusiness

The drought is still weighing heavily on the agriculture sector and the short-to-medium outlook is mixed at best. While the recent slide in the Australian dollar should lift the sector's export performance, weaker global economic growth will weigh on soft commodity prices.

In the longer term, the pressure on the world's food supply should help keep conditions reasonably strong. Chris Vasey, managing director of South Australian company Enviromist Industries, says the US agriculture sector remains robust despite the downturn there.

Construction and engineering

This sector continues to hold up reasonably well thanks to spending on infrastructure and mining projects. In fact, skill shortages remain the sector's biggest concern. However, the outlook is a bit cloudy. The Association of Consulting Engineers Australia expects revenue will increase by 8% in 2008-09, by 4% in 2009-10 and by just 2% in 2010-11.

Food and beverages

HJ Heinz's \$280 million takeover bid for Golden Circle shows at least one global

player is confident about the Australian food sector's prospects. The falling Australian dollar will help food exporters, although the already sky-high prices of imported raw materials could rise further as the currency slides.

Information technology

The Australian IT sector received a warning yesterday when the chief executive of software giant SAP, Henning Kagermann, revealed its revenue growth in the three months to 30 September was 13%, well down from the 27% growth the company forecast in July. Kagermann said the events of the last month have led to a "very sudden and unexpected" drop in activity.

Media and internet

Things looked grim for media companies even before the events of the last few weeks, as highlighted by Fairfax Media's decision to savagely cut costs and jobs. How well media companies perform over the next 12 months will depend entirely on how advertising spending holds up – the longer the downturn lasts, the harder things will get.

The internet sector is also starting to see some early signs of weakness. Online auction giant eBay's decision to cut its workforce by 10% in the face of weakening sales provides a good bellwether for the global internet sector.

But closer to home, it seems that as always, good companies will still do well. David Trewern from DTDesigns says his company is averaging 55% revenue growth and continues to do well in the slowing climate as companies shift their marketing spend online.

Property

SmartCompany's regular reports on the collapse of property projects and developers tells you all you need to know about this sector – it's sick. The interest rate cut should help stabilise the property sector, but don't expect growth to accelerate. As Australian Property Monitors economist

Liam O'Hara explains today, there is simply too much debt around for a quick recovery to take place.

Resources and energy

Despite recent falls in commodity prices, the resources sector is likely to remain the strongest industry in the short to medium term. However, slowing global economic growth will hurt the sector's prospects and the fall in the Australian dollar, while good for exports, will make infrastructure and equipment costs more expensive.

Retail

Another very mixed sector. Late last week Harvey Norman announced it was slashing its marketing budget by 20% in the wake of slowing sales. But yesterday, rival JB Hi-Fi announced strong third quarter sales. However, JB Hi-Fi executives would know that it's only a matter of time before every retailer feels the pain from the downturn, and while the Australian Retailers Association welcomed yesterday's rate cut, it is still looking like an ugly Christmas. The falling dollar could present a big problem for retailers, as prices of imported goods – such as electronics – are set to jump.

Transport and logistics

The slowing economy will hurt the highly-competitive transport sector, and is likely to put a few smaller players (particularly owner/drivers) out of business. The one bright spot is that fuel prices are likely to fall, which should give players in this sector a bit of relief.

More in  **Sector Report** Reference Sheet.

ARTICLE

Marketing Without A Budget For Small Businesses

By Diana Ripple



For many small businesses, marketing is considered a luxury item. Perhaps this is because marketing is usually seen as a highly creative process, involving advertisements and big agencies that are, of course, all very expensive. Hollywood could be to blame for that. What many small enterprises, and people, fail to realise is that marketing is actually much more than TV ads, pretty logos and brochures.

Marketing is not luxurious, but rather essential. You need to understand the value your product or service brings to the marketplace and maximise customer relationships. The best part is this can be 100% free! Here are some tips to make free marketing work for your small business.

Do Your Homework

Every good Marketer knows that the most important part of marketing is research. It is apparent everyday that many small businesses by-pass the critical stage of planning. For example, I live just off a street that has no fewer than 15 hair salons. Somebody obviously did not do his or her homework! A simple walk would have told them that competition on this street is high and the chance of a new hair salon being profitable is very low. It has been said before but it is

worthwhile repeating here: 'when we fail to plan we plan to fail'. This is very true when it comes to marketing.

It doesn't matter if you are a start-up or are already an existing business, you can still plan. In fact, your marketing plan should be reviewed every 6 months or so, or when a major change occurs, such as a sudden change in the economy or a new competitor moves in next door. Below are the two basics that every business should know:

- Know what makes you different
- Know your customer

In addition to knowing the above, it is an excellent idea to create a full marketing plan. This can be done using one of the many free marketing plan templates available on the Internet.

Get Word of Mouth Referrals

Word-of-mouth referrals are, by far, the best method of getting new customers, not least of all because they are free. They are also about trust. As consumers, we are bombarded daily with messages about why we should buy 'X or Y' to a point where it is difficult to differentiate. This is why we turn to our trusted colleagues,

friends, acquaintances and family to assist in our decision making process about new products or services. When we trust in our referral source, we transfer that trust to the recommended product or service. This does not happen with paid advertisements, which makes word-of-mouth referrals much more valuable.

- Exceed Expectation
- Offer Incentives

Retain Your Customers

It is a lot cheaper to keep your customers than to get new ones; it is estimated that it costs 6 to 7 times the amount to acquire a new customer than to retain existing ones. With that knowledge, it is a real wonder why all businesses don't have a strategy to keep their customers happy.

- Ensure your customers are content
- Invite Criticism

Get the Word Out

Below are a few ways to gain publicity for your product or service requiring no money at all. Whatever idea you choose, it is a good idea to make sure that the audience is within your target market.

- Offer you expertise
- Free Publicity
- Giveaways

Remember a lack of budget should not hinder small businesses from marketing. If you do get to a point where you have a budget for marketing, consider outsourcing this function, as you are likely to get a seasoned marketing professional for the price of having a junior in-house.

More in  **Marketing Without a Budget** Reference Sheet.

CONTINUED BUSINESS OUTLOOK

- Two weeks later the government announced that the guarantee would involve a fee for amounts over A\$1 million
- UK banks have started to issue bonds backed by the UK Government, and we would expect Australian banks to consider issuing guaranteed bonds in the near term

The financial landscape is clearly moving at such a pace that making predictions in these conditions is fraught with danger, however it is clear the next phase of the global financial crisis will continue to stress businesses and corporates, with little prospect of an improvement in conditions for some time. Trying to find some good news - at least we can expect lower rates for debt

going forward, and with every day of the equity bear market we are one day closer to the nadir!

David Robertson
Senior Manager Financial Markets
Bendigo Bank

ARTICLE

Business Risk Protection – Get it before you need it

By Xuan Bui

While you think about your business every day, you probably don't think about how it is going to cope without you, or indeed how you are going to cope without it. Similar to every other sort of insurance, business risk protection is something you need to think about and plan for well before you need it. Indeed we all hope you never need it.

Perhaps because they never hope to need it, few businesses understand how to assess the value of business risk protection. I recommend that when assessing the value of business risk insurance, you consider the 3Ds – determine value, decide strategy, document agreement.

The 3Ds of protecting your business

- **Determine the value of your business**

- How much is the business worth?
- Is the value based on an agreed formula, dollar value or an independent assessment?

- **Decide who should be left with what after the departure of a business party**


- Who takes ownership of the business?
- What are the family's needs and expectations?
- What are the business needs and expectations?
- What is the family's ongoing role in the management of the business?
- What are the day-to-day management of the business?

- **Document the agreement**

- A solicitor can help business owners set

up a Buy/Sell Agreement to document how an outgoing proprietor's business interest will be transferred to the continuing proprietor(s) upon a trigger event.

Insurance is one of many solutions so speak to a specialist, like Bendigo Financial Planning, to help you determine whether it's the most appropriate and cost-effective option for your business protection needs.

More in  **Business Risk Protection** Reference Sheet.

ARTICLE

Debt - Equity: Getting the mix right

By David Bird

One of the key issues that needs to be considered by business owners is what is the right mix between debt and equity and more particularly in the current climate have the fundamentals really changed?

In good times debt is generally referred to as gearing. In bad times, gearing is generally referred to as debt. Gearing is generally referred to as a ratio – the amount of debt relative to the amount of equity. Debt is generally referred to as a dollar amount. The choice of words and references are chosen to make a point, but don't change the facts.

The principle of gearing is simple; by financing the business with debt rather than equity each share holding owns a larger share of the business than they would otherwise. This increases their level of exposure in good times and bad. In good times it is praised as leverage and gearing, in bad times it is condemned as greed and

debt. At any time people will also have a particular personal view on what the right level of exposure is.

One of the key measures of debt levels is called interest coverage. This is a measure of the proportion of the businesses cash flow that is consumed by paying interest on the debt. It is a measure that fluctuates with the performance of the business as well as the interest rate. It also has a tendency to be a non-issue in good times and a substantial problem in bad times. Subsequently it is best used in conjunction with some financial modelling. For example, what would it look like if the profits fell by 15% at the same time as interest rates went up by 250 basis points?

If you are a private business owner looking to buy or expand a business at the present time it is a good idea to be open to a range of debt to equity combinations. While it might sound a little strange right now, at this point

in the cycle you might like to consider a preference for debt over equity within your given comfort range. When the financial cycle turns to a much more positive phase, then it might be worthwhile to consider a preference for equity over debt.

Establishing your own range of debt and equity limits is essentially a personal choice. In part it will be influenced by the minimum level of ownership you are prepared to accept (eg 51%), it may also be influenced by the level of debt you are comfortable with and/or you are able to obtain. It must also consider the level of finance the business requires and the amount of interest it can afford to pay.

More in  **Debt Equity** Reference Sheet.

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The fact is that marketing is not a luxury, but rather an essential. You need to understand the value your product or service brings to the marketplace and maximise customer relationships. The best part is that this can be 100% free! Here are some tips to make free marketing work for your small business.

Do Your Homework

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It doesn’t matter if you are a ‘start-up’ or are already an existing business, you can still plan. In fact, your marketing plan should be reviewed every 6 months or so, or when a major change occurs, such as a sudden change in the economy or a new competitor moves in next door. Below are the two basics that every business should know:

Every good marketer knows that the most important part of marketing is research. It is apparent everyday that many small businesses by-pass the critical stage of planning.

Know what makes you different

If you have not done so already, sit down and figure out what makes your product or service different from that of your competition. Research your competition. What are they doing? Where are they? Are they missing an opportunity? Does your product or service stand-out in comparison? What benefits would your potential customers have buying from you rather than from your competition?

Know your customer

What are your target customer’s expectations? What are their buying cycles? What benefits are they interested in? How do they define value? What influences their purchasing decisions? What price are they willing to pay? Why would they buy from you rather than from your competition? In addition to knowing the above, it is an excellent idea to create a full marketing plan. This can be done using one of the many free marketing plan templates available on the Internet.

Get Word of Mouth Referrals

Word-of-mouth referrals are, by far, the best method of getting new customers, not least of all because they are free. They are also about trust. As consumers, we are bombarded daily with messages about why we should buy product ‘X or Y’ to a point where it is difficult to differentiate. This is why we

turn to our trusted colleagues, friends, acquaintances and family to assist in our decision making process about new products or services. When we trust in our referral source, we transfer that trust to the recommended product or service. This does not happen with paid advertisements, which makes word-of-mouth referrals much more valuable.

Exceed Expectation

To create word-of-mouth referrals, it is most important to meet and exceed the customers' expectations with both your product and service. This builds the essential trust and positive customer experience that will generate word-of-mouth business for you. Thrilled customers are very likely to pass on the good word and conversely, dissatisfied customers are likely to share their experience as well. It is important to get it right when it comes to your customer relationships.

Offer Incentives

You can also give your existing customers an incentive to refer you. I personally don't believe standardised referral programs are the best tools for small businesses. The more personal, the better. I suggest building a relationship with your customers and then just simply ask them who they think may also benefit from your product or service. It is amazing how people will help out when simply asked. If you do get a referral, a thank you call can do wonders as can an unexpected discount, or freebie, the next time that client deals with you.

Retain Your Customers

It is a lot cheaper to keep your customers than to get new ones; it is estimated that it costs 6 to 7 times the amount to acquire a new customer than it does to retain existing ones. With that knowledge, it is a wonder that all businesses don't have a strategy to keep their customers happy.

Ensure your customers are content

So how do you find out if your customers are content? And how do you keep them

To create word-of-mouth referrals, it is most important to meet and exceed the customers' expectations with both your product and service. This builds the essential trust and positive customer experience that will generate word-of-mouth business for you.

that way? The answer is simple: ask them and find out about their experience. Whenever possible try to speak to your customer directly, depending on your channels. Find out specifically what they appreciate and what could be improved upon. This is a wonderful way to gain valuable information about your customers.

Invite Criticism

Some small businesses may find this difficult. However, if you view it as an opportunity to show your customers that you are listening and dedicated to meeting, and exceeding, their expectations, you will only benefit. Just make sure that you act on the information you receive. If, for example, your customers tell you that they don't appreciate they go to voicemail when they try to contact you, you need to find a solution.

Get the Word Out

Below are a few ways to gain publicity for your product or service requiring no money at all. Whatever idea you choose, it is a good idea to make sure that the audience is within your target market.

Offer you expertise

You can make a strong name for yourself and your company just by offering your

expertise. This can be in many forms such as speaking events, website blogs, articles, etc. Potential customers will then be likely to choose your product or service over an unknown competitor, as they will feel that they already know you and your capabilities. Plus, these types of mediums should give you many opportunities to show the superiority of your product or service.

Free Publicity

Well-written and pertinent news releases can be a very effective marketing tool and work both in the online and traditional media. When writing a news release, keep in mind the current events. Let’s say you are a gardener and you have followed the reports in the paper about the water shortage in the area. You know from your experience that locals are concerned about their gardens withering away. Why not offer a local paper an article on tricks to keep gardens hydrated or about the most resilient plants? It will give you free press and position you as an expert.

Giveaways

Event organisers are always on the lookout for great giveaways that fit with their event. Consider donating your product or service to an event if the audience fits with your customer base.

Remember a lack of budget should not hinder small businesses from marketing. If you do get to a point where you have a budget for marketing, consider outsourcing this function, as you are likely to get a seasoned marketing professional for the price of having a junior in-house.

ACKNOWLEDGEMENTS

Diana Ripple is a marketing consultant with NEWMARQ, a marketing consultancy dedicated to assisting businesses in the achievement of their goals.

www.newmarq.com

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Information to help you grow your business successfully. Some of the titles in this series includes:

 Keeping Control

 Franchising

 Growing Broke

 Networking

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