

Business Diagnostic

Client Questionnaire

About the Profit Builder Report

We would like to ask you a few questions about your business.

These simple questions when answered will provide us with an insight into your current business. The questions range from sales through to productivity and employee performance levels.

With this insight we can then prepare a Profit Builder Report that will outline areas that might improve your business. It will be used to pinpoint areas of weakness and then assess the likely consequences of those weaknesses.

As you answer the questions, read the help notes and the tips on the adjoining page to improve the quality of your answers and therefore the relevance of your report.

The final report that you receive will do two things. Firstly, it will provide you with some specific strategies based on the answers that you submitted. Secondly, it will provide you with the motivation to implement certain policies and procedures. It provides the motivation because it actually demonstrates that if these systems are successfully implemented in your business you will make a specific amount of money.

By equating these systems to a monetary value, it justifies that if these systems or strategies are not implemented then it will cost your business in either lost opportunity or poor performance.

Please answer the questions over the next few pages, and send them back to us. We will then prepare your report.

Answering these questions should take no more than 20 minutes.

All information provided will be treated in confidence.

Please complete and fax (or post) the relevant pages of this document to:



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That is 5 pages numbered 3, 7, 11, 15 and 17.

Operational and Financial Data

Based on your last year of trading please enter your figures into the boxes below.

	Your Answer	Sample Answer
Sales	\$	\$5,000,000
Number of employees		30
Gross Margin (%)	%	65%
Net Profit (%)	%	10%
Number of line managers		5
Sales staff (%)	%	30%

Client Assumptions - Productivity

What is your current level of operational efficiency?

	Your Answer	Sample Answer
Sales Area (%)		65%
Other Area (%)		65%

What do you think is the best level that your company can perform?

	Your Answer	Sample Answer
Sales Area (%)		75%
Other Area (%)		75%

Client Assumptions – Customer Service

Number of customer service issues per week

	Your Answer	Sample Answer
How many customer service issues per week		45 per week

Operational and Financial Data

Help: In the boxes above you will need to enter your sales revenue and number of employees. This is self-explanatory, as the sample answers would suggest. You are also asked to indicate your number of sales staff, line managers, and net profit. Please see below for a further explanation.

Sales Staff (percentage): The percentage sales staff refers to the percentage of your employees that are sales and marketing staff. What we are trying to discover is how many of your staff are responsible for generating income for the business and then we will help you work out their budget. Therefore, if you have a marketing assistant or a marketing manager that is not directly responsible for bringing money into the business, then you would not include them in this figure. In the final Report that we create, we will calculate the current and future sales targets that each of these sales people have to meet to achieve your budget. You would calculate the percentage of sales employees in the following manner: If you have 10 employees and five are in the sales area then your percentage would be 50%.

Gross Margin (percentage): The Gross Margin refers to your total sales less your cost of goods expressed as a percentage. Sounds a bit confusing but it is really quite simple. For example, if you sell a watch for \$100 that costs you \$60 to buy, then your Gross Profit is \$40. To convert that to a percentage you would divide the Gross Profit by your Sales. In this case, that would be $\$40/\100 , which equals 40%. If you are in the service industry then your gross margin is likely to be higher than if you are a wholesaler. You might not even have any cost of goods if you just supply services. In this case, your Gross Margin would be 100%.

Net Profit (percentage): The net profit refers to your sales less cost of goods less all expenses. This figure is then expressed as a percentage. In the previous example, if I sell 10,000 watches at \$100 and they cost me \$60 each to buy, then my Gross Profit is \$400,000. If my wages and overheads add up to \$300,000, I would then have a net profit of \$100,000. Expressed as a percentage this would be 10% (ie Net Profit of \$100,000 divided by Sales of \$1,000,000)

Number of Line Managers: This refers to the number of people in your organisation that are responsible for managing a group of people. This could also be expressed as the number of team leaders.

Client Assumptions - Productivity

Help: These questions try to determine your current level of operational efficiency. This is completely subjective. It would be very difficult for a group of people to work continually at 100% efficiency. In most groups, there is a level of negativity and inefficiency. Sometimes a lack of systems or leadership may be the underlying cause. For other groups it could be the result of poor job descriptions and unclear or duplicated workloads and areas of responsibility.

Help: Consider this. If you were able to motivate your employees through team building exercises, weed out the negativity that exists and promote a positive work environment. If you were to develop some clear job descriptions, have regular discussions with your employees where goals, work and revenue targets are clearly identifiable and communicated. What level of operational efficiency do you think you could achieve?

Client Assumptions – Customer Service

Help: Please indicate the number of customer service issues you get on a weekly basis. By customer service issues we mean customers that are actually complaining that delivery has not been met, or that they were sent the wrong goods, or that the products were not up to a satisfactory standard, etc. We are trying to determine the number of issues that if not addressed in a timely and efficient manner, will result in a client never purchasing from your organisation again.

Questions About Increasing Revenue

Revenue Building Model

The Revenue Building Model is a nice simple way to look at what your business is doing now and what you could be doing if you focused on a few simple things. There are many limitations to this Model and it is meant more as a general indicator of business improvement rather than a thorough strategic audit as to what the business is doing. The Model involves the examination of three main areas of your business. These are:

- i. increasing your average value sale
- ii. increasing the number of times each year that your current customers buy from you, and
- iii. increasing the number of customers that you have

Revenue Generation – Average Value Sale

What is your average value sale?

	Your Answer	Sample Answer
Existing average value sale (\$)		\$320
New average value sale (\$)		\$430

Revenue Generation – Number of transactions

How many times do your customers purchase from you each year?

	Your Answer	Sample Answer
Existing number of times you sell to a typical client in a given year		1.2
Your planned number of transactions in the future		1.5

Revenue Generation – Number of new clients

In the box below mark down approximately how many customers buy from you each year.

	Your Answer	Sample Answer
Existing number of clients per annum		5000
Your planned number of clients per annum		6500

Revenue Generation – Average Value Sale

We will show you in the Report the effect that a small change in your average value sale can make to your overall sales growth. In the box below, indicate what your current average value sale is and what you think you could conservatively move that to if you focused on this as a goal.

Help: If you have problems calculating the average value sale then you may need to follow one of the steps provided below.

1. Some organisations have such a diverse range of average value sales that it would be impossible to put across the board an average value sale. What we propose here is that if you are a large client with multiple divisions and a diverse range of average value sales, then you segregate out one particular division and work on that division as a model for this Report. Having done this, then the employees that relate to that division and the assumed net profit from that division can be calculated into the Report.
2. In general, most businesses will have a small number of sales that are extremely high and low in average dollar terms. In this case, you would ignore the top and bottom 5% or 10% and then do an average over the balance.
3. What you may also do is calculate the average value sale per product item or product group. You might find that it varies significantly. In this variation process you may find that you need to apply different marketing and distribution logistics in order to make different average value sales profitable within the overall business model.

Revenue Generation – Number of transactions

For example, if you have a direct mail business, you might sell to your customers on an average of five times per year. If you are a motor mechanic, you might sell to your services to your clients twice a year. In the next box, indicate how this figure might be increased if you made a concerted effort in this area.

Help: Another way to increase your sales is to sell more often to your existing customers. The prerequisite to this is to make sure that you have a high level of customer satisfaction. This is why your current level of customer service efficiency is worthwhile monitoring.

To determine your frequency of purchase, work out an average of how many times a customer will buy from you. If for instance you feel that 50% of your customers buy from you twice a year then you would insert 1.5. If for example 50% buy three times a year then this would equate to an average frequency of purchase of 2 times per annum. Mathematically this would look like $.5 \text{ buy } 3 \text{ times plus } .5 \text{ buy once per year or simply } (.5 * 3) + (.5 * 1) = 2$

Revenue Generation – Number of new clients

Note that this is NOT your total number of customers but the number that ACTUALLY buy from you in a given year. The objective is to then look at a very small increase in this number and see what the affect on revenue will be.

Help: If you are going to increase your sales you could do this by increasing your number of clients. To do this you may consider bringing your products and services to new markets or experimenting with different types of promotion and either increasing your promotional expenditure or improving the types of promotional activity that you are doing. You can achieve an increase in the number of clients by launching some new products that target a type of client that you have not targeted before. Also, you can look at doing joint promotions with other companies, offering money back guarantees and a host of other sales generation ideas. To achieve this you will need to make sure that you thoroughly analyse your business and develop a business plan.

Financial Forecasting Questions

Theoretical Scenario

The first part of this questionnaire looks at your revenue generating strategies. The following “what if” analysis is about getting you to focus on a few key areas and then examine the benefits that would be obtained if you focused on these key areas.

As an indication of the dramatic effects, what if you could increase your sales by 2%, decrease your cost of goods by 2% and decrease your expenses by 2%?

The answer: You would end up with a 38% profit increase. This example assumes that your company is currently operating with a net profit margin of 10% or less. It is interesting to note that the lower the net profit that the business currently has, the higher the multiple improvement through simple manipulation of sales, cost of goods and expenses.

“What if” Analysis

Enter your estimate of changes you could make over the next year.

	Your Answer	Sample Answer
Key Area of your business	By what % could you improve your performance in each area, with applied dedication?	
Sales		2% increase
Cost of Goods		2% decrease
Expenses		2% decrease

An example of the effectiveness of small movements in these key areas is as follows: If you could increase your sales by 2%, and decrease your COGS and Expenses by 2% then you would achieve a 38% increase in profitability.

Key Area of your business			
Sales	\$5,000,000	2% (increase)	\$5,100,000
Cost of Goods	\$1,000,000	2% (decrease)	\$ 980,000
Gross Profit	\$4,000,000		\$4,120,000
Expenses	\$3,500,000	2% (decrease)	\$3,430,000
Net Profit	\$500,000		\$690,000
%	10%		14%

38% Profit Growth

Client Details: Please enter your name and details in the boxes below.

Company Name	
Your Name	
Job Title	
Phone	
Fax	
Email	
Web site	

“What if” Analysis

The approach of single-mindedly focusing on specific areas can really help you to grow your business. The tool of simplicity that we use, based on the earlier Revenue Building Model, is to focus on moving your financial indicators by as little as 2% in a positive direction, to increase substantially your turnover.

Since Profit = Revenue – Costs, the only way to increase profits is to decrease costs or increase revenues. There is a limit to how far costs can be cut without affecting quality and service. But there is no limit to how far revenues can be increased. So to grow a business you must know how to increase revenues.

Answer in the boxes what you feel would be a conservative movement in these key performance indicators. The Report that we give to you at the end of this process will multiply your figures by this amount and show you what would be the resulting movement in profit.

Help: If you are going to increase your sales you could do this by increasing your number of clients. To do this you may consider focusing your products and services to new markets or experimenting with different types of promotions and either increasing your promotional spending or improving the type of promotions that you are doing. You can achieve an increase in the number of clients by launching some new products that target a type of client that you had not targeted before. You can look at doing joint promotions with other companies, offering money back guarantees and a host of other sales generation tools. In theory, it is all simple stuff. In practice it requires a lot of skill and knowledge. Above all, you must first thoroughly analyse your business and develop a business plan.

Tips: One of the ways that we often use to describe this “What if” Analysis is to describe a situation in which we assemble 100 very smart business people into a room. Over a three-hour period we ask these people to understand your business and brainstorm ways to increase your sales. If we did this, do you think we could come up with three or four ideas that could possibly lead to our small 2% increase in sales? When we present this question in group seminars, generally there is an acknowledgement that we would achieve a movement of at least 2%.

If we did the same thing and talked about reducing expenses and cost of sales, could we reduce these in your business by 2% over the next year?

Some of the areas that you may look at might include getting three quotes on all purchases, limiting unnecessary waste, restricting access to couriers and postage, updating old and antiquated IT systems, examination of bank fees charges and investment options, and perhaps negotiating down some of the advertising rates or even organising some co-op promotions.

With the “What if” Analysis, your objective is not to try and maximize your input into the Model but to try and minimize it, and think in terms of achievable targets of between 2% to 5%. When you receive your final Report you will see that a 2% or 5% increase in sales with only a 2% or 5% decrease in cost of goods and expenses, will result in a great return on investment and a tremendous multiple improvement in your profits.

Benchmarking Questions

Benchmark Analysis

In the previous sections we have looked internally to your organisation. It is often useful to see what levels of performance other people in your industry are achieving. This is useful when reviewing your staff costs, expense levels, or profit against other businesses in the industry.

The effectiveness of benchmarking is best illustrated from a sporting perspective. Whilst as a sporting team you can concentrate on strengthening your weaknesses and working on skills, it is not until you start to play other teams in the competition that you get an indication of how well you are performing. If your performance is dismal against your competition then everyone in the team needs to raise the bar. As is often the case in sport as in business, just realising that you are below par, sets new achievement levels which after a period of time become the performance norm. Every year athletes break records and strive to greater heights. The athletes that are most disadvantaged are the ones that don't get the opportunity to compete to a higher world standard.

This benchmarking analysis attempts to show you where you stand in terms of some of your performance standards. If you fill in the few questions we can give you a benchmark guide against other companies in your industry. Please note that this is only a guide and has many limitations. We strongly recommend that these figures not be relied upon in any way other than as a tool to probe for more investigation.

Benchmark Analysis

What Industry would you like to benchmark against? (Please tick the appropriate box)

Note: If you can't find your specific industry, then you can select the ALL category at the bottom.

Manufacturing	
Construction	
Wholesale Trade	
Retail	
Accommodation, Cafes & Restaurants	
Transport & storage	
Finance & Insurance	
Property Services	
Business Services	
Total Property & Business Services	
Cultural & Recreational	
All Industries	

What employee size would you like to benchmark against? (Please tick)

1-4	
5-19	
20-99	
99-199	
200+	
All Employee Sizes	

We are already able to factor in your sales, salary expenses and net profit from your previous answers. Please indicate below, your export revenue and your level of bad debts.

Export Revenue	\$
Bad Debts	\$

What is your average inventory level? This can be calculated as your opening inventory plus closing inventory divided by 2.

Average Inventory	\$
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Benchmark Analysis

What Industry would you like to benchmark against?

Help: As a business, it is important that you focus not only on what you are achieving but also what is generally achievable in the market place. Your accountant or business advisor may also be able to provide you with an insight into appropriate levels of profitability and growth from different sectors of your industry. What we've done in this Benchmark Analysis is to take the figures from the government statistics bureau and place them into a simple simulation model in which you can output a rough breakdown of export revenues, salary expenses, bad debt, other expenses, average inventory and purchases.

These figures should be used as a general guideline to what is happening in the industry and used as a discussion document.

We have access to a far more detailed series of benchmark statistics that are available for a set price per industry. Reliable benchmark statistics have been collected for over 80 industries and can be purchased on a case-by-case basis. Please contact Edensilk to ask about more information on these benchmarking guides.

What employee size would you like to benchmark against?

When we benchmark your organisation, it is not only beneficial to have a look at the industry category, but also at employee size. Smaller organisations have different cost pressures and proportional spending in specific areas than their larger business counterparts.

We are able to already factor in your sales, salary expenses and net profit from your previous answers. Please indicate below, your export revenue and your level of bad debts.

We have based our benchmarking figures on the total revenue figures that you indicated at the beginning of this questionnaire. What we would now like to do is have you list out separately your export revenue so that we can benchmark that against your counterparts.

Help: It is always interesting to look at your salary and bad debt level compared to other companies. If your bad debt write offs at the end of the year is high, then this would tend to indicate that your credit policies need to be reviewed. There are also ways to minimise the loss even if a debt has to be written off. One way, for instance, is to write on all your invoices that ownership of the goods will not be transferred until payment is made in full.

In terms of the salary expenses, this includes superannuation. If your benchmark report indicates a higher than average salary level, it may mean that you have too many employees which will reduce your output per employee ratio. The lower the output per employee, the lower your profitability. It may also indicate that you are paying a higher than average salary to your employees. In this case you may have inadvertently raised expectations above market reality. This can be further explored through discussions with your industry association about what they believe to be the average wage levels in your industry.

What is your average inventory level?

Help: To calculate your average inventory for the purposes of this benchmark comparison, get your opening inventory at the beginning of the year, your closing inventory at the end of the year, and divide by two. Whilst this is not the most accurate method, it will at least provide a guideline so that we can do an industry comparison.

Your inventory levels (in non-service based industries) represent an important performance indicator. The lower your inventory and the higher the number of inventory turns each year, then the better you are managing your cash flow. Businesses that do not manage their inventory well have lots of money tied up in stock as opposed to having that same cash available for investment into areas of the business that will grow the company. Simply having more cash available will result in lower overdraft rates as you need to borrow less.

Benchmark Analysis (cont.)

Based on your own practices please enter figures into the boxes below.

	Your Answer	Typical/Benchmark
Salaries as a percentage of total expenses	%	29%
Advertising spend as a percentage of total expenses	%	33%
Working hours per week		38
Working days per week		5
Working days per year		231

Help:

Salaries as a percentage of total expenses:

Unless you inform us otherwise, based on benchmarked information, we will assume that wages account for approximately 29% of your total expenses. You can alter salaries as a percentage of total expenses. For example, if you have \$300,000 in total expenses of which \$120,000 are salaries, you would enter 40 into the box above (ie $120,000/300,000 = 40\%$).

Advertising expenditure as a percentage of total expenses:

We need to know your advertising expenditure so that we can generate a number of KPI's (key performance indicators) in the report. This will include a calculation of the return on your investment in advertising and promotion.

Working hours and days:

We have set some default figures in terms of typical working hours per week, working days per week and working days per year. Unless you inform us otherwise, we will assume that there are 5 working days per week, the average person works a 38-hour week, and there are 231 working days per annum. The number of days per annum has been estimated as the total number of days in a year (365) less 4 weeks annual leave and an allowance for public holidays and sick leave. You may alter these assumptions.