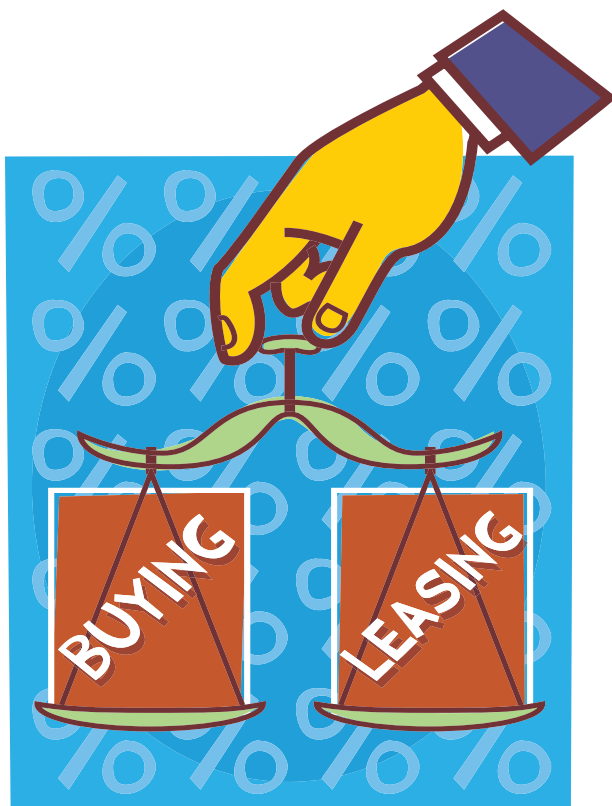


# Grow

## your business

### CONTENTS

Capital Assets – Would You Be Better Off Leasing Than Buying? .....	1
The Advertising Budget – Spending Money To Make Money .....	2
“What Sales Figures? Fred’s In Hawaii And I Don’t Know How To Reach Him!” .....	3
A Focus On Quality Puts You Ahead .....	4



## Capital Assets – Would You Be Better Off Leasing Than Buying?

There are often compelling reasons for a business to *lease* rather than *buy* capital assets. Leasing arrangements are a form of finance in which an asset is acquired by a third party, usually a bank or finance company, and then leased to the end user for a predetermined period of time. This arrangement means the business never actually has title to the asset for the term of the lease, although it is allowed to use the asset during that time.

In the usual capital equipment lease the term of the lease will equal the operating life of the asset and the repayments will be geared to the cost of the asset spread over that time, plus a profit margin for the lessor. The lessee is usually responsible for all ancillary costs related to the asset – insurance and maintenance for example. At the conclusion of the lease the lessee will often be able to purchase the asset for a predetermined amount if they wish, though in some lease arrangements the lessee is actually *required* to purchase the asset.

### Why would you choose to lease?

- Leasing assets avoids making the large down payment often necessary for asset purchase
- Leasing frees up company funds for other business outlays
- Since lease payments are usually fixed amounts at regular intervals, it simplifies predicting the cash flow situation
- Leasing reduces the amount of debt on financial statements; neither the asset nor the leasing costs show up on the business' balance sheet
- Leasing gives a business greater flexibility for upgrades or improvements to equipment
- And because leasing costs are tax deductible, taxable income is reduced

### What you'll need to consider

- The leasing company, not the business, gets the depreciation tax deduction benefit
- Leasing may be hard to get for new businesses that haven't yet developed a credit history
- It can be difficult or very costly to end a lease before it has run its full term
- Some leases come with a variable interest rate that can cause a significant increase in the amount of repayments if interest rates rise
- Leases at fixed interest rates can become relatively expensive if interest rates fall

Is leasing right for your business? The business never actually owns the



asset during the term of the lease, and the total cost of the lease payments will almost always exceed the cost of the asset involved. Leasing can, however, be one way of getting access to expensive equipment without a huge upfront payment and allow enough time for the equipment to pay for itself as it makes money for the business.

Start by assessing the capital assets your business requires; then look at options for financing and acquisition. Many vendors offer leasing arrangements on competitive terms with banks and other sources of finance. Once you have these details, consider the relative taxation advantages of leasing versus buying. If you have a profitable business and want to reduce the drain on your capital reserves that would occur from purchasing the asset, leasing could well be the way to go.

### The Advertising Budget – Spending Money To Make Money

Most businesses don't really know how much they *should* spend on advertising so, in the absence of any rational way of working out a budget, they simply use some rule of thumb method and hope for the best. And some of the most common methods they use just plain don't make business sense:

#### Spending what your competitors spend

If XYZ Company sells a similar product to you and their budget is \$20,000 then if you spend the same amount you'll be matching their presence in customer's attention. Fine – but all

it takes is for one new well funded competitor to enter the market and your sales are almost guaranteed to suffer. Pegging to competitors won't improve *your* sales and could leave you vulnerable to new players.

#### Spend what's left; the 'residual' method

Here, what goes into the advertising budget is simply what's left in the budget after all the other expenditures, from manufacturing to distribution, are accounted for. This method likely wastes money in years of high sales volumes through unnecessary advertising, and then doesn't allow for enough spend in years of poor sales.

#### Spend a fixed percentage of sales value

If a product's sales are truly predictable it's possible to set the advertising budget as a percentage of the revenues that product will generate. But if spending  $x$  dollars generates the expected sales level, what happens if the company spends  $x+$  dollars? If the business is certain sales won't increase, even if it spends more, does it also know what is likely to happen if it reduces its expenditure? Another problem with this method is that if it's used when product sales are in decline, then advertising support is taken away at the exact time it's needed to get sales up again!

What's happening in these methods is that the cart is going before the horse. Since the objective of advertising is to generate *sales*, then advertising expenditure should determine sales, NOT sales determine advertising expenditure – you need a budget that will allow you to promote in such a way as to GET THE SALES YOU WANT.

The reason most businesses don't do this is simple – they can't measure the relationship between what they spend on advertising, and what sales that spend generated for them. Here's how to do it:

1. Record a 'source' for every sales inquiry your business receives. It's best to determine the source of an inquiry at the very first point of contact. Make it compulsory for anyone taking an inquiry for a product to ask the prospect what prompted their call; and add a compulsory source field to any order/inquiry forms on your website.
2. Calculate the cost per channel. If you know the source of every sale, that is, which promotion the customer came across it in, then you can measure the revenue generated against the cost of that promotion – you have calculated the cost of sale per channel. It may be that newspaper ads cost less than your TV promotion, but the TV ads

brought so many sales the advertising cost per sale was less than for the newspaper related sales. Now you have some hard information, and not just about how much a sale costs you, but also which promotional channel is most effective.

3. Now, with this information you can calculate an advertising budget by multiplying the number of sales you want, times the amount you need to invest in advertising in each of the channels that worked for you – those that worked out with the lowest cost per sale.

Advertising is always best positioned as *an investment of money to create sales*. The future of most businesses, especially their growth, is largely dependent on how wisely they plan and execute their advertising.

### “What Sales Figures? Fred’s In Hawaii And I Don’t Know How To Reach Him!”

Good internal communications are an essential ingredient of business success. Companies that might be very good about communicating with suppliers and customers often fail to give their internal communications the same degree of attention.

Communications need to flow between people who are coordinating projects and managers to ensure the success of the business. They also need to flow from those who manage the business to the people they manage. Internal communications impact on three important areas:

- Decision making: all levels of management need accurate, timely and complete information to make the best quality decisions about the business
- Interdepartmental coordination: individual departments need to communicate with each other so that interrelated functions (like sales and manufacturing) work smoothly together
- Team information: keeping team members informed about company activities is an essential tool for motivation and retention

In internal communications between co-workers the emphasis is on the presentation and interpretation of facts, requiring an interconnected system of communication methods that enables easy sharing of information.

Effective communications should be linked to the objectives and culture of your business. These are the four steps to developing an internal communications strategy for your business:

1. Identify the strategy’s objectives
2. Audit current communications practices
3. Identify the communications audiences
4. Determine the communications methods to be used

#### Identifying objectives

The objectives of your internal communication strategy will depend upon the culture of the enterprise, its business goals and the particular challenges it faces. Typical objectives could include the following:

- To ensure that team members understand the organization's objectives and values and share in its culture
- To share information between members of management and between management and other team members
- To enable communication with all personnel at all times, regardless of location (including while traveling on company business)
- To enable on-demand access to company information with password protection for sensitive materials

#### Auditing current practices

Once the objectives have been determined you need to audit current communications systems and identify what additional pathways or technologies need to be introduced to meet them. Those who use the system and depend on it are well placed to assist in this task. Form a committee made up of team members from various parts and levels in your company to conduct the audit and make recommendations for improvements to the communications systems. Issues that need to be considered in the audit include:

- What methods of communication are currently being used?
- What information is being communicated in each channel currently being used?
- How well do present systems fulfill the communications objectives?
- What additional resources are required?

#### Target your audiences

Different methods of communication may be needed for different groups within the company. Some sections will require specific information not needed by other parts of the business. First, identify the various audiences – senior management, production personnel, sales and marketing for example, and the types of information each requires. Then determine the communications methods each audience needs to both send, and receive, this information.

## How To Make The Most Of Your Newsletter

Be sure to read each article with the mindset “How could this apply to our business?” Thinking of it that way will guarantee that you get value. Better yet, take notes as you read and commit to having the ideas implemented by the time the next edition arrives. Also, make copies for each team member.

To really make sure something positive happens, work with your business development specialist to talk your team through the ideas and how to set a schedule for getting them implemented. We’re here to help you get started.

### Memorable Quotation

“In the modern world of business, it is useless to be a creative original thinker unless you can also sell what you create. Management cannot be expected to recognize a good idea unless it is presented to them by a good salesman.”

- David Ogilvy

### An Important Message

While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.

### Terms Of Use

All rights to the content in this publication are reserved by RAN ONE Inc. Any use of the content outside of this format must acknowledge RAN ONE Inc. as the original source.

Copyright 2003 RAN ONE Inc.

### Set up the right communications methods

Thanks to developments in technology there is a wide range of communications methods you can use. The list includes fixed telephones, cellular phones, faxes, the internet, a company intranet, emails, regular meetings and the traditional printed pieces such as memorandums and newsletters. All business organizations use a variety of methods to communicate, and it's highly likely that most, if not all of those listed, have a place somewhere in your company.

Good internal communications will only come about through an investment of time and money. Information is a powerful business tool and making it accessible to those who need it is part of optimizing your business opportunities. Take the time to do a thorough evaluation of the communications methods and systems that will give everyone in your company the information they need, when they need it, and in the format they require. Then get some professional advice on the technology and equipment for the job.

### A Focus On Quality Puts You Ahead

A growing interest in quality has been one of the most prominent features of modern business. Poor quality goods and services are increasingly unacceptable to a demanding marketplace; firms without a quality focus risk being rejected in favor of quality conscious competitors.

### Meet the expectations of your customers

Working to achieve quality requires a total dedication on the part of everyone in the business. It's not just 'doing the best you can,' or turning out a product without flaws. It's about ensuring that every aspect of the business is up to best practice standards, from the way team members answer the telephone, to the after sales service the business provides.

Think about what happens when you purchase a product or service. You have expectations about such characteristics as its price, its dependability, its performance and its ease of use. Your perceptions of the quality of this product or service will be based on how well, or poorly, it meets your expectations. If it meets or exceeds them all, you will conclude you have made a 'quality' purchase. If it disappoints you in any way you will perceive it as inferior to what you expected. If all your expectations are met you can be sure this didn't happen by accident. Quality is only achieved by good business management and requires a lot of time and effort to make it happen.

### QC and QA – you need both

The traditional approach to achieving quality, quality control, or 'QC,' as it came to be called, is still valid and used by most businesses. This is essentially a process of inspecting and testing a firm's output and rejecting anything that's faulty. The biggest problem with quality control is that it only picks up flaws after a product has been made or a service has been delivered. This is expensive and doesn't really fix the cause of the problem with quality.

Quality assurance, or 'QA,' is a more cost effective approach. It involves designing and managing every step of the manufacturing and delivery processes in such a way that the possibility of quality flaws is minimized. Quality assurance begins right back at the stage of product design and continues from there. The product is designed to be problem free, along with the manufacturing process and the delivery system. Risks of quality troubles are minimized from the start, and the process receives ongoing attention to keep it that way.

### The seven steps to quality

Start by putting yourself in the position of your customers. What do they want? What are their expectations? Be objective so you can honestly say you know what you have to give them. Then take a long, hard look at your business. Look for everything that's wrong and make a personal commitment to fixing it. Now you're ready to base your management on these seven principles and give your business a true quality focus:

1. Share your personal commitment to quality with your customers, your suppliers and the members of your team.
2. Talk to your customers and ask what they think is important. Then be sure you give it to them.
3. Involve your team members. Ask them for their commitment and their suggestions on ways to improve the quality of your products and everything else you do.
4. Don't just correct mistakes; do whatever it takes to prevent them from happening.
5. Accept that quality will cost something and know that your customers will pay for it.
6. Make your service delivery systems better; there's always room for improvement.
7. Never stop looking for ways to be better at what you do.