



Beany

ACCOUNTING REIMAGINED

Knowledge
Insecure
in the
Information
Age

aka Five
Transformational
Information Points

Lack of knowledge creates uncertainty and fear

Not knowing what you don't know is stressful

What would you do if you knew more?

Imagine if you could access anything you wanted to know (you do, it's the internet)

Are there some secrets that would unlock the universe for you?

We live in the information age where knowledge is at our fingertips, right? But is that how it feels in your business?

We have all the technical tools necessary to receive, process, understand and use information, and we can quite often feel like we're at 'information overload' breaking point. And yet conversely, sometimes 'information uncertainty' can creep in... Is the information correct? Does it deliver knowledge that I can actually translate and use in my business? Is it just fluff?

Working without a solid foundation of knowledge can create stress and risk in your business. You need to establish what do you know and what don't you know. And then figure out what can you do about it the knowledge gap and who can you ask.

One of the key starting points when developing your business knowledge base is to answer this question:

If you could know anything about your business, what would it be?

Imagine you had access to all the information that you could possibly use to improve your business and you could also protect what you know... and use this Intel as a competitive advantage.

If you knew more, would you make more money?

TRANSFORMATION POINT ONE - Where do my sales come from?

If you knew with complete certainty where your sales came from, would that increase your business success?



For most businesses the answer would be yes... yet for most businesses understanding the answer to this simple question is incredibly complicated.

It's complicated because people are complex and their actions are often the sum of a number of different decision points.

A good place to start this information gathering is with your customers. For every single business, there are only two types of customers:

New and Existing

Let's assume for this question that we are mainly interested in new customers. The retention of existing customers is another (important!) topic.

How we gather new customers depends on the type of product or service that we sell and the different routes we have to market - so how we gather information about sales will also depend on the different market pathways. Broadly speaking there are 3 ways of measuring where sales come from:

- Digital Information
- Customer Feedback
- Measurable marketing initiatives such as discounts/coupons/referral schemes

Ideally, every sale you make should be part of an automated process so you can identify where the sale came from... although this may not be practical, depending on your business. If it is not practical then consider sampling your customers to give you this information.

The automated process should be able to deliver a dashboard of the relevant sales information that you can easily access and understand.

This sounds simple. It isn't. But it is possible.

You can start with collecting digital information via Google Analytics, Facebook Insights, LinkedIn analytics... this will help tell you where your customers are looking online for you and where you generate traffic and interest. These sites offer free support to help you with the setup or you can get someone who knows their stuff to help you.

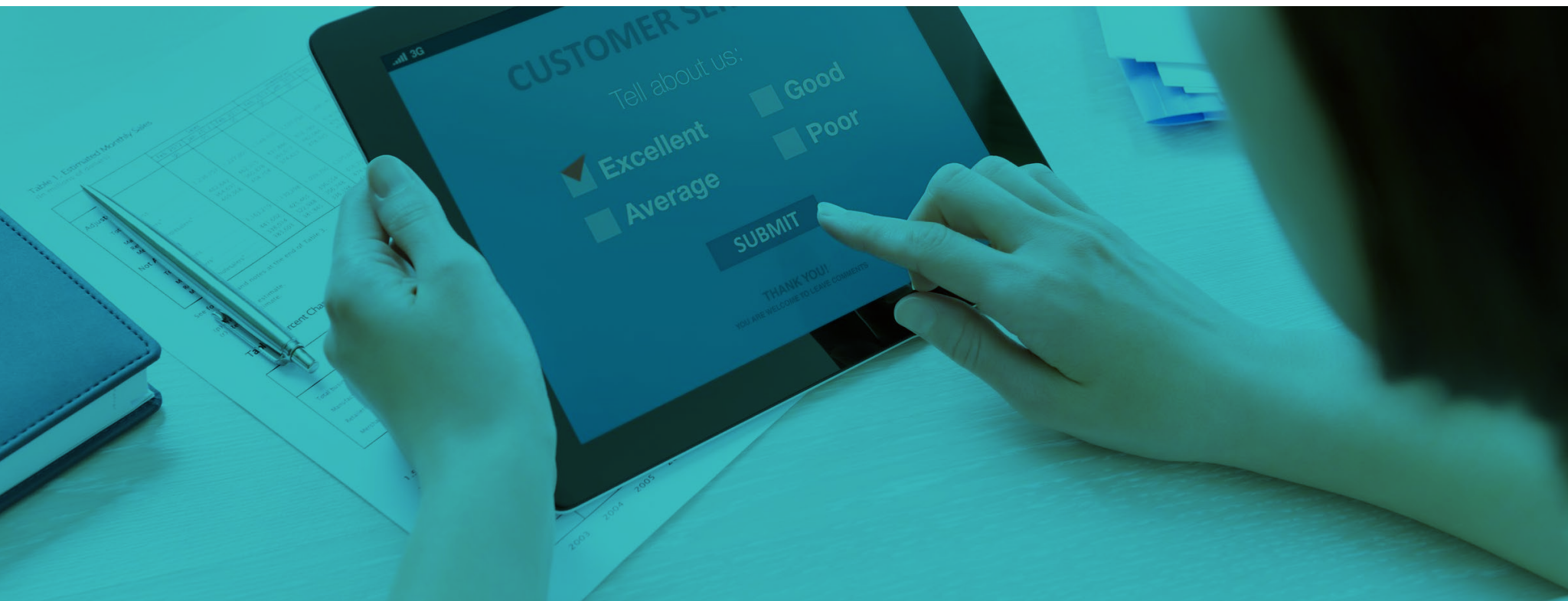
Collect customer feedback by asking them - create a constant customer feedback system, either digitally or physically, where they can give you information about how they found you and how they liked your product or service. Commit to the long haul with this - it is not a one off project but a continuous process.

Use marketing initiatives that can be measured - this can be a variety of means but always consider how you are going to measure the effectiveness of any marketing. Placing an ad is irrelevant unless you can track business from it. Use promo codes on all initiatives so you can do a monthly check on marketing spend versus cost.

From these three data points, you can create a customised dashboard of information which you check every week and review critically once a month:

- How are people finding the business online?
- How are people physically finding the business?
- What messages drive interest in your business?
- What converts that interest to sales?
- What is the cost to acquire each new customer?

This leads us into a whole new area of effective marketing - but the point remains, you can find out where people come from, why they buy and then use that knowledge to direct your marketing and sales efforts.



TRANSFORMATIONAL POINT TWO - Where does the money go?

One of the hottest topics asked of any accountant. You've made a profit of \$100,000 - where is it? There's no money in the bank and you're nervous about the upcoming tax bill.

This is where a good accounting system, and gaining an understanding about what those reports mean, can make all the difference. Knowledge gained from a degree of financial literacy can literally transform your business. You don't need to be an accountant but spending some time on the basics will provide a whole new level of comfort about your business affairs.

The basic principle is that for every bookkeeping entry there is a corresponding entry (double entry). First observed as a complete system in 1340 and then codified and developed by a Franciscan friar in 1494, it is essentially the same system now employed by Xero and all digital computer systems.

It's really good.

The profit and loss account records all the income and expenses of a business and, depending on their relationship, gives a profit or loss for a period of time (month, year). So when an accountant says, 'You've made a profit of \$100,000' that's what he's talking about. Only small complication is that it records all income and all expenses for that period, even if you haven't paid them yet. So you had the van repaired in March and we record the expense then but you didn't actually pay it until April. Profit is not always the same therefore as money in the bank.

The balance sheet gives information about what you did with the money. It records at a point in time (typically the 31 March) all the assets and liabilities of the business - what you have and what you owe. If you compare the balance at the beginning of the period to the end of the period, things will have changed to accommodate that \$100,000 of profit and because there is always an opposite entry, it must balance.

Sometimes when clients ask 'where is the money' it sounds like they are worried that there is a mistake in the profit. But because of the system, if there's a profit of \$100,000, we can always see exactly where it went - and it's not hard for you to see it either.

So you've made a profit of \$100,000 and there is no money in the bank? Check out the balance sheet, and you might find the following:

You've taken out drawings to pay your personal expenses	\$60,000
You bought a new Ute for	\$20,000
You have not been chasing your debtors and you're owed more than last year	\$30,000
You are a bit behind on your creditors which are higher than last year.	(\$10,000)
Total Movement	\$100,000

Understanding the relationship between your accounting information is important because you can then start to use it for change.

One of the key things you probably want to do is make more money and the starting point for that is always understanding how things stand now.

TRANSFORMATION POINT THREE - are your people productive?

People costs are usually one of the most fundamental parts of your business. Your wages bill is typically one of the larger expense lines and, typically, people also use a lot of your energy. To compensate for the cost, both financial and emotional, you want to make sure that you're getting what you need for the business.

The best businesses see their people as their greatest asset. It is the human component that creates success, or otherwise. As this is such a critical part of a business, we devote a whole ebook to it. However, this section is looking at some of the strategies to gain knowledge about how you are doing in part of your business.

Are you winning or losing?

You can look at this holistically, or drill down into the detail, or both. A good place to start is the comparison of your wage cost to your turnover. This is easy to calculate and even better, usually you can get an industry benchmark.

Take your total people costs, including PAYE (ie your gross wages) and divide by turnover to get a % then compare to industry standard. If you're working in the business, include a salary for yourself at the industry norm.

For example, Bob owns a cafe and takes drawings of \$75,000. If he were to replace himself in the kitchen and front of house, it would cost the business \$40,000.

Total gross wages per the Profit and Loss =	\$250,000
Nominal Salary for Bob	\$40,000
Total wage cost	\$290,000 ^{*1}
Turnover of the cafe	\$750,000 ^{*2}
Therefore the wage cost % = $290,000^{*1} / 750,000^{*2}$	38.7% ^{*3}
Industry Norm	33% ^{*4}
The difference $(38.7^{*3} - 33^{*4})$ of 5.7% = $290,000 \times 5.7\%$	\$42,750

From this, we could start to suggest that there are **potential savings to be made of \$42,750**, which would only get us to the industry standard. There may be other savings which could improve us even further. Bob might say he's happy with this over-run but if we were to imagine that saving put into Kiwisaver each year for the next 20 years, Bob would have an extra \$699,024 on retirement.

It's worth thinking about.

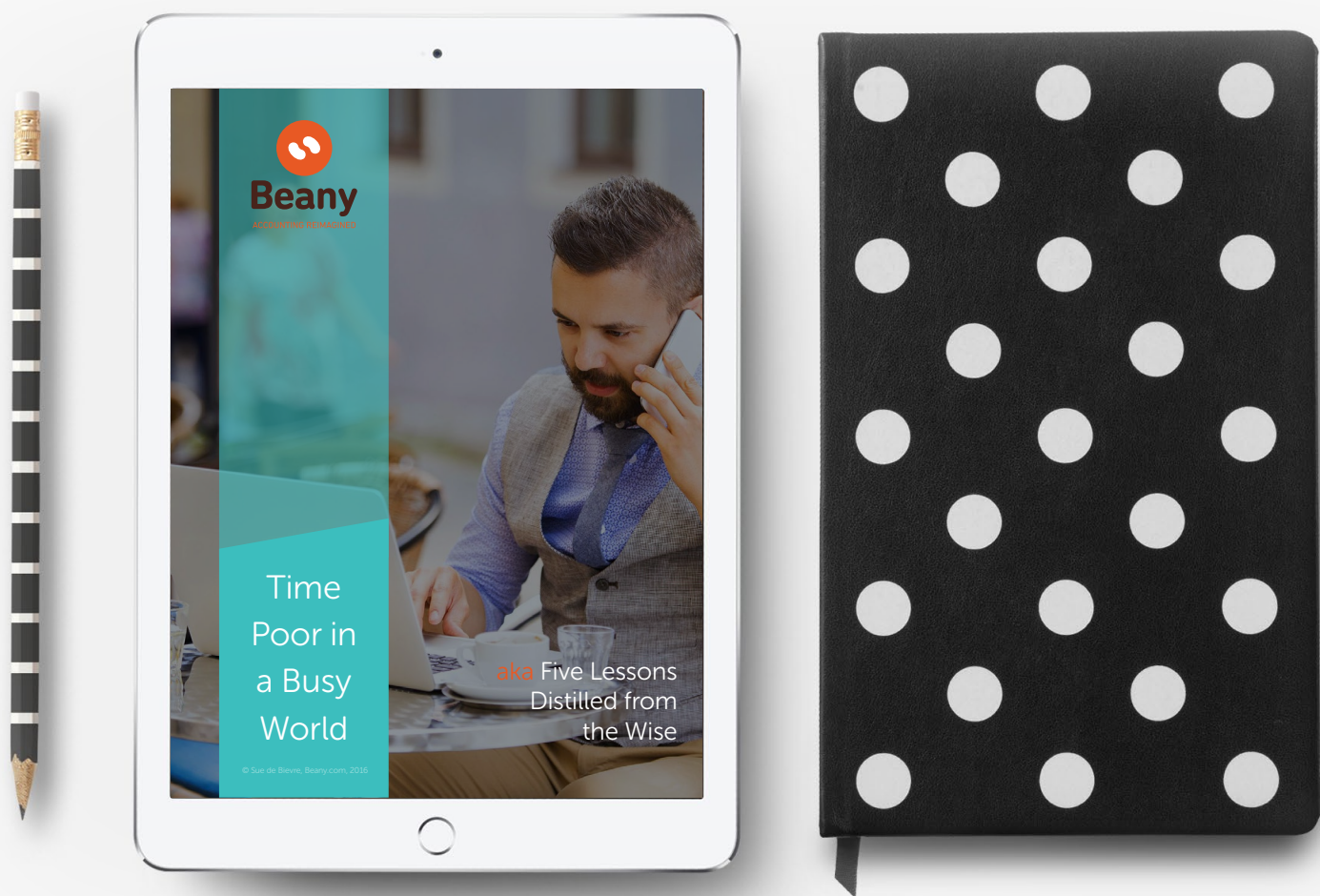
There can be a number of reasons why the cost to turnover ratio is not at industry standard:

- Your prices are too low
- You have underskilled people that are not working optimally
- You have too many people for your turnover
- You are paying above industry standard
- Your people are not well managed

To acquire the knowledge as to why your business is not performing to the industry standard, then it is a question of working through all areas to establish the cause.

Once an understanding is gained of the size of the issue and the causes of the issue then a plan can be put in place to improve your productivity. Check out our ebook on this topic for more information.

But it all starts with the knowledge of where you sit relative to your competitors.



TRANSFORMATION POINT FOUR - Information systems to build knowledge

The above three sections deal with specific areas of knowledge that are important for most businesses - but all businesses have unique requirements that fall outside of these key, generic areas.

These are the key indicators for your particular business or sector. You will intuitively know what they are for your business. For example, for a hairdresser, it may be the number of seats you can have in your space and the amount of people you can get through those seats each day. Upselling to your customers may also be a key component of your sales mix. How are you capturing this information? Traditionally hairdressers had a large manual book with bookings scribbled under each hairdresser. Nowadays, hairdressers will use different software to capture this information such as Timely. This provides a much wider bank of knowledge from which to manage the business.

Ideally you can choose industry specific software which will link with your main accounting software to prevent the need for data being input multiple times.

Here's a list of steps you can take to improve your systems:

- Consider what you need to know specifically for your industry or business and document your requirements
- Consider what information you need that is generic to any business
- Do a stocktake of what you're currently using to accumulate information by listing all the different systems from your accounting system to your booking system to your job recording system. In this stocktake, consider whether you're double inputting anywhere and how much of the process is manual. Also consider whether you are getting the information that you want and document gaps in your knowledge gathering.
- Research options online, looking for integration opportunities - by having your software talking to the other parts of your system, it prevents inputting information twice, or more.
- Check out the range of options and the costs of those options


Once you have all the above information, you can start talking to 'experts' about what you want.

'Experts' are in apostrophes as one of the key difficulties for non-technically minded (speaking on their behalf), is finding people you can trust in this area. It is not enough that you trust them in the sense that they will do what's best for you - but also that they know what's best for you.

Many so called 'experts' are carefully disguised salespeople and many are simply not up with the play. Many software companies incentivise re-sellers with money to recommend their product - this doesn't have to be a problem - but it's a good question to ask - are you paid money to sell this product?

You can also ask around from your business networks, business associations and professional supporters, however always be prepared to do your own analysis in the end.

Like any business problem, the more prepared you are, the better the outcome is likely to be. Avoid custom built solutions unless you are really confident that there is no other solution and you have done a cost:benefit analysis on it. Custom builds have a way of getting away from the original need and consuming vast amounts of time, energy and money. There are so many great off the shelf solutions available online now.



Generally speaking the more systematised you are,
the better your business will run - it's worth spending
some time on this.

TRANSFORMATION POINT FIVE - Human systems to implement knowledge

Once your seamless knowledge system is delivering good information to you, that is the beginning of its usefulness. What do you do with the information then?

Many people hold the secret belief that if only they knew what the rich people knew then they could achieve success. That there are secrets that would un-lock the financial universe - this is why we sometimes suspend our disbelief and sign up to new schemes and plans.

However, successful people will tell you that, in general, success is built on the slow accumulation of good quality knowledge, experience and, fundamentally, action.

It is not enough to know, although this is better than not knowing, you must use your new knowledge to change, react and respond.

Business knowledge gained from your business, compared to your industry, and finally out to the wider economy provides the key to ultimate success.

As an example, consider an electrician who has been working in his field for 25 years and has a great technical knowledge and can fix anything electrical. He has manual job cards, a manual health and safety system which he wishes his 3 employees would use properly and an accounting system which is loaded onto his desktop.

It's all working fine and he's making \$80,000 per annum but works long hours to achieve that. He also worries that one of his employees could have an accident.

Or he could buy an online accounting system that integrates with a job recording system and add on an online health and safety system. His employees could have a clip on on their phones so that billing and payment could be done at the customer's gate before leaving. This new software costs \$75 per month.

He could also see monthly how he was doing and how each of his employees was doing and he could reduce his data inputting time by 20 hours a week, thus saving \$2,000 per month at \$25 per hour in administrative time.

And now he can see, he can implement a system of monthly review - he can check who is producing the most money for him, where he can make savings, whether he can afford to take on someone new now his health and safety processes are sorted out. He can take this further out to consider how is he doing compared to his local competitors and start to make a plan to expand, consolidate, consider exit options and retirement.

Knowledge is power in a very literal way and
it's not just for the super wealthy or large companies
- it is for all of us.

Step Through Diagnosis of Knowledge Insecure in the Information Age

How to know almost anything about your business...



Understand where your sales come from - collect digital information and feedback.



Understand where your money goes - get a good accounting system!



Understand how productive your people are - they are your greatest asset!



Now you have it - You must use your new knowledge to change, react and respond.



Get a good information system - make sure it links to multiple aspects of your business.



Get Started with Beany to show you how



Change to **Beany**



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