

“There’s nothing I don’t know about running my business” said the prospect to the consultant.

By Chris Frith

In our prospecting for clients, we occasionally come across the response: “I’ve been in business for (insert 5, 10, 15) years, there’s nothing I don’t know about running my business.” It may surprise you to learn that the prospects that say this often become some of our best clients!

A Strategic Audit is a check on the strategy of the business, not its day-to-day operations.

The aim of a Strategic Audit is to identify areas of improvement and opportunity, so as to generate a long term advantage for the client. It is not a contest between the owner and the consultant for who is right and who is wrong but rather, a systematic way to unlock the intrinsic knowledge of the business from the owners, management and staff.

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The reason we don’t shy away from responses such as the one above is that the fact that the business has survived for a number of years tells us:

- the business must be meeting a genuine need;
- the businessman’s strengths have underpinned its survival; and
- operationally, more things must be going right than wrong.

But business longevity is not the same as success. Success is measured in terms of whether it’s meeting the goals of the owners and stakeholders. There are plenty of businesses that have been around for years where the proprietors make less than if they were employees. This is fine, provided the owners are looking for lifestyle, but more often than not we find these people are spending so much time in their business, they don’t get to have a lifestyle; often to the detriment of their health and personal relationships.

... business longevity is not the same as success

Finally, the age of a business doesn’t guarantee sustainability. Businesses must continually check their alignment with the market in order to

survive. There’s no point being the best black and white TV technician, if everyone’s now got plasmas!

Delivering value

A Strategic Audit delivers value in three basic ways:

- it tells you what’s working in your business and most importantly where the areas of improvement lie;
- it can identify short-term revenue improvement opportunities; and
- the process forces you, the client, to step back from the business and take a broader perspective – i.e. working on the business, not just in it;

The purpose of this article is to give a flavour of what a strategic audit is, how it works and illustrate the ways it can add value to your business.

A Strategy is not the same as a Business Plan

Over the years, we have met and worked with literally dozens of business owners. At one time or another, many of them have written a business plan. But very few of them have a working business strategy. A business plan and a business strategy are two very different tools. A business plan normally is prepared for a financing partner, either a bank or an investor. The purpose of the plan is to let investors know about the business and its potential for success in order to encourage them to invest in the business.

A business strategy is quite different. Rather than



How a Strategic Audit delivers value



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a document for investors, this is a plan for the owner to follow. It begins with an evaluation of the business' goals. Where does the business owner want the business to be in 5, 10 or 20 years, both in terms of fair market value and cash flow? What are the plans for exiting the business? Will it be sold to an outside party or to key employees, or will it be turned over to the owner's children?

Strategic Audit customers

There are two types of Strategic Audit customers – those that have an existing strategy in place and those who are looking to establish one.

For those with an existing strategy, we look to see how the business is performing against its objectives and to check and adjust if necessary, the overarching principles that guide the day-to-day business operations based on the current market.

What if you don't have a formal business strategy in place?

Having a well thought-out strategy keeps your business focused and on target while implementing and tracking a list of actionable tactics ensures real results.

The Strategic Audit provides you with the inputs for your business strategy. A business strategy can be considered as a long-term action plan for achieving a goal. During the strategic audit process, we get you to take time out and think

about what you are trying to achieve in your business, as part of our questionnaire. Once your goals are identified, the audit process uses your current business performance to identify the strategy that will enable you to achieve your objectives.

A story in two parts

A strategic audit has two parts: the first *State of Play* focuses on the current performance of the business—what's working and where the areas of improvement lie. The second—*FutureRoadmap*—makes recommendations on closing the gap between where your business is today and what you are trying to achieve.

The State of Play has an emphasis on identifying trends and anomalies in areas such as:

- current revenue, customer and expense profiles
- product performance
- sales force efficiency
- alignment between company strengths and characteristics of market being served
- risk and threat assessment

Our FutureRoadmap component is a major source of difference between us and other providers of strategic audit services.

Many providers simply produce a multitude of automatically generated reports that lack context. Typically favoured by accountants and





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mass production houses, these reports rely heavily on financial data without taking into account the context of the business and the market it faces.

If the overall aim of a strategic audit is goals and objectives, then we believe best value is derived where the analysis and recommendations are tailored to your specific needs. For this reason, we place great emphasis on using a questionnaire to capture what you are trying to achieve, the opportunities and threats that you face. Typical issues we have addressed in the Future Roadmap of the strategic audit include:

- Inability to break through— taking the business to the next stage
- Cash flow issues
- Owner becoming bottleneck in businesses growth
- Owner looking to retire

Thus our FutureRoadmap uses the findings from the State of Play to create a plan to overcome the business' weaknesses and use its strengths to create the desired outcomes. The FutureRoadmap concludes with the Action Plan.

The Action Plan is the "how" - i.e. the tactics required to implement the strategy. We talk about how to successfully implement your Action Plan in a later section.

How does a Strategic Audit work?

To show how a strategic audit works, let's use a formula that I am sure you are familiar with - the profit equation.

The Profit equation (see below) shows us that if we want increased profits then we need to either increase revenue, or decrease expenses (normally it's difficult to focus on both at the same time).

$$\text{Profit} = \text{Revenue} - \text{Expenses}$$

Focussing on revenue for the moment, we break it down to its components as shown:

$$\text{Revenue} = \text{No_of_Customers} \otimes \text{Average_Spend}$$

Studies show that higher profits are generated by businesses that make the explicit strategic choice between whether they are a volume business – i.e. high number of customers, lower spend (e.g. an IT company servicing the residential market), or a lower number of high value customers (e.g. a Systems Integrator specialising in the mine sites). Those businesses that try to do both (or don't make a conscious decision either way), tend to not reap the rewards of either strategy, resulting in reduced profits.

Why? Trying to straddle the strategic fence increases expenses. A high volume business needs infrastructure, processes and procedures to service each client in the most economical way, whilst preserving customer service levels. A low volume business needs to devote resources (e.g. sales,

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A strategic audit is not about finding right and wrong.

marketing) to maintaining and enhancing the relationship with its customers. Problems arise for example, when you have a business devoting expensive sales resources to accounts which are unlikely to ever yield the returns necessary.

A strategic audit asks the questions and then checks the answers

A Strategic Audit asks the questions and then compares the answers against what is actually happening in the business. Sometimes it can be hard for business owners to see the forest for the trees.

It's important to note that a Strategic Audit is not about finding right or wrong. In the example above, both strategies (high volume/low spend, low volume/high spend) can work, but there will be one that is a better fit for your business' strengths and weaknesses, the market you serve and what you are trying to achieve.

For those clients that have made a strategic choice, the audit examines the profile of current customers to look for trends in terms of numbers and average spends. Often we find that the customer profile has changed over time from what underpinned the initial success of the business and so we look to find out why this has happened and whether it is desirable. These changes can be quite subtle and easily overlooked in the hurly burly of day to day operations, where staff are working to achieve a particular revenue target.

For those clients looking to use a strategic audit to establish their strategy, we examine which of the customers represent best fit for the business and use this as an input to our recommendations.

What opportunities are you missing?

A Strategic Audit can also help you identify opportunities for increasing revenues within your existing business. Part of the profiling your customers involves looking at what they are purchasing. Often we find that the top 5 customers don't purchase the same services from you. Why is that? What if you were able to get your number 3 customer to purchase an additional product/service from you? From the revenue equation above, you can see that average spend would increase and therefore profits. In this way a Strategic Audit can often pay for itself.

Just to take this a step further. A Strategic Audit also looks at why your best customers buy from you and then asks the question: are there any more like these? Often, the best way to increase revenues is to target customers that look like your (best) existing ones.

The journey: almost as important as the end itself

One of the biggest challenges facing business owners and managers is taking the time to stand back and reflect on where the business is heading. All too often 'the urgent' captures our attention almost to the exclusion of 'the important'.

The impact is that the business can drift off course.

Strategic Audit process forces you to stop and reflect on where your business is and where you want it go. To succeed, business owners need to devote time and energy to working on the business, not just in it. AUSPresence provides you with the level of clarity needed to maximise your business'



How a Strategic Audit delivers value

Stay flexible when implementing your Action plan..

potential and the method to keep track of your progress going forward.

Getting the most from your Strategic Audit

The way you approach a Strategic Audit will greatly impact the value derived. Only you know what you are trying to achieve in the business, we can guide you, give you options, etc but ultimately you need to be engaged to make sure the audit reflects your business.

The questionnaire is vital to the Strategic Audit process, use it as an opportunity to reflect and not see it as a tool by which you will be judged—remember it's not about right or wrong, just best fit for your situation.

Putting the Action Plan to work

Once the Action Plan from your Strategic Audit is in place, it's time to begin implementing your business strategy. This includes building your team and developing the reporting mechanism to monitor progress. You may decide to do this yourself, or have your consultant assist in this process.

Team building

When building your team, be sure to have clear agreements in place with each team member regarding their roles and responsibilities towards you and your business. Clear communication is essential to implementing a successful business strategy.

Reporting

Be sure that the reporting is set up to give you the information you need to enable you to monitor progress. This reporting doesn't need to be onerous and can be managed on a spreadsheet detailing actions, responsibilities and progress.

Take care not to include too much detail, saving on production time and improving the chances of someone reading it. We encourage clients to only

include as much detail as necessary to be meaningful.

It is a good idea to split the report in two, with progress on actions at the base and issues requiring attention at the top. Then at your progress meetings, devote the bulk of your time to resolving the issues listed.

Good reporting is good for business. We find the discipline of monitoring progress on the Action Plan has additional benefits in the wider organization. Often businesses only have financial reporting, which is accessed by few members of staff. The good thing about Action Plan reporting is that it can have a wider circulation which helps with staff engagement in the change process.

Stay flexible

When implementing your Action Plan, it is important to closely monitor progress and remain flexible, as you may need to adjust to the conditions of the market. For example, your strategy may include multiple locations. Your initial tactic may be to acquire other businesses like yours in strategic locations. But you may find that there are not qualified or motivated sellers in your targeted locations. You may have to change tactics and build your own office in your desired location.

There's nothing I don't know about my business...

As we have seen that may well be true, but a Strategic Audit can put you on the right track to achieve your goals more quickly.

Why not give it a go?

For further information on how a Strategic Audit can benefit your business contact AUSPresence: inquiries@auspresence.com

