Show notes for "Start with the money"

KPPM STRATEGY

Business Planning for Visitor Information Centres

2021 SA Visitor Information Centre conference

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1. Do you know where you're going?

Does your VIC have a strategic plan?
Or 'What do you aim to achieve in the next five years?"

How are you planning to respond to:

- VIC audit standards
- South Australian Regional Visitor Strategy
- Big picture changes (e.g. more people travelling locally)
- Your region's unique challenges, opportunities and priorities (see RDA Roadmap)
- Your funding partners' strategic and business plans
- The known unknowns (like COVID and bushfires)

Do you know:

- Who's paying for what (labour, capital works, utilities, rent)?
- Profit and loss on merchandise, charged services and commissions (taking labour and on-costs into account)?

WHAT DO YOU NEED TO DO BEFORE YOU START YOUR BUSINESS PLAN?

2. Start with the money

Because if the money doesn't stack up, you don't have a business. Most business plan templates start at the wrong place. Don't waste time, start with the money and then explain how and why.

'*Aha!*' I hear you say, '*We don't have to make a profit, we get government funding*.'
If you receive funding, the 'loss' in your P&L is the level of funding you need to survive.
'*That's rubbish, we get a budget and we spend it*.'
So why do you need a business plan?

Real money, guestimates or fairy dust?

a. If your business plan is going to be useful, you need to know what things cost: real money (evidence), guestimates (what's the cost of not getting the evidence?), fairy dust (don't waste our time).

b. If you haven't got the systems to give you this information, make sure 'Effective systems' are included in your strategic plan.

Sunk and capital costs

a. What capital costs (investment in infrastructure) or sunk costs (the cost of running the business or project until income covers expenses) will you have over the next five years? The answer will be in your strategic plan. For example, are you planning a major facilities upgrade or move, IT investment, service expansion?

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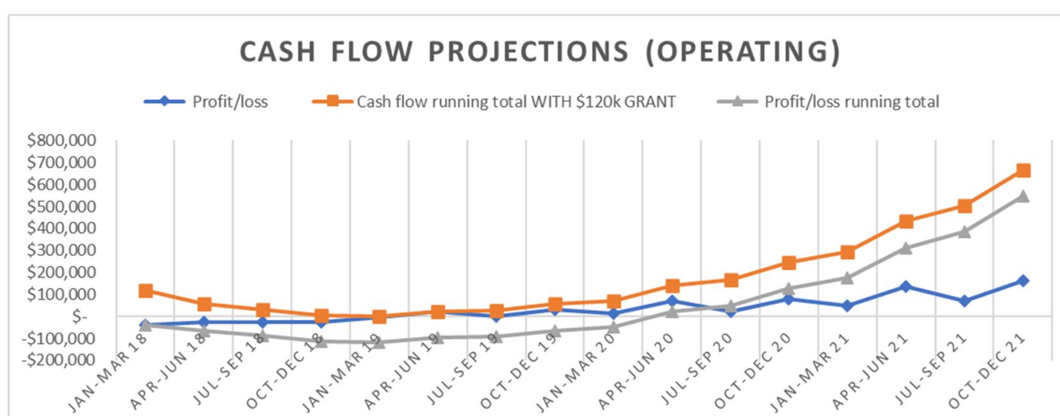
b. If your business needs to repay its sunk costs (i.e. if you don’t have an investor willing to lose that investment), sunk costs are included in fixed costs (see below) and amortised over several months/years.

c. If capital or sunk costs affect your operating expenditure (e.g. a larger building means higher utility costs) or income (higher sales because you have more merchandising space), the operating impact is shown in your Profit & Loss (income/expenditure), otherwise capital costs are included in the Balance Sheet (which is a statement of the value of assets owned by the business less its financial liabilities). If you are a Council-run VIC, your capital assets will be monitored by Council. Generally VICs only need to worry about capital investment in relation to changes in income and expenditure.

d. The date when sunk and capital costs as well as daily operating costs are covered by income is known as ‘break even’. In the graph below, the length of time before income exceeds expenditure *without a start-up grant* is 2.5 years (grey line). The highest cumulative loss is $117,850 in Jan-Mar 2019, after which income starts to reduce the losses, but it still doesn’t break even (i.e. continually trade in surplus) until Apr-Jun 2020.

e. The highest cumulative loss ($117,850) is the amount of start-up funding needed. The orange line shows the trading situation with a $120k start-up grant, which allows the business to trade in surplus at all times.



Why am I telling you this?

If you’re looking for a big investment in your VIC, you need to be able to demonstrate how it will affect the bottom line. This is the basis of a feasibility study: Is it worth the investment overall, and how long before the investment starts to pay back?

Capex and Opex

a. Capex is capital expenditure (see above), Opex is operating expenditure (keeping the business running on a day-to-day basis). For most VICs, the focus will be on Opex.

b. Start with the revenue you can generate, then take off the costs of running the VIC. This is the operating ‘bottom line’, or the Profit and Loss (P&L). If you are making a loss (and it’s almost certain you will), the ‘loss’ is the amount of funding you need to survive.

By starting with the money, your funding partners can see how you’ve arrived at the level of funding you’re requesting.

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Fixed and variable costs

a. Now we’re down to detailed budget planning. Fixed costs are expenses that don’t vary with activity, e.g. rent, insurance, core staffing. Variable costs change as demand or sales change, e.g. stock purchases, casual labour, consumables.

b. Why bother to separate fixed and variable? Because you can adjust the inputs into your variable costs (e.g. cost to purchase stock, markup/margin, sales volume) to see what difference they make to your business. The holy grail of retail is high margins, high sales. You need to know your stock/services well if you’re going to maximise revenues.

c. If you were running a retail business, your sales would need to cover all fixed and variable costs (as well as repayment of sunk or capital costs). VICs generally don’t need to cover sunk/capital costs, but you should be factoring in all reasonable costs associated with selling products or services, e.g. staff time to order/receive, delivery charges, cleaning and utilities (if you’re charging for use of space), bank fees. In simple terms, the price for each item should cover all costs associated with ordering, transporting, displaying, selling, packaging and bookkeeping.

d. You are only making a surplus on a particular product or service if you’re covering all relevant costs (not just your purchase price, or the cost of labour to deliver the service).

If you’re not making a profit on an item or service
(except for free visitor advice of course),
stop doing it!

A happier bottom line

a. When developing your P&L (income/expenditure) don’t assume that your first answer is the right one. It’s just telling you where to look to increase revenues, decrease costs and find efficiencies (especially in labour costs).

b. Tied grants (i.e. those for a specific and targeted purpose) usually cost you money because most grants don’t cover operating expenses. Be careful to read the fine print, and only go for grants that deliver against your strategic plan and don’t bleed you dry.

3. Providing value to your investors

a. The ‘assumptions and rationale’ in your business plan are one of the most important elements. Use this section to explain why you used certain figures, and how you calculated them. If you’ve provided a good explanation, stakeholders will have a higher level of trust in the plan. If someone does question how you got to a certain figure, you have the explanation at your fingertips and you can easily change it if needed.

b. Just because you’re providing a free service, doesn’t mean you can’t measure value. In simple terms your value is:

Your cost to your funding partners (usually Council and SATC grants)	$250,000
Divided by the number of visitors you attract/help	15,000
Cost per visitor	$16.67

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You should also calculate economic value – usually shown as the increased value to the local/regional economy as a result of your service. The examples shown here have been rounded to make it simpler, but you would be looking to SATC or your RDA for the average daily visitor spend for your region; you know how many visitors you help at your VIC (actual advice, not door count); and there are various estimates of the added spend resulting from VIC advice. In this example, VIC contact doubles the average daily spend ($200 before VIC contact) for 15,000 annual visitors who stay an average of 2 days.

Economic benefit (2x daily spend x no visitors x average stay) $12m

Your funding partners want to know their ROI (return on investment). That’s a simple calculation of total economic value ($12m) divided by investor funding ($250k) = 48:1

Investment multiplier (value of $1 funding in regional eco outcomes) $48

You can also include economic multipliers (i.e. flow-on effects), but it’s often difficult to pin down a good multiplier and these estimates tend to be very ‘rubbery’. Where possible, stick to measures of value that are widely accepted and easily justified.

The data in these examples can help to justify your funding partners’ investment, but don’t get them mixed up with the dollars and cents of running your VIC business.

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4. Translating it into action

Write the plan in this order, cycling back to adjust the $$ each time you find another question that needs to be answered, or you get more information that helps you shift from fairy dust to real money:

1. The assumptions and rationale for the figures in your spreadsheet.
2. The economic value to your investment region.
3. Stakeholder expectations/funding obligations (are these reflected in the $$?).
4. Priorities for the forecast period (are these reflected in the $$?).
5. Operating environment (have you been too optimistic/pessimistic?).
6. Action Plan (who does what, when to deliver the business plan).
7. Introduction and Executive Summary, and anything else your funding partners want covered (e.g. Effective Human Resources).

Your business plan establishes your action plan, KPIs, and forms the benchmark for reporting.