

# What's your business model?

Let me tell you about a small family-owned company in the housing industry that I recently advised. Their story was similar to many other small family-run businesses – despite working long hours, their bills were piling up and debtors were taking longer to pay, and as a result they were being chased by creditors and sinking deeper and deeper into debt.

Located in a regional area, their situation was made worse by a handful of larger players, whose size gave them the purchasing power to quote prices that made the smaller players unable to compete on level terms. I must point out that I am not claiming that the price advantage of the larger operators was being used in an anti-competitive manner; rather they simply had the purchasing power to quote products at a lower price and still maintain adequate margins to sustain their business.

The important point, and one that I want to explore, in this story is their business model. When I looked at the market they are in you could say that they had their 'finger in every pie'. Let's say they specialised in roofing. New roofing – sure! Re-roofing – no problem! Repairs – yeah we can do that! In fact, they would take on just about any job that came their way – as long as the client was willing to pay.

When I first met with the family, I asked them a series of questions about their business model including:

1. Why do you provide such a wide range of services?
2. Given your services vary so much, how do you cost them?
3. What are your margins on the various types of jobs you do?

Their answers were along the lines of:

1. Cashflow – if we don't have work, we have no cashflow.
2. It's pretty well accepted in the industry that X job costs this per metre and Y job costs this much, etc.
3. I don't know the actual margin on any job, but if we get, let's say, a roof restoration it always pays better than a new roof.

Here are three important points that I want you to take from this story:

## **Cashflow is not about winning jobs**

Cashflow is about managing the cash that comes in and goes out of your business – it is not about winning jobs. If a job costs you \$310 and you only quote \$300 for the job, cashflow is irrelevant! As I mentioned earlier, the business was being strung out by debtors and having issues with creditors, so their cashflow was never under control.

## **Industry norms are great, if you can rely on them**

Only rely on statistics that specifically address your market and are from a reputable source when benchmarking your business. It is much better practice to analyse your own figures to find out why certain jobs paid, and why others made a loss.

If you haven't analysed your business and determined what jobs pay, how do you know what work to source in order to make your business profitable? This is always the most significant contributor to business failure – when a business doesn't know its market or costs. Get to know your market and your costs!

## **All business is not good business**

Don't accept jobs you don't want or don't need. To be a successful business you must know your market – you can't be everything to everyone. Only accept jobs that you will make a profit on. Why not take some time over the holiday period to consider the above concepts in relation to your business model. If you need help with your business model, enlist the help of an advisor – every business can benefit from support and advice.

**Michael Georghiou, MGI Brisbane, uses this recent client's story to illustrate the importance of knowing your business model.**

*If you require assistance implementing some of the above ideas, call the team at MGI Brisbane on (07) 3002 4800 or email to [info@mgibris.com.au](mailto:info@mgibris.com.au).*

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