

# Drums made easy

finds out what your financial couple of basic equations

usually move faster than high-margin goods.

"You can also break this ratio down to specific line items to find out what is happening in the business and to create norms for yourself. Find out if your stock levels are correct and where you can free up some cash by holding less stock."

Stock turnover ratio:

$$\text{Times per year} = \frac{\text{cost of sales}}{\text{closing stock}}$$

Stock turnover ratio:

$$\text{Months on hand} = \frac{\text{closing stock} \times 12}{\text{cost of sales}}$$

## FOOD FOR THOUGHT

The idea behind investing in a business is to make more money than if you left that cash in the bank. But this also means that a business owner or shareholder must be compensated for the risk of investing. Generally, the higher the risk, the greater the return.

The profitability ratio will show what the return on investment comes to:

Return on equity =

$$\frac{\text{Net profit after interest and tax}}{\text{Ordinary shareholder's interest}}$$

**'One of the pitfalls of being over-indebted is that the turnover needed to break even is higher because of the cost of the debt'**

Net profit after interest and tax can be found in the income statement whereas ordinary shareholder's interest is a combination of capital and reserves and shareholder's loans in the balance sheet.

Different industries and operating environments influence the percentage this ratio comes to, but a rule of thumb is 30% return on equity.

Christo says that most financial institutions will take your financial statements, punch them into a computer and look at some of the ratios spewed out before considering your application for funding.

In addition, you can use several other ratios to make the business more streamlined and profitable.

An example of this is calculating efficiency ratios — such as the profitability of the business per employee or, in other words, the productivity of each staff member.

Rent as a percentage of turnover is another important ratio. If this is higher than 18%, you are either paying too much, or your premises are too big, Christo says.

Staff cost to turnover can be used to investigate a business's profitability and competitiveness. This comparison must stay constant or decrease. If it increases, there is a problem that needs to be addressed.

Lastly, Christo says, a business's total operating expenses should be less than 50% of the total turnover.



Picture: GETTY/GALLO IMAGES

ratio comes into play, and Christo explains that you can work this out in two ways, to either find out how many times stock was turned in a year, or how many day's worth of stock you have on hand.

Each industry has norms on how quickly stock needs to be turned. In the alcohol business for example, items such as beer need to be turned every two weeks, while a fuelling station in an urban centre will move its liquid gold every five days.

Christo says: "There are no hard and fast rules because location and industry nuances apply. But there are some guidelines: low-margin goods

## IN BRIEF

### GDP confirms recession is over

SOUTH Africa's gross domestic product may have grown by 3.2% in the last quarter of 2009, the second positive figure in a row which points to the possibility of the recession being over. It looks as if export sectors, such as mining and manufacturing, are leading the way in the recovery.

André Roux, head of fixed income at Investec Asset Management, says this will give minister of finance Pravin Gordhan confidence "that his recently announced revenue targets are well within reach". André says "there is every chance" that revenue might exceed estimates.

But, he says: "We should have seen a much bigger quarter, given how far the economy fell in the early parts of last year. It is also worrying that the government sector made an unusually big contribution in the quarter, which is probably not sustainable."

### Out with the spam

If you are tired of e-mails promising you a lottery win or a bogus SARS payment, then get your ISP to block the spam, says Mweb's general manager, Carolyn Holgate.

And anti-virus software for small businesses is not negotiable, she says. Get software to protect your computer against malicious programs that can be picked up from dodgy e-mails or while surfing the net.

Carolyn says: "The trend we are seeing is a rise in spam, phishing and spyware. Malicious URLs are also on the rise as spammers or hackers use these fake websites to host malware such as trojans, key-loggers and fraudulent phishing sites."

"One of the new trends... is e-mails that contain a link to a URL, which, if clicked on, will attempt to download malicious software to your computer. It's a matter of trusting your intuition. If it seems suspicious, it probably is."

Here are five tips to keep your computer safe:

- Do not click on any links in suspicious-looking e-mails;
- Check that a website link in an e-mail actually takes you to the correct site. To identify a legitimate website, hover your cursor over the displayed URL, and a pop-up will display the actual website address;
- Check that the e-mail is, in fact, from the person or company shown as the sender;
- Always scan downloaded files with up-to-date anti-virus software; and
- Always be careful when opening attachments — even if they appear to be from someone you know. Viruses and spam sometimes display fake sender addresses.

### Now is the time to make hay, says venture capitalist

INVESTMENT decision makers from Mark Shuttleworth's company Here Be Dragons, say 2010 is looking good for venture capital.

Portfolio analyst Keet van Zyl says: "2010 will be an exciting time for venture capital as great innovations and associated returns emerge from the troubled financial times of 2009." He believes venture capital will begin to appear less risky, and that wealthy individuals may begin diversifying their investment portfolios after the global credit crunch, which will see more funds coming into the industry.

Ensuring that you match the right type of investment with the right stage of your business is critical to success. Your venture capital funding must not come too early or too late.

- Your idea has not yet been formulated into a workable business concept;
- A potential funder may see this as a lack of commitment or belief in the product; and
- The value of the business or concept increases with each stage: applying too soon might

mean getting an equity partner at a low valuation. Too late:

- A potential funder might lose interest if they have missed the aggressive growth stage, as the potential for high returns is diminished; and
- Once the business is more mature, cash flow is stabilised and private equity or debt funding is more suitable.

Six tips for growing your business:

- Develop and implement a proper marketing strategy — and be prepared to spend on it;
- Ensure you put effective governance measures in place;
- Understand that venture capitalists don't only provide funding: they want to grow their investment too;
- Never stop growing the market for your product or service;
- Focus on growth strategies by pinpointing milestones you need to reach in the short, medium and long term, as well as constraints to achieving them. Once you understand the hurdles, you can find the solutions; and:



MIRAGE: International visitors are complaining that they pay deposits for beds like these — but then the 'lessor' disappears Picture: VELLI NHLAPO

- Develop a customer-focused strategy: an innovative technical solution will not guarantee success of the product, unless potential customers are aware of it and how it suits their needs.

### 2010 accommodation deposits start to vanish

THE Southern African Fraud Prevention Service reports that it is receiving an increasing number of complaints from individuals overseas who have booked accommodation on open websites in South Africa for the World Cup, only to find that after the deposit has been paid, the "lessor" disappears.

Pat Cunningham, the service's executive director, says that although the accommodation advance fee fraud is fairly common, there has been a marked increase in complaints and reports from individuals overseas.

The fraud prevention service can be contacted during office hours on 011 869 6460 or e-mail safps@safps.org.za or visit the website safps.org.za.

You can reach the organisation's help line on 0860 101 248.