

Business Resilience Toolkit

External drivers and forces impacting on costs

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Transcript:

External factors that are out of your control influence the costs of running your organisation. Monitoring external factors and forces can help you to better anticipate and know your costs so you are not taken by surprise. Some external factors are common to all not-for profits while others are specific to the type of work you do.

Hi, I'm Ellen Schuler and I'm a business consultant at Community Business Bureau.

In this video we look at your business context and how external factors, trends and forces impact on your costs. We will take a closer look at your legal and competitive environment, and how technological trends can increase and decrease your costs.

Using a context map or a PESTEL analysis can help your organisation to have a conversation on what is going on in the environment around you and what will affect your not-for-profit in the future.

Let's look at how your legal environment impacts on your organisation's costs.

Legal environment

Your legal environment is your legal and policy framework. As an Australian organisation you need to comply with federal law as well as with the laws of any of the states and territories you operate in and you are potentially subject to local regulations as well. Compliance with the law and your legal duties is in the best interest of your organisation, your staff, and your customers. Your licence to operate depends on our compliance. Breaches could incur penalties, impact on your reputation and your board or senior management could be personally liable.

Tax laws have a major impact on your costs. As a registered charity with the ACNC you may get tax concessions, yet there are also land, payroll and stamp duties at a state level and levies at a local level to consider.

As an employer you are subject to **employment laws**. You have different legal obligations towards employees, volunteers, and contractors. Under the Fair Work Act 2009 employees are entitled to minimum standards of employment.

Employees have basic entitlements such as annual leave, maximum weekly hours, and long service leave.

Employees in certain industries and occupations may be bound by industrial instruments which contain minimum entitlements under modern awards or enterprise agreements. Employment costs tend to be the major cost factor in not-for-profits. Changes to awards will have a major impact on your costs.

Work health and Safety legislations exist in each state and territory to protect workers and others from safety hazards in the workplace. Providing and maintaining a safe workplace incur a range of costs. There is also regular training and monitoring required. We experienced how COVID 19 impacted on the cost of keeping our workplace safe. Additional cleaning and training, separating workspaces, potentially purchasing protective equipment incurred major expenses in 2020.

There are **sector rules and regulations such as NDIS or Aged Care regulation**. They impact on your income and on your costs. Your organisation needs to demonstrate compliance and undergo regular audits at your cost. Depending the size of our organisation you may need to employ a dedicated Quality assurance manager to ensure the expectations are translated into your organisation's practice.

There may also be voluntary standards and schemes your organisation commits to, to achieve excellence and quality services. Compliance may be expected by your customers or your funders.

And there are more laws that not-for-profits have to comply with such as the Consumer laws, Fundraising laws, Environmental laws, Privacy legislation and Financial reporting, and audit requirements.

Any compliance translates into costs. These costs include the payroll of your dedicated compliance staff, training, auditing costs, reporting costs, and systems required to uphold your accreditations and compliance. Costs also arise from changes in regulations, engaging in continuous improvement, establishing better measures and systems, and monitoring your systems.

Competition

Realising competitive forces can help you understand your profitability and your costs. Porter's five forces is a simple tool to analyse competitive forces.

1) Market rivalry and industry conditions

If more organisations compete for funding and for your customers, you have to increase your efforts to maintain your market position to deliver your impact. This can involve costs for fundraising, marketing, service design and continuous improvement.

2) Threat of new entrants

If new entrants provide similar services or programs, you may have to increase your marketing efforts or improve your service.

3) Threat of substitute services

If your service or programs could be replaced by other programs, you may have to invest into your own service design and change the way you deliver your service.

4) The bargaining power of consumers

Your customers or beneficiaries may expect or need more than you currently provide. This will increase the cost of your operation.

5) The bargaining power of donors and funders

Donors, grant makers and funders are purchasing your social impact. You may have to deliver more with less or you may have to demonstrate and measure your social impact. Understanding donor expectations, nurturing and maintaining your relationship with donors and funders requires time, effort and creates costs.

Technological trends

Working mostly with people you are at risk that you ignore your technological environment. Yet, this is the fastest changing environment you operate in.

New technologies can achieve more productivity, change the need of your beneficiaries, and change your operations. While increasing costs in the short term, these changes can create major cost savings in the long term.

The environment in which you operate will determine your costs and is essential to monitor your environment to anticipate and manage your costs for delivering social impact.

Related videos to watch next: Revenue risks and useful tools: PESTEL, context canvas, and competitor mapping.