

# BusinessPlus+ Newsletter



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## Issue No 83 – October 2012

### Things Are Choppy!

The second quarter of the 2012/13 financial year has begun with the Reserve Bank lowering the official cash rate by 0.25% to 3.25% in response to a slowing of economic activity in some parts of Australia.

The government obviously has some concerns with the slowing down of economic activity because it has brought forward its mid-year economic review and is reported to have embarked on a serious review of a wide range of government programs in an attempt to reduce expenditure or defer expenditure to a later time. There has been a 'pause' in approval for some government grant programs in an attempt to defer expenditure to a later time.

The mining industry is facing changing economic activity with decreased economic conditions in China, contributing to lower prices for many mineral products.

Some economists are forecasting a significant improvement in economic activity by mid 2013, which could lead to interest rates rising again.

Other economists have a contrary view in that they're not anticipating improved business conditions in the next 12 months. Debtors' days outstanding (as advised by Dunn & Bradstreet) is approximately 54 days and the Australian Tax Office has stated that approximately \$9B is owed by small businesses on Business Activity Statements. These figures confirm that many segments of businesses are experiencing difficult cash flow situations.

Banks are closely monitoring loan performance by their customers.

All of this highlights the necessity for business operators to closely monitor their business operations including:

- Cashflow management with close attention to debtors, stock, work in progress.
- Calculating regularly the KPIs (Key Performance Indicators) applicable to your business as compared to Budgets.
- Preparing regular financial accounts to monitor actual performance.

It's probably a good time to think about the effect that changing interest rates might have on your business. If you're currently operating with a variable rate, perhaps you should consider locking in a fixed rate.

It's a good time to consider risk management strategies and the variables affecting your business including:

- debtors' days outstanding
- interest rates – variable or fixed?
- business performance
- bank covenant requirements

Times are certainly "choppy" for many businesses. If you'd like us to review the "Risk Management Strategies" for your business, please contact us.

## Government Grants For SMEs

### Export Market Development Grant

REMINDER: If you are an exporter and have spent an excess of \$20,000 on export market activities during 2011/12, then you are probably eligible to apply for an Export Market Development Grant. Eligible expenditure includes:

- overseas representation (limits apply);
- marketing consultant (limits apply);
- overseas marketing visits;
- communication costs to export clients or potential export clients;
- product samples sent overseas;
- trade fair registration fees;
- promotional materials; and
- cost of bringing overseas buyers to Australia (limits apply).

Businesses that have spent in excess of \$20,000 on these types of activities, for export market development purposes, can lodge an application to claim 50% of that expenditure, up to a maximum of \$150,000. Export market development expenditure incurred for promotions in New Zealand, North Korea and Iran are not included in the calculation of eligible expenditure. Export Market Development Grant applications for the year ended 30th June 2012 **must** be lodged by the **30<sup>th</sup> November 2012**. There are no extensions granted beyond that date.

If you wish to discuss an Export Market Development Grant application further, please contact us at the earliest opportunity.

### Research And Development

If you undertook research and development activities during the year ended 30<sup>th</sup> June 2012, and the expenditure exceeded \$20,000 (irrespective of the number of projects) and you operated your business through a company, then you could be eligible to register for the Research & Development Tax Incentive. Eligible businesses (with annual turnover of under \$20M) are entitled to a rebate of 45% of eligible research and development expenditure paid to you by the Australian Taxation Office after you've lodged your income tax return for the year ended 30<sup>th</sup> June 2012.

To be eligible for the Research & Development Tax Incentive, you have to register with AusIndustry by the 30<sup>th</sup> April 2013 or the date of lodgement of your company's income tax return, whichever is the earlier. If you have qualified for Research & Development Tax Incentive, it would probably be in your best interest to contact us at your earliest convenience for the preparation of your company's financial accounts, income tax return and the registration with AusIndustry.

## Business Plans

### Annual Review:

Questions that would be appropriate to consider in an annual review include:

- Do you consult your advisors in relation to the review of your business on an annual basis?
  - Accountant
  - Solicitor
  - Insurance Broker
  - Banker
- Do you have 'retreat planning sessions' to plan where your business is going?
- Can you answer the following basic questions?
  - Where is your business going?
  - How is it going to get there?

### Business Success Strategies:

Have you thought about implementing business success strategies to your business?

- This could include allocating one hour per day for 'quality time' to think about and plan strategies for your business.
  - Switch off the telephone.
  - Close the doors.
  - Ask your team not to interrupt you for that one hour every day.
- Ask ongoing questions about everything that happens in your business:
  - Why do some things work?
  - Why do some businesses do things that work for them, but are not working for you?
- Have a continual engagement with your customers. Don't get remote from your customers; keep in contact with them. Customers of SME businesses like to talk to the owner or key management people within the business.
- Aim for 'AAA' in communications. This includes:
  - Use of email.
  - Use of telephone.
  - Outstanding website that tells customers and prospects what they want to know about your business.
- Understand your business' numbers, including:
  - Break-even sales required on a daily, weekly and monthly basis.
  - Targeted gross profit percentage for individual departments or important product lines.
  - Know your labour percentage for each department.
  - Know your debtors balance and debtors' days outstanding.

- Know your investment in stock and your stockturn being achieved as compared to your budgeted stockturn.
- Average sales.
- Monthly Profit.
- Ensure there is adequate communication within the business.
  - Are regular worthwhile team meetings being held?
  - Is proper planning being achieved at the meetings?
  - Is there open communication between all sections of the business (eg. marketing, production, sales, administration)?
  - Is everyone working as 'one business', or is your team operating as separate businesses which are not really communicating with each other?

If you would like any assistance from us in reviewing strategies within your business, please contact us.

## Living Away From Home Allowances Taxation Treatment Changed

The original reforms were going to remove LAFHA from the FBT regime completely and bring LAFHA into the Income Tax Regime, but a backflip has happened on this change. The end result is that the current regime will continue but with significant changes, which are to *"benefit people who are legitimately maintaining a home in Australia away from their actual home for an initial period"*. The two major differences in LAFHA from 1<sup>st</sup> October 2012 are:

1. The employee must maintain a home in Australia for their own use at which they usually reside.
2. The concessional treatment is limited to a period of 12 months for an employee at a particular work location.

This will result in huge losses to non-resident employees, temporary residents and "457 Visa" employees in that a portion of their employment package cannot be paid to them under the hugely favourable LAFHA concessions. This essentially means that only Australian residents, who maintain their own residence and provide a declaration of this fact to their employer, will still be eligible for LAFHA for a period of 12 months at a particular work location. These changes do not apply to Fly-In/Fly-Out and Drive-In/Drive-Out employees.

## How Well Do You Know Your Competitors?

Knowing your competitors is very important in planning a strategy to successfully operate the business. There is a lot of information freely available in the 'business community' in relation to your competitors. If you have not already done so, why not prepare a list of competitors, together with a strengths and weaknesses analysis on them, as compared to your business.

You could conduct competitor research by:

- closely analysing their website;
- visiting their business premises;
- maintaining a file on any advertising material you receive, newspaper articles, etc., that features comments on a competitor;
- ask your customers who they think your competitors are and ask them to give you comments on their experiences with those competitors.

From this type of research, you should be able to develop a profile on each of your competitors listing their strengths, weaknesses, types of products and the services they provide. This will help you to identify the areas in which you don't directly compete with competitors together with other aspects of your business that needs improvement if you're going to effectively compete with those competitors.

This is all part of the process of identifying your 'unique competitive advantage'. Why not maintain the competitor files on an ongoing basis and allocate a couple of hours of your 'quality time' every three months to review your current business strategies as they relate to competitor activity.

## Managing Risk Can Help Avoid Financial Problems

- Establish Key Performance Indicators (KPIs) for your business and use them.
- Calculate key figures:
  - sales per unit
  - production per person
  - sales per person
  - gross profit %
  - overhead expense %
  - net profit %
- Benchmark your business against similar businesses.
- Arrange to obtain benchmarking data from:
  - industry associations
  - your bank
  - benchmarking businesses
- Insurance policies on key people:
  - death and disablement policies
- Buy/Sell Agreements with shareholders/partners.
- Understand the covenants that your bank has specified for your finance facility.
- Keep your bank manager informed.

If you would like us to assist you in analysing the risks in your business, please contact us.

## Business Management Tips

- Focus on the activities in your business, which you can control.
- Know your figures.
- Prepare a business plan.
- Communicate your vision to your team.
- Make sure that regular 'tool box' meetings are held with your team.
- Do the basics well:
  - return emails and phone calls
  - arrive on time to meetings
  - supply great service
- Establish your 'unique competitive advantage' and make sure your team members know it.
- Talk to your customers.
- Employ enthusiastic team members.
- Motivate and lead your team.
- Talk to suppliers – can you negotiate better terms or get them to contribute more than just product?
- Monitor your website – is it up-to-date?
- Develop and utilise the services of a team of experienced and enthusiastic experts as if you were a large business:
  - marketing
  - sales
  - is your accountant offering more than taxation advice?
- Maintain a customer and prospects' database and send them interesting information on your business' products and services, thus emphasising your 'unique competitive advantage'.
- Think and plan an 'exit strategy' as if you are going to sell the business tomorrow.

If you would like to talk to us in relation to implementing any of these types of tips, please contact us.

## What Does It Mean?

**Quick Ratio** – The ratio between Current Assets minus Stock divided by Current Liabilities. This ratio is a measure of a firm's liquidity and its ability to meet its short term obligations using Current Assets, not including its Stock.

Current Assets - Stock ÷ Current Liabilities. For example:

### Current Assets

Stock	\$250,000
Debtors	\$300,000
Work in Progress	\$ 50,000
Total Assets	<u>\$600,000</u>

### Current Liabilities

Sundry Creditors	\$230,000
Bank Overdraft	\$ 90,000
Total Liabilities	<u>\$320,000</u>

**Quick ratio** will be calculated as:

Current Assets less Stock divided by Current Liabilities i.e.

$$\$600,000 - \$250,000 \div \$320,000 = \underline{\underline{1.09}}$$

A ratio greater than 1 indicates that Current Liabilities can be met from Current Assets without having to liquidate Stock.

### WANT TO KNOW MORE?

Additional information on the articles contained within this issue of **Business Plus+** is available by contacting our office on 130035 22 35 or simply email [mail@lewistaxation.com.au](mailto:mail@lewistaxation.com.au). You might be interested in these additional informational papers:

- **Paper 014-030 - Export Market Development Grant**
- **Paper 012-009 - R & D Tax Incentive**
- **Paper 012-001 - Taxation in Australia Introduction**
- **Paper 005-001 – Accounting Terminology**
- **Paper 006-080 – Characteristics Of A Well Run Business**

### An Important Message

*While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.*



*growing your business with you.*

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