

# BusinessPlus+ Newsletter



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**Merry Christmas and a Happy 2013!!**

### Year In Review

2012 was the fifth year of global financial slowdown from which Australia did not escape, but in the main, fared better than many other countries in the world.

Obviously, there's been the continued impact of the two-speed economy. Businesses involved in the mining industry, especially Western Australia are booming, whilst many other businesses, particularly businesses catering for international tourists and discretionary retail spending, have endured difficult trading conditions. Exporters have continued to suffer the penalty of high exchange rates which has significantly affected the pricing of Australian products overseas, whilst a considerably lower number of international visitors to Australia have complained about the high costs of products and services within Australia.

Economic growth was around 2%. Wages growth was also around 2%. In some respects it was a "no year"; there was "no" change in the leadership of the Australian government or the Australian opposition; there was "no" election; there was "no" recession, boom or bust. Inflation did not break out. Happily there were "no" major natural disasters in Australia and interest rates, as set by the Australian Reserve Bank, lowered back to 3%, thus reflecting the difficult economic circumstances in which most businesses are operating.

The political uncertainty in Canberra has contributed to the gloomy year. So what does all this mean to small/medium enterprise operators? Many of these items are outside your direct control, but it does emphasise the need for continual planning of business operations and monitoring of interest rates, exchange rates and changes in government policies as we enter the start of a new calendar year. This is a great opportunity to prepare a calendar year budget and then to ensure you receive accurate departmentalised quarterly financial accounts.

The continual monitoring of debtors, stock and work in progress is of paramount importance. Cashflow management is still very important as banks are closely monitoring the performance of their small/medium clients.

There will be an election in 2013. Would a change of government affect any of your current business operations and your planning?

If you'd like our assistance in preparing Budgets, Cashflow Forecasts and a Business Strategic Plan for 2013, please do not hesitate to contact us.

### Director Penalty Updates

At the end of the year it's appropriate to summarise changes that the Federal government has made to the Tax Laws during 2012 relative to the liability of company directors for company tax, including extending the director penalty regime to make directors personally liable for their company's unpaid amounts of Superannuation Guarantee Charge.

This involves:

- allowing the Australian Taxation Office to estimate a company's unpaid and overdue Superannuation Guarantee Charge (SGC) obligations and impose a liability by issuing a notice;
- ensure that directors cannot evade director penalties by placing their company into administration or liquidation when amounts of Pay As You Go (PAYG) withholding or SGC remain unpaid and unreported three months after the due date;
- in some cases, make directors and their associates (including spouses, parents, siblings and children) liable for PAYG withholding non compliance tax where the company has failed to pay amounts withheld to the Australian Taxation Office.

If you are a director or considering accepting appointment as a director of a company, you need to be aware of these penalties and ensure that you're continually informed of the company's position relative to liability for these payments.

If you'd like to discuss with us a situation in a company of which you're a director or considering accepting appointment as a director, please don't hesitate to contact us.

## Points To Remember

If you're running a small/medium enterprise business, you need to remember:

- it's lonely at the top;
- sometimes CEOs/General Managers operate in isolation;
- it's a good idea to try to develop one or two mentors with whom you can have informal discussions, preferably people who have already performed similar jobs;
- it's very important that you have confidence in yourself; think through a problem and then implement a strategy, confident that you've thought of all of the alternatives;
- it's important that you have a great team working in your organisation. In developing a great team, you need to be conscious that mistakes happen; it's how you and your team deal with mistakes that's important. What were the lessons learnt from that particular mistake;
- management needs to take reasonable risks to successfully operate a business. Successful business leaders have communicated to their team that they can take reasonable risks in performing their duties in the knowledge that they'll not be penalised if something doesn't work out. The key point is to ensure that both the team member and the team generally have learnt from mistakes. Are you operating your business in an atmosphere where people are prepared to take reasonable risks to advance the business' operation?

## Safeguarding Your Intellectual Property (IP)

Unfortunately, intellectual property theft is growing. Intellectual property theft can be quite expensive for your business. Intellectual property that can be very valuable includes:

- customer lists
  - pricing lists
  - details of how prices are calculated for various important customers
  - contract lists
  - trade secrets
  - products under development in your research & development section
- and other similar items.

The key risk area is when an employee has indicated that they wish to leave your employment. Unfortunately, some employees believe that they can enhance their value to a new employer or kick start their own business by stealing key intellectual property from your business. This can be done by emailing documentation to their home email address, downloading it onto a memory stick or photocopying it and removing as a hard copy. In considering your risk strategies it's a good idea to develop policies of limiting access to certain documentation to any employee who has resigned so as to remove the temptation to illegally obtain copies of your business' intellectual property.

Next edition we will consider remedies for IP theft.

If you have any concerns in relation to intellectual property being stolen from your business, we recommend that you contact your solicitor. If you'd like to discuss with us a risk management strategy for the protection of intellectual property within your business, please contact us.

## Human Resources Update

You're probably aware of the significant increase in harassment and bullying cases being brought before the Courts and publicised by the media. The Fair Work Act prohibits bullying, harassment and any type of discrimination in the workplace. Employers need to implement various strategies to reduce the likelihood of discrimination, bullying and harassment issues arising in your workplace.

These can include:

- implement a proactive and diligent approach to management of employment relation issues. Have you nominated particular persons to whom an employee can go to if they believe that they're being harassed, bullied or discriminated against?

- the reality of employment is that there is a higher likelihood of these types of issues arising which can cause a lot of distress for employers.

Therefore it is necessary that every member of the management team clearly understands the employer's responsibilities. Have your management team members been adequately trained and educated in the handling of discrimination, bullying and harassment complaints? Is the management team aware of legal decisions that have been handed down by the Courts and Fair Work Australia? Have you told your management team what is expected of them to adequately handle any complaints?

## Social Media Policy

It might be a sign of the times, but recent Court decisions are emphasising the requirement for businesses to implement social media policies for their employees.

Social media policies should identify:

- what the employer's reaction will be to improper and inappropriate behaviour relative to social media by employees;
- employees need to be given a clear policy on social media issues, as it relates to their employment;
- management needs to keep up-to-date on Court decisions relative to social media issues;
- many commentators believe that employers without social media policies could pay a very heavy price if some inappropriate comments are made on social media by any of their employees.

## Take A Fresh Look At Your Business - Part 2 - What do "start up failures" reveal? *(continued from Issue 084 - November 2012)*

Not all start-ups are successful and its worth examining some of the reasons for the failure of start-ups as part of this evaluation of a "fresh look" at your business. One of the biggest problems affecting start-ups is the lack of sufficient capital. This normally relates to under-estimating the true cost of starting a business.

Successful operators try to reduce fixed overheads so that the majority of costs are only incurred if a sale is made. This might relate to engaging staff on a casual or part time arrangement, rather than on a full time basis. If start ups don't pay particular attention to cashflow, this can lead to failure (as it can for any other business).

One of the problems that many start-ups have is getting the business started and then trying to diversify into other products or markets too quickly. Existing business operators can repeat the same mistakes made by some start-up operators. The key lesson from this review is don't diversify into areas about which you know very little. If your business is not succeeding look within first, rather than trying to diversify into new market opportunities. This will probably highlight that you need to make some hard decisions internally. It is easier to reduce costs by 10% than to increase turnover by 10%. Changes in how you operate might assist the business to survive the next phase of your business growth. The key strategy for a business is to have a fresh look at your business every three to four years. This is in addition to the preparation of an annual budget, cashflow forecast and the preparation of a business plan. This is a complete business review looking at every aspect of the business and deciding what changes need to be made to ensure the business will still be a vibrant and vigorous business in three to four years time.

If you'd like our assistance in helping you to undertake a "fresh look" at your business, please do not hesitate to contact us.

## Pricing Strategies - Do You Have Procedures? - Part 2 *(continued from Issue 084 - November 2012)*

Some of the areas to consider avoiding relative to setting prices include:

- When developing a new product or service, "start with the price in mind at the beginning". Conduct some marketing surveys. Ask your customers or prospects how much they'd be prepared to pay for a particular product. Once you've ascertained what the market is prepared to pay, sit down and determine, with the product development team, how much it is going to cost to develop a product to suit what the customers have told you is an acceptable price point for them. Therefore, setting the pricing point should be a very important part of the product development process right from the very beginning of the product development.
- Don't use pricing to fix a "profit & loss problem". Businesses trying to recoup a set amount in its profit performance by having a general price increase invariably fail with that policy. The only way this type of policy succeeds is if there is an improvement in "product value", from the customer's point of view, introduced at the same time.
- Avoid an "across the board" approach to price rises. Products have variable levels of demand, from a customer's point of view and customers place different values on different products, therefore you'd probably find that some of your products could bear a higher price whilst some might have to stay virtually at the same price. To be able to manipulate your prices in this way, management needs to have continual feedback from the customers as to their perceptions on the different types of products sold by your business.
- Avoid "cost plus prices". Customers don't purchase from you based on your manufacturing cost plus a mark up percentage. They purchase from you because they are looking for a product with a certain amount of value, from their point of view. It's easier to defend price points based on value, from the customer's point of view, rather than cost.
- Don't "follow competitors". You've got no idea of knowing how sophisticated a competitor's analysis has been when they've been setting their pricing. They may have no strategy at all, so why follow them. Customers' choices are very wide. One of the secrets to an effective pricing strategy is to differentiate your services so the total package, not only includes the product, but non-price differentiators, such as:

- guarantees
- warranties
- quality
- pre-sale service
- post-sale service
- availability of product
- vast knowledge of the product

If you'd like to discuss an effective pricing strategy for your business, please do not hesitate to contact us.

## Sensitivity Analysis - Business Planning

In the business planning "think tank" review, sensitivity analysis questions could include:

- What happens if:
  - turnover falls;
  - gross profit margins decrease;
  - creditors demand earlier payment;
  - a major customer cancels their business;
  - a fire affects the business;
  - a major misappropriation occurs; and
  - your business secrets are stolen.

These are the types of issues that can be considered as part of a sensitivity analysis within the business plan review.

## Apprentice - Kickstart Initiative

The Australian government has announced a new incentive for certain small/medium enterprises involved in the "building and construction" occupations with skills listed on the National Skills Needs' List can obtain a grant if the business employs a new apprentice in the trades listed on the National Skills Needs' List between the 1st December 2012 and 28th February 2013.

To be eligible, the small/medium enterprise must have less than 200 employees. Funding of \$3,250 is available.

If you're interested in obtaining further details, including a copy of the National Skills Needs' List, please contact us.

## What's It Mean

**Stock Indicators** - the success of stock management in meeting customer demands without over-investment in excessive stock (possible obsolete stock).

Stock indicators normally used include:

- average stock on hand
  - return on inventory
- stock turnover (days)

Factors affecting stock management include:

- stock displays
- department mix
- ordering procedures and systems
- stocktaking techniques and timing
- stock security controls

### WANT TO KNOW MORE?

Additional information on the articles contained within this issue of **Business Plus+** is available by contacting our office on 1300 35 22 35 or simply send an email to [mail@lewistaxation.com.au](mailto:mail@lewistaxation.com.au).

### 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.*



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