

BusinessPlus+ Newsletter



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Business Conditions Still Bumpy

The Reserve Bank has announced that interest rates will remain on hold at 3%. There are some expectations by economists that the Reserve Bank could announce another cut in the next couple of months and, by later in the year, interest rates could start to rise.

The Federal election will cause some uncertainty for many businesses, especially retailers, because, traditionally, consumers reduce purchases during elections. Whether this is going to happen over the 6-month election period remains to be seen.

“An unhealthy cash flow cycle exists among Australian businesses, with 62 per cent of accounts settled late and firms taking on average, 52 days to pay their bills.” – Trade Payments Analysis by Dun and Bradstreet. This statement highlights the cashflow management problem facing many small business operators.

If that’s not enough, bank covenants are getting tighter. Interest cover is a minimum of two (number of times that interest charges are covered by EBIT (Earnings Before Interest and Tax):

- Debt Service Cover (the ratio of cash available for debt servicing for interest, principal and lease payments) – 1.5 trending up
- Current Ratio (the relationship between current assets and current liabilities) 2+
- Quick Ratio (the ratio between current assets minus stock and current liabilities) 1+

On a positive side, if you’re in the Information and Communication Technology (ICT), Transport (Freight) and Logistics and some Professional Services industries, there are some additional government grants by Enterprise Connect.

This edition includes a Consumer Law update, which is targeted at retailers, but the comments equally apply to other business operations.

If you would like our assistance in reviewing your business strategies relative to interest rates, management of debt and abiding by bank covenants, please do not hesitate to contact us.

Assistance We Can Offer

Accountants can offer a wide range of services, other than taxation, to assist small business owners add value to their businesses. In the first instance, it is desirable that every business is preparing, or we are assisting, in preparing regular financial accounts during the year. These accounts should be examined and reviewed by a person with accounting knowledge, normally your external accountant, to give you information relative to the financial trends, which have been revealed in the financial accounts and supporting information. This can include a review of:

- Gross profit rate percentages
- Labour to turnover percentage
- Profit to turnover percentage
- Sales growth percentage
- Stock investment days
- Stock turn rate
- Debtors' days outstanding
- Debtors' Aged Analysis
- Team productivity
- Benchmarking your business against other similar businesses
- Examination of key ratios of the business
- Comparing your current performance ratios against ratios stipulated in bank loan agreements (bank covenants)

If you are interested in having us undertake a business analysis and interpretation of financial results review on a quarterly basis, please contact us.

Increase Conversions

To Improve Business Performance

What you can do to improve business performance:

- Increase the number of enquiries.
- Increase the number of conversions from enquiries to sales.
- Increase the average value of sales.
- Increase the number of times people buy from your business.
- Increase the gross profit %.

For example (hypothetical business):

Annual enquiries	-	11,000
Conversion to customers	-	12.7%
Number of customers	-	1,400
Sales	-	3,225 transactions
Frequency of business by customers	-	2.3 times
Average price	-	\$310
Sales	-	\$997,500
Gross Profit %	-	39%
Gross Profit	-	\$389,025

If, through a concentrated effective "non-price differentiation", including quality, warranties, guarantees, pre-sale service, staff knowledge, availability of product, website, after sales service, negotiations with suppliers and improved buying strategies, the following figures emerge:

Number of enquiries	-	12,000
Conversion to customers	-	9%
Number of customers	-	1,800
Frequency of sales	-	2.6 times
Sales	-	4,680 transactions
Average price	-	\$328.60
Price increase	-	6%
Sales value	-	\$1,537,848
Gross Profit %	-	41%
Gross Profit	-	\$630,517
Gross Profit improvement	-	\$241,492

From which should be deducted costs incurred in improvement and implementation of the 'non-price differentiation' strategy.

We can assist you in undertaking a review of your business procedures to determine profit improvement strategies. If you'd like a copy of a Sales Target Worksheet, please contact us.

Government Grants For SMEs

Enterprise Connect – Available For Three New Industries

Enterprise Connect, which arguably has the largest number of individual grants available for SMEs in Australia, has announced the extension of the Enterprise Connect Program to three additional industries. This incorporates:

- Information and Communication Technology (ICT)
- Transport (Freight) and Logistics
- Professional Services

Enterprise Connect has two programs, which are very popular with SMEs:

1. Tailored Advisory Services – these services are targeted at improving:

- Operations
- Productivity
- Competitiveness
- Sustainability of eligible SMEs

Enterprise Connect will contribute up to \$20,000 plus GST on a 50% basis.

2. Researchers in Business Grant – this grant offers support to SMEs by the employment of a university graduate, to assist the business with up-to-date research, to give the business the cutting edge required to be more competitive.

Enterprise Connect will provide funding of up to 50% of salary costs or a maximum of \$50,000 for each placement between 2 to 12 months. If you're interested in examining the practicality of applying for an Enterprise Connect grant, please contact us.

Research & Development Registration Required By 30th April

If you operate your business as a company, and you incurred more than \$20,000 on R&D activities in the year end 30th June 2012, and you wish to claim an additional tax rebate for the R&D expenditure, you must register with AusIndustry prior to 30th April 2013, or the date of lodgement of the company's income tax return, whichever is the earlier.

If you would like assistance from us relative to completing the application form and lodgement with AusIndustry, please do not hesitate to contact us.

Consumer Law Update

The National Consumer Law is now administered by the Australian Competition and Consumer Commission. Some of the key issues relating to retailers are:

- If products purchased by a customer, which had been gifted to another person, and the gift recipient wishes to return the product to you, the recipient has the same rights as the person who purchased the goods.
- The retailer is entitled to request the person returning the goods to produce a receipt as proof of purchase from your business.
- If the goods are defective or do not work, the retailer will have to consider replacing, repairing or refunding the amount that was paid for that product. However, the customer or recipient is not entitled to a refund simply because they do not like the gift.
- If a customer purchases the goods from you, and wants to change the goods, they cannot do that, unless the goods are defective, or do not work, or do not do as advertised they would. If the customer asks for a refund merely because they've changed their mind, or believes they can buy the goods cheaper elsewhere, you are entitled to say no, as this is the consumer's problem.
- If you have sold something that is defective or is not doing what it's supposed to do, or is not safe, or the goods do not match the description of what was sold, the law requires the retailer to rectify the situation by offering a refund or exchanging the goods.
- Depending on whether the defect is a:
 - Major problem – the product is unsafe or does not do what it was meant to do or as advertised it will do. In this case, customer will be entitled to ask for a refund.
 - Minor problem – the defect can be remedied by repairing the product – there is no requirement to agree to a refund.

Retailers have rights; you do not have to take goods back unless they are defective.

No Refunds

Under the Consumer Law, 'No Refunds' signs are illegal. It is against the law to tell consumers that they don't have any rights. 'No Refunds' signs at sales are also illegal. However, you need to make sure that, if you're selling sale items that are not first grade, such as factory seconds, damaged goods, etc., you have clearly advertised that they are not 100% perfect within your store where the sale is being conducted. If you do this, the customer's rights are somewhat limited. It will then be a good idea to take some photographs to prove that the signs were prominently placed around the store in case a disgruntled customer wants to make a claim against you.

Fair wear and tear is also a common problem. This requires a judgement call by the seller. What would a reasonable person decide? Because that's the way Australian Competition and Consumer Corporation (ACCC) or a State Department of Consumer Affairs would interpret the situation.

There will be disputes to be resolved from time to time. If the customer raises an issue with you and you are not prepared to make an instant decision and accede to the customer's demand, request the customer to advise you in writing of their concern. It is a good idea to then reply to the customer in writing, advising them of your decision. You need to be aware that, if the customer is still unhappy, they can then approach the State Department of Consumer Affairs/Fair Trading, Small Claims Tribunal or ACCC for a ruling on the complaint.

Directors And Workplace Health & Safety Issues

The Workplace Health & Safety Act imposes obligations on company officers to exercise due diligence to ensure the person conducting a business or undertaking (PCBU) is complying with the Act.

- Due Diligence – What Steps Should Be Taken – company directors and other company officers, including managers, need to acquire knowledge of occupational health and safety matters.
- There's a need for company officers to gain an understanding of the hazards and risks associated with the work to be undertaken – before work commences.
- Company officers need to ensure appropriate resources and processes are available to eliminate or minimise risks.
- Officers need to ensure there is a reporting process for health and safety issues.
- If the company officer delegates, he/she must ensure that they have delegated with proper due diligence, ensuring that the person they have delegated to is appropriately trained and to regularly monitor the performance of that person. In other words, you cannot just say that you have asked someone to be responsible for it and not take any further notice.

There are severe penalties under the Workplace Health & Safety Act:

- Category One – recklessly exposing of the person to risk of death or serious injury or illness
 - \$3M for corporations
 - \$600,000 for individual – five years imprisonment
- Category Two – serious risk of harm without recklessness
 - \$1.5M for corporations
 - \$300,000 for individual
- Category Three – fails to comply with Workplace Health & Safety duties
 - \$500,000 for corporations
 - \$100,000 for individual

If you would like our assistance with introducing you to a Workplace Health & Safety consultant, please contact us.

Insurance – ‘Devil In The Detail’

In reviewing your insurance policies, you need to be aware the policies normally contain ‘averaging’ or ‘coinsurance’ clauses. These clauses will come into play when the sum insured is significantly less than the value of the insured property.

What this means is that any of the claim you make will be reduced in proportion to the amount of the underinsurance. Many people have been caught out on this clause of an insurance policy.

For example, if you agree on the sum insured for contents insurance of \$70,000, whilst the total value of the contents is, say, \$110,000, the insurer will be entitled to reduce the amount of any claim made by the percentage which reflects the value by which the property was underinsured. If the amount of damages incurred is worth \$44,000, the insurer may be entitled to rely on the averaging clause to reduce its liability to 63.6%, being the percentage by which the contents were underinsured, resulting in the payment of only \$27,984. Where averaging clauses exist in an insurance policy, it is important to maintain a current valuation of the property and confirm that the insured amount is close to the actual value. It will assist you to keep a proper inventory of the assets you wish to cover and their value to compensate against the possibility of having an insurance claim adjusted under the averaging and coinsurance clause.

If you would like us to review your insurance covers, please do not hesitate to contact us.

What’s It Mean?

Store Profile – describes characteristics of volume, size and location of a retail store. The synergy of these characteristics measures the strength of the business in a non-financial sense. Some of these characteristics can be further developed to enhance the success of the business. Unique features of the store include:

- Location and operating conditions.
- Factors which affect customer traffic include:
 - convenience of the store
 - competition
 - product offered
- Items to be measured under store profile include:

– Average number of customers per week	– Trading days per week	– Total floor m2
– Average number of sale items per customer	– Trading hours per week	– Sales per m2
– Average sale per customer	– Trading floor m2	

If you would like any assistance in establishing ‘Store Profiles’, please do not hesitate to contact us.

Business Plans

Personal Plan

Some of the questions to be considered in the Business Planning Review relating to personal plan of the owner(s) include:

- What sort of lifestyle do you want?
- When do you wish to retire?
- Will you have sufficient capital to live the way you wish to live when you retire?
- If not, what changes need to be made?
- Do you have a current Will?
- Have you signed an Enduring Power of Attorney?
- Who are your Executives?
- Are they still appropriate to be your Executives?

These are some of the questions to be considered in the review of the owner’s personal plan relative to the business plan for the business.

WANT TO KNOW MORE?

Additional information on the articles contained within this issue of **Business Plus+** is available by contacting our office or 1300 35 22 355 or simply send an email to 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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growing your business with you.