

BusinessPlus+ Newsletter



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2013/14 Challenges

"Obstacles are those frightful things you see when you take your eyes off your goals." - Henry Ford

The start of the new financial year is a great time to undertake some forward planning as to what might happen during the next financial year. There are certainly a lot of challenges. There is a lack of confidence in the business community at present. Hopefully, that will change, once the Federal government election is held, whenever that may be.

There is a concern in the manufacturing industry after Ford's decision to discontinue manufacturing in Australia after 2015. This is obviously affecting a lot of businesses, both small and large, highlighting the necessity for manufacturing businesses to try to create niche markets and products.

There is also a significant wind down of the mining boom relating to the construction phase. This will then be followed by the production activities of the new mining sites, primarily in Queensland and Western Australia. This means that there will be a lot of eyes watching China, as a major market for coal and iron ore exports from Australia. China has established a 7% growth target, and as long as that is achieved, there is an expectation that the Australian miners will be able to successfully sell their products.

Over the last few months, the US dollar and Euro have continued to strengthen against the Australian dollar. Exporters will be happy. There will also be some effect on the cost of products imported from overseas, which will generally be higher. Many economists believe that the Reserve Bank will lower the cash rate by a further 0.25% to 2.5% in the next few months. The uncertainty is contributing to a reduction in consumer spending, which will affect some businesses. Some economists are now forecasting that the exchange rate between the Australian dollar and the US dollar could be around 80cents by mid-2014.

Debtors' days outstanding, according to Dun & Bradstreet, are now 55 days. Insolvency activities are increasing. Employers are still having to navigate the employment law obstacles. There are obviously some significant challenges confronting every business operator. Now is the time to prepare or revise your budget expectation for 2013/14.

If you would like our assistance with planning your budgets for the new financial year, or undertaking a review of your business, please do not hesitate to contact us.

Leadership In Tough Times

Being a leader in these tough economic times is difficult. Motivating the sales team, managing the cashflow and planning for the future are all challenging issues for business leaders. Your ability to lead your business is affected by:

- how you plan future activities for your business;
- how you identify the 'big picture' opportunities;
- how you solve the business problems that you are facing; and
- how you manage change and think strategically.

We are all living in a world of change. The Deloitte report, 'Digital disruption – short-fuse, big bang?', indicated that there will be significant 'digital disruption' that will affect many businesses over the next three years. Leaders need to think through how they are going to chart a path for their businesses to navigate through these obstacles. If you would like to discuss your leadership issues with us, please do not hesitate to contact us.

Finding The Right Balance With Team Members

Employers need to be mindful of boundaries with their employees. Employers should be encouraging respect between colleagues, but at the same time, acknowledge different tendencies exist amongst people. Some people crave to be liked and enjoy the social side of working. Others don't see it that way, it's not part of their priority, they want to focus on the challenges and things that are stimulating. Employers need to be aware of these differences and, at the same time, be conversant with the employment laws.

Employers need to find the right balance between being professional and friendly. This goes to the heart of business and the management style employed by an employer.

When someone joins an organisation, it is a good idea to have a conversation with the new team member, with at least another team member present, to explain to the new team member the job and what is expected from their performance. This will also enable the employer to hear the expectations from the new team member (eg. what do they want from the job). The employer should also explain what is acceptable behaviour and what is the culture of the business.

The process that the business has instigated for the raising of complaints and issues, should also be explained to the new team member. The internal process, which relates to performance reviews, should also be explained to the new team member, so that there is no misunderstanding of the reasons for performance reviews.

Employers should be conscious of the employment rules, as ignorance is no excuse.

Cashflow Management Is Important For Success

Cashflow management is very important for the ongoing success of the business. It need not be complicated, but it is a way to increase the value of the business. Cashflow management can be divided into three categories.

- 1. Operating Activities** - What do you do in your business? You make a product or supply a service, and sell it. You send a tax invoice (perhaps a statement), and ultimately get paid by your debtor? How you manage that activity is important in trying to shorten the time it takes to receive your money. If there is a delay in sending the tax invoice or the statement, or if you do not follow up debtors, there will be a delay in payments being made.

Dun & Bradstreet recently indicated that debtors' days outstanding in Australia is 55 days. This highlights a major reason for improving the management of debtors, which is an intricate part of cashflow management.

- 2. Investing Activities** - What assets does the business own that are not being used? Why not prepare a list of the surplus assets you have, which might be plant and equipment, vehicles, properties, stock, or fixtures and fittings. Why not have a 'fire sale', and turn that unutilised asset into cash which could be deposited to the bank account to improve the business' cashflow.

The key strategy is not to have too much money tied up in unproductive assets.

- 3. Financing Activities** - When you purchase products or services, do you negotiate payment terms with your creditors and pay your creditors according to the negotiated payment dates? In some businesses, payments are made earlier than what has been negotiated. Why?

In other cases, you need to be mindful of payments being made well after the creditor's stipulated terms. What would happen if the creditor suddenly demanded that payments be made by the stipulated date? Could you pay the arrears? What would happen if your supplier cut off supply? Can you purchase similar goods and services from other suppliers?

What is the cost of your overdraft and term loans? Could you have a conversation with your bank manager and negotiate lower interest rates? If you don't ask, you won't know.

Does the business need to spend capital expenditure at this particular time? Would it be better to lease an asset rather than pay cash upfront for the purchase of an asset that will be used over the next four or five years?

Whole Business

Cashflow is a 'whole business' operation. Money can be saved by improving terms and conditions of debtors monitoring. Money could also be saved by analysing the investment in stock and work in progress, and conducting 'fire sales' to dispose of assets that are not being used. Avoid major capital expenditure, perhaps lease an asset rather than paying cash up front.

The concept of 'whole business' operation for cashflow management is that the sales and stock team and factory foreman should be involved in reviewing the cashflow situation of the business on a weekly basis. In this way, the team can be aware of the problems relating to the debtors not paying on time, stock turn being too low (thus meaning that there is excess investment in stock), invoices not being raised for progress claims each month for work in progress (thus leading to an increase in the investment in work in progress), and creditors' invoices being paid early rather than waiting to the agreed payment date. It is also important that the whole team has an appreciation of what might be the effect, if the business is paying creditors on a delayed basis, as to what the position will be if the creditors demand payment in accordance with their stipulated payment terms. Where will your business find the money to urgently pay the creditors?

If you would like our assistance on reviewing your business' cashflow management, please do not hesitate to contact us.

Culture Is The Hidden Success For Business

To be successful, a business needs culture – the 'icing on the cake'. Culture affects every aspect of the business, shareholders, directors, management, team members, customers and suppliers. Culture is the hidden success and takes into account:

- The attitude of team members of 'going the extra distance' to satisfy customers' requirements.
- The attitude of customers who might be prepared to overlook late delivery because of their overall satisfaction of dealing with your business.
- Culture relates to the image that your business creates in the marketplace.
- Is staff pleasant and presentable?
- Is the telephone answered in a professional manner?
- Are emails produced in a professional manner?
- Is your website up to date?
- Are products/services delivered with the
- Is quality a priority in the business?

Culture is one of the main attributes of business that will hold the business together, and will give the business that extra strength and perseverance to battle through and survive harsher economic circumstances. If you would like to discuss a 'culture review' for your business, please contact us.

Customer Service – Have You Reviewed Yours Lately?

Periodically, you should stand back from your business and pretend that you're a customer.

- Make a telephone call to your business and judge for yourself how the telephone is answered:
 - Are our perspective customers' queries handled?
 - Are you happy with the way your 'customer enquiry' has been handled?
- Walk in to your business with a group of customers:
 - Is the car park clean and tidy?
 - What is the entry to the business premises like? Does it present a good impression?
 - Is the entry foyer/reception area welcoming for the customer?
 - How does your team greet customers?
 - Are you happy with the presentation of your premises and staff?
- Visit your website as if you are customer:
 - Can you obtain the information that you are seeking?
 - Are there relevant articles that are available for downloading by visiting the website?
 - Have you reviewed the videos contained in YouTube?
 - Are you satisfied that a real customer visiting your website will find the information that he/she is seeking?
- Why not make a 'diary note' to check the customer service within your business every six months?

What's It Mean?

Financial Stress Testing – Financial stress testing is a test that the banks require their customers to undertake, to satisfy the bank that the small business has the ability to repay the loan, irrespective of the prevailing financial conditions. If you're planning to borrow money from a financial institution, you will need to satisfy the financial institution that you have the ability to repay the loan.

Financial stress testing requires the business to prepare the best and worst case scenarios, taking into account:

- sales levels;
- gross profit margin;
- operating expenses; and
- interest rates

As part of the financial stress testing presentation, the business should present the most recent financial data (prepared no earlier than one month prior to the application being lodged), so that the bank can ascertain the business' current financial performance.

Other items normally included in the financial stress test analysis include:

- Key Performance Indicators relating to the previous financial year and the current financial year to date
- budgeted figures
- debtors' aged analysis review
- debtors' days outstanding

If you need to borrow additional funds, please contact us so we can assist with the preparation of suitable package of information, to satisfy the bank's financial stress testing requirements.

Government Grants For SMEs – Reminder

Exporters - The Export Market Development Grant application, for the year ended 30th June 2013, has to be lodged by Monday 2nd December 2013.

Research and Development – If your company incurred eligible research and development, in excess of \$20,000 for the 2012/13 financial year, you have to register with AusIndustry by 30th April 2014 or the date of lodgement of the company's income tax return, whichever is the earlier.

Do You Know Your Competitive Edge?

In business, you can never be everything to everyone. To be successful, you need to come up with a specific proposition or compelling claim targeted at your customers, in such a way that they would be foolish to go elsewhere. This is your point of differentiation, your 'competitive edge'.

In developing your 'competitive edge', you need to consider what you have to offer, that someone else doesn't.

- What competitive edge can your business present?
- Does your business have happy customers?
- How do you create happy customers?
- What benefits can you offer to your customers that other businesses cannot?
- Have you considered what the 'moment of truth' is in your business? A 'moment of truth' occurs every time your business and a customer come in contact. This may be direct contact (as in face-to-face), by telephone, by direct mail, by using your business' website or, indirectly, by way of the delivery firm that you use as a subcontractor.

Your customers' experiences at these times will leave a lasting impression on them. You need to know when a 'moment of truth' will occur and ensure your team members and subcontractors have been appropriately trained on how to react at that time.

What Would Happen If You Died Suddenly?

This is a very appropriate question which should be asked by all family business owners. Effective planning is essential to ensure your beneficiaries gain the best possible benefit from your assets and investments, if you died.

What is Estate Planning?

Estate planning concerns most of us. We spend a lot of time complicating our lives for business or taxation purposes and often a 'simple' Will would not be sufficient.

Some reasons to plan your estate:

- to provide for your retirement;
- to achieve the right balance between your income and growth assets;
- to maximise the financial return on your investments;
- to protect your assets;
- to ensure that you and your finances are looked after when you're not in a position to do so;
- to ensure your estate is dealt with in accordance with your wishes when you die;
- to save your family from unnecessary legal and financial problems and stress when you die; and
- to ensure that you and your finances are looked after when you're not in a position to do so.

Do I need a Will?

The making of a Will exercises your legal right to decide how your assets will be divided upon your death. You need to prepare a Will:

- to choose beneficiaries for your assets and investments, including your business;
- to appoint guardians of your minor children; and
- to name an executor(s), someone you trust to carry out the administration of your estate.

It is important that your Will is regularly reviewed, to ensure it accords with your current wishes, either every 5 years or on the happening of a significant event in your life such as:

- upon death of the executor or a beneficiary under the Will;
- upon changes in relationships;
- upon birth or death of children or other beneficiaries; and
- upon the acquisition or sale of specific assets or investments bequeathed in a Will.

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 email Christie at christie@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.



growing your business with you.

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