

# BusinessPlus+ Newsletter



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## Issue No 97 – November 2013

*“Life wasn’t meant to be easy.” – Malcolm Fraser*

### An Expectation Of Improvement In Business Conditions – But Not Yet!

Australia continues to have positive economic growth, but at a slow rate. Growth is expected to be around 2% for 2013/14. Growth could rise to 3.5% for 2014/15.

The problems experienced by the US government, in not being able to negotiate an acceptable government debt limit, has not been solved, and has only been deferred for a few months. The uncertainty caused has been one of the contributing factors to the higher value of the Australian dollar. Inflation has been subdued, and in 2014, most economists are now expecting inflation to be around 3%.

In their Melbourne Cup Day meeting, the Reserve Bank Board has left interest rates the same, with a growing number of economists not expecting any further interest rate drops this year. Some economists are forecasting that interest rates will start to increase by around April 2014.

New data shows retail sales have increased, at least in big businesses, and housing prices have increased, primarily in the capital cities. This type of data could influence the Reserve Bank to increase interest rates in 2014. Now might be the time to consider locking in interest rates, if you are prepared for contractual limitations that you might not be able to get out of, when you wish to do so.

The new Abbott government appears to be concentrating on its audit of all aspects of government operations, and hasn’t announced too many decisions at this stage.

The government is committed to the repeal of the Mining Tax and Carbon Tax, but small business will lose some of the tax concessions the previous Labor government had announced, which were linked to the Mining Tax. These benefits include the \$6,500 threshold for the small business asset write-off, and the loss carry-back provisions that were legislated for by the Labor government, near the end of its term in office.

The new government obviously has immense problems in managing the deficit, and therefore, is unlikely to be very receptive to small business requests for assistance until the May 2014 budget has been finalised.

Small business operators are becoming more vocal against discrimination by large businesses. If you feel you have been discriminated against, there is a potential remedy, which is to seek redress under the Consumer and Competition Act. If you’re experiencing a discrimination problem, we recommend you consult your solicitor.

Overall, there are significant reasons for an expectation of improvement in business conditions, but it is going to take some time to eventuate.

### Government Grants And Assistance For SMEs

#### Export Market Development Grant Application Due Soon

The 2013 Export Market Development Grant application form is due for lodgement with Austrade by Monday, 2nd December 2013. If you would like our assistance in the preparation of the Export Market Development Grant application, please contact us urgently.

## Characteristics Of A Well Run Business – Part 4

### Debtors Control

- If you're offering credit, it is desirable you implement appropriate debtors control.
- The average debtors' days outstanding is currently 54 days (Dun & Bradstreet)
- If you're offering 30-day payment terms, it means most of your customers are taking nearly two months to pay your account.
- In planning your business' cashflow forecast, did you factor in that your customers might be taking around 54 days to pay your bill?
- Key aspects of a sound debtors' system are:
  - careful review of credit request;
  - obtaining directors' guarantees from directors of private companies;
  - sending a letter of confirmation to new customers;
    - stating credit limit granted and your terms of payment;
  - prompt dispatch of tax invoices;
  - preparation of detailed debtors' days outstanding analysis promptly each month; and
  - effective follow up of debtors' balances outside your stated terms of trade.

## Do You Recruit Great Team Members?

Recruiting new team members can be a very time consuming and very costly affair. If you get it wrong, it will cost you time and money to repeat the process all over again.

To ensure the recruiting process gives you the best opportunity to recruit a great team member, there is a need for appropriate preparation at the very beginning:

- Have you reviewed the 'job description' for the position? If it's a new position, you need to sit down and clearly analyse the responsibilities you want to allocate to this person.
- To whom will they report?
- If the position is replacing a team member who has left, you shouldn't assume the job description, prepared some years ago for that departing member, is still appropriate today.
- When you conduct an exit interview with the departing team member, why not ask him/her to update their job description? Then you'll have a clear understanding of what the person, who is currently occupying that position, has been doing. Invariably, you'll find there has been changes. Some might be quite small, some could be quite large.
- Once you have a clear understanding of what the job description is, you then need to think about the type of person you are going to try to attract to your organisation to fill that position.
- One of the key things you need to think about is 'wiifms – what's in it for me?' This is the key issue for many people who are seeking positions.
- You have to grab their attention – the great things of interest for them.
- Why not list out the salary and bonuses, if any?
- Is there a car provided?
- Is there an entertainment allowance?
- Is car parking provided?
- Is staff training provided?
- Do you support professional development activities?
- Do you have a team section on your website? Is it attractive?
- Would your website encourage an outstanding person to want to work for your organisation?
- Has your business won any awards?
- Does your business have any new products or services, which can be packaged as a new and exciting area for someone to be involved in?

If you have any questions about designing a job description for your team member, or need any assistance on your recruitment strategies, please do not hesitate to contact us. This article will be continued in the next issue of Business Plus+.

## Business Entities – Partnerships

A partnership is the conduct of a business by two or more people, who have the status and authority of owners or principals. A partnership shares much in common with a sole trader, because the business is NOT a 'separate' entity from the individuals who conduct it.

- In a normal partnership, the liability of members is unlimited. Liability extends to their personal property, as well as the partnership assets.
- A partnership can register a business name.
- A partnership is required to lodge an income tax return.
- The taxable income or loss of a partnership is distributed to the partners, in proportion to their designated percentage of ownership within the partnership.
- The partner declares their individual share of the profit/loss in their own income tax return, and then pays the assessed income tax.
- It is desirable that partners set out their rights and responsibilities in a written partnership agreement

If you would like to discuss business structures, please do not hesitate to contact us.

## Getting A Business Ready For Sale – Part 2

If your strategy is to sell shares in a private company, a potential buyer will undoubtedly require their accountant to undertake a due diligence review of the company's records. It's a good idea for a vendor, working with their accountant, to undertake a due diligence review of the corporate records, prior to any requested due diligence review by a potential buyer.

The due diligence review, conducted by the vendor, will give you the opportunity of isolating any particular issues within the business, which might need fixing, prior to a due diligence review being conducted by the potential buyer.

Generally, accountants advise clients, who are contemplating purchasing shares in a business, to be very careful. The reason for this is debts and liabilities incurred by a company belong to that company, irrespective of who the shareholders and directors are, at the time the liability is determined or is payable. For example, a taxation office audit, after a share transfer locates errors within the company's records prior to the sale of the shares, and imposes tax and penalties. This is a problem for the current owners and the new directors of the company, rather than the previous owners or directors. For this reason, accountants and solicitors generally recommend their clients try to avoid purchasing shares in a company. Therefore, if you wish to sell shares in the company, you should be ensuring that there will be no issues detected in the company's records from the due diligence review conducted by representatives of the potential buyer.

Another big issue in getting a business ready for sale is the determination of the sales price. An interesting exercise for the vendor is to write down what they think the business is worth, then ask their accountant to value the business. It's not unusual to find that there are differences in the two valuation figures. This is called the 'valuation gap'. Accountants who are skilled in advising clients on strategies to sell their business can then offer a series of strategies, to ensure that, over a period of time, the 'valuation gap' is eliminated or reduced.

One important way to improve the valuation of the business is to ensure there are appropriate records and systems implemented throughout the business, and that the business management team, excluding the current owner, can manage the business on a day-to-day basis.

Buyers are generally looking for investments in businesses that have sound business systems and well-trained staff, without over-reliance on the vendor of the business.

If you would like our assistance in planning a 'getting your business ready for sale' strategy, please do not hesitate to contact us.

## Quality Of Decision Making Process

Business operators are called upon to make decisions continually throughout most business days. Many individuals make decisions on the 'run'. This can cause bad decisions to be made. Individuals can also be drawn into making decisions when they are emotionally affected by the situation, or rely on a 'gut decision making' process, as distinct from reviewing information on a particular issue.

Some business operators can be affected by different matters, such as:

- their current emotional state;
- their age; or
- the time of the year – hot, cold, raining, storm.

Most business people can benefit by having a peer group (might vary from decision to decision), with which they have discussions prior to reaching a final decision. Business individuals need to have a good understanding of their own 'risk status'. Are they cautious, normally take risks, or do they need to sleep on something before making a decision? This enables the subconscious brain to factor in aspects of the decision that might not have seemed obvious, when the problem was originally being considered.

If you are using a team approach on decision making, you should create some 'buy-in'. The people with whom you're discussing the issue with need to be given sufficient time to bring themselves up to speed with what is involved. All members of the decision making team should be asked to contribute to the decision. If you want to get a genuine response from the people you are asking, be careful not to influence the process, so the individuals within the team don't feel peer pressure.

Most businesses can improve the decision making process by slowing down the process, by referring an issue to a small group of people, and giving them time to come to grips with the issues being raised, so they can make a valuable contribution.

There is also a need for a business owner and key management people to make long-term decisions on the future operation of the business. This is best conducted in a retreat-type format, away from the 'hurly-burly' of the day-to-day business activities. Why not go somewhere quiet to discuss the future operations of your business, with the key people who are involved with the business? Then encourage each of them to make a contribution on what they believe the decision should be.

## What's It Mean?

**Net Profit Before Tax** – The amount remaining after cost of goods sold and operating expenses have been deducted from sales.

## Are Meetings Productive?

A lot of business meetings are not productive. Planning a meeting should improve the meeting's productivity for all attendees. The key items for an effective meeting are:

- appoint a chairperson;
- the chairperson should distribute an agenda prior to the meeting;
- appoint a meeting secretary to prepare minutes and coordinate the meeting;
- distribute minutes of the previous meeting prior to the meeting;
- prepare an action plan for each meeting and review the implementation of the action plan early in the following meeting;
- start the meeting on time, irrespective of who is not present;
- keep the number of attendees to the lowest possible number of people (only invite people to attend who have a direct involvement in the agenda items);
- everyone present should have a clear reason for being there;
- everyone present should have a role to play in the meeting;
- people attending should make a brief report on the matters relating to the meeting, for which they are responsible;
- for submissions to a meeting, someone should be allocated the responsibility of ensuring the reports are distributed to participants prior to the meeting (preferably 48 hours prior if possible); and
- the meeting should finish on time.

## Risk Items To Be Monitored

It's a good idea to review the following risk items, at least on an annual basis:

- Wills – are they still appropriate? Should any changes be made?
- Life insurance cover – is it sufficient? If the cover is part of a buy-sell agreement, is the amount of cover appropriate for what the business is now worth?
- Key person insurance – does the business have a policy on obtaining key person insurance policies? Have all key persons been insured?

If you would like to discuss these aspects of your risk management strategy, please do not hesitate to contact us.

## Sales Manager's Contribution To Sales Performance

In every business, it's desirable to have a person who is defined as the 'sales manager'. That person may have other roles in the business. The person may be the owner or the CEO. If there are sales people working in the organisation, they need to know who the sales team leader is.

Every business needs a good sales leader. The sales leader is not necessarily a great sales person. A sales manager needs to be the 'chief encouragement officer' within the business. They need to be able to 'fire up' the sales team. The greatest challenge for the sales manager is recruiting 'great sales people'. The sales manager's role is to coach and mentor sales people, to encourage them to achieve their personal targets.

The sales manager needs to understand the strengths and weaknesses of individual sales persons, and to appreciate that their prime role within the organisation is to make sales. Therefore, don't lumber the sales team with administrative issues, but concentrate on trying to strengthen the individual salesperson's strengths. The sales manager needs to resolve any issues between production, administration and marketing, so the salespersons can concentrate on what they do best: selling the business' products or services.

The sales manager should ensure that the object of sales meetings is to encourage and inspire the sales team, not focusing too much on problems over which the individual sales person has no control, and making sure the salespersons leave the meetings inspired and very enthusiastic. Indeed, their best sales calls should be made shortly after having attended an 'inspiring sales meeting'.

### WANT TO KNOW MORE?

Additional information on the articles contained within this issue of **Business Plus+** is available by contacting [christie@lewistaxation.com.au](mailto:christie@lewistaxation.com.au). You might be interested in requesting any of these additional informational papers:

- **Paper 006-080 Characteristics Of A Well Run Business**
- **Paper 012-009 R&D Tax Incentive**
- **Paper 014-030 Export Market Development Grant**
- **Paper 029-007 Risk Planning For SMEs**
- **Paper 036-001 When Is The Best Time To Sell**

### 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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