

BusinessPlus+ Newsletter



INDEX

Innovation – Don't Accept The Status Quo!.....	1
Corporate Governance Is Important	1
Benchmarking	3
Sending Cards – A Great Marketing Tool	4
Sales Performance Is Vital For Business' Success	4

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Innovation – Don't Accept The Status Quo!

The government is encouraging businesses to look very closely at innovation strategies within business operations.

One of the key concepts for successful innovation is for all team members not to accept the status quo. Just because something is being done a particular way for a number of years doesn't mean that it's the correct way. Could the process be changed?

In many cases, small improvements are the best. Team members should be encouraged, on a daily basis, to stand back and think about what's going on in their sphere of influence. This could take about 5 minutes, to rationally think about the work process and note down the changes that could be made to improve business operations.

Every innovation starts with an idea, however it then needs to be developed, nurtured and, if it's any good, grow the idea to a stage where it can be trialled. If, at any stage, there's a problem in the process, there's no use proceeding with it. Think about something else. If it's good, then it needs to be implemented. This will require documentations, perhaps require patent applications and then the product/service will be ready for commercialisation.

All team members should be encouraged to be thinking about innovation and to accept innovation as part of their job. They need to think of ways and means of doing the job better.

The government is going to encourage innovation by making it easier for companies to raise capital.

The legislation for the crowd funded equity raising and the amendments to the Corporation's Code have passed the House of Representatives and are currently in the Senate. The government is hopeful that this legislation will be operational by 1st July 2016. The government is yet to introduce legislation for the second new company which, at this stage, is being called "innovation company". Hopefully, that legislation will be introduced to the Parliament in the near future.

Having the ability to raise capital is a very important part of the problem but is not the complete picture. Businesses need to be proactive in the nurturing of a culture of encouraging team members to be proactive in the identification of improvements that could be made within the business.

One of the ways that you can obtain some government assistance for this is to claim Research and Development expenditure as a taxation rebate. You need to be a company to claim the R&D rebate. If you're contemplating undertaking R&D projects that will cost in excess of \$20,000 per annum (including labour costs and labour on costs), it could be beneficial to incorporate a company.

If you would like to have a discussion with us relative to strategies for establishing systems within your business, to enhance your innovative processes and to claim an R&D tax rebate, please don't hesitate to contact us.

Corporate Governance Is Important

Being a Company Director is an onerous role that requires a director to be aware of a wide range of activities affecting the company, including:

Understanding Financial Accounts

This relates to:

- [Monthly Trading Profit & Loss Accounts](#) for each business activity within the business
- [Balance Sheet](#) that has been verified as to the assets and liabilities

Corporate Governance Is Important (cont'd)

- Ratio analysis for the various businesses and the Balance Sheet
- Key Performance Indicators (KPIs) on the individual businesses, with management submitting a report as to the reasons for variations in KPIs from previous months and budget expectations
- Budgets
- Benchmarking – comparing the individual business activities to your peers by conducting benchmarking reviews

Source and Application of Funds

It's a good idea for directors to insist that they receive detailed source and application of funds statements, on a regular basis, throughout the year, as this can be a very informative way of understanding what has happened to the cashflow within a company.

Understanding Budgets and Cashflow Forecasts

Directors should have a working knowledge of the components of budgets and cashflow forecasts.

Market research is normally the first activity relative to budgets. Directors should inquire as to how the market research was undertaken and ask questions to satisfy themselves that reasonable assumptions have been made on the projected market for the company's products. This information then flows through to the preparation of labour and product development budgets and the stock budget.

Have the sales budget been prepared on a reasonable basis? How does the average selling price compare to selling prices achieved in previous periods? Does the gross profit percentage compare favourably with the gross profit percentage achieved in earlier periods? If not, directors should be asking questions to satisfy themselves that the budgets have been prepared on a reasonable basis.

Good Corporate Governance requires directors to subject budgets to reasonable questions, including discussions on the assumptions that have been made by the persons preparing the budgets. Directors need to be aware that, when the budgets are adopted by the company, it's the directors who are adopting the budgets, not the employee or consultants who prepared the budgets for submission to the Board of Directors.

- Within the cashflow forecasts, have reasonable estimates been made for debtors' days outstanding and creditors' days outstanding?
- How do these ratios compare to previous periods? Are the adopted figures "defendable"?
- If the company is undertaking significant capital expenditure programs, has the funding for those programs been incorporated within the cashflow forecasts?
- If reliance has been made on leasing finance, has the company secured an undertaking from a bank or lease company to finance the capital expenditure?
- If the cashflow forecasts are indicating that the company is going to be exceeding its financial arrangements with its bank, are the directors monitoring management's discussions with the bank, to ensure that financial packages are in place to meet the company's projected requirements?

Portfolio Allocations

Directors need to satisfy themselves that the key management portfolio allocations have been made to appropriate people which, in some instances, could include directors, to ensure that the workload is effectively spread and that an executive is responsible for each of the individual portfolios, not on the basis that the portfolios are allocated to only one or two people. Normally it would be the CEO who allocates the portfolios, however it's reasonable for the Board of Directors in performing their duties to inquire as to the allocation of the portfolio responsibilities and then to periodically review the performance of that executive relative to the portfolio(s) that they have been allocated.

Example of portfolios that directors should be ensuring have been adequately allocated include:

- Research and Development – planning and documentation of R&D projects
- Product development and manufacture
- Relationship with suppliers
- Human Resources responsibility within the company
- Manufacturing and preparation of product
- Commercialisation strategies – distributors, sales outlets
- Information Technology – relative to accounting system, production, CRM system
- Marketing – including social media, marketing activities, website
- Customers
- Sales – management of the sales team
- Accounting Department
- Premises
- Government grants
- Taxation
- Shareholders

Corporate Governance Is Important (cont'd)

Board of Directors' Meeting

A sound Corporate Governance system ensures that adequate notification is given to each director as to when a Board of Directors' meeting is going to be held. Notification should include an agenda and reports that have been prepared by the CEO, CFO and other executives who have a direct reporting responsibility to the Board of Directors.

It's a good practice for the company to have appointed a Chair who approves the agenda and ensures that Board reports have been submitted to directors so that they can read them prior to the meeting. The Chair should also review the minutes of the previous Board of Directors' meeting prepared by the Company Secretary and authorise the release of minutes, together with the action plans for each individual director or executive originating out of the minutes of the previous meeting.

Company Secretary

Many companies will not have a full-time Company Secretary. It's a good Corporate Governance strategy to appoint someone to perform the role of a Company Secretary. This would normally include:

- preparation of the agenda in conjunction with the Chair
- notification of the date, time and place of the Board of Directors' meeting
- distribution of the agenda and the executive reports to the directors at least 72 hours prior to a meeting
- attending to other duties that have been allocated by the Board of Directors to the Company Secretary – this could be matters such as shareholder relations, insurance reviews, risk management reviews pertaining to the PPSR

The Company Secretary should also ensure that the minutes of the Board of Directors' meetings are prepared accurately, names of the mover and seconder of each motion are recorded in the minutes and, if a decision is not unanimous at the Board of Directors' meeting, the minutes should record directors voting in favour of a motion, those voting against and those abstaining.

It's also a good practice to record the names of directors in attendance, the commencement time of the meeting and to record details of any director who left the meeting during the meeting's proceedings (and the time) and also if the director returned later, record the time that the director returned to the meeting. If a director has declared an interest in a matter being discussed at the Board of Directors' meeting, it's important that the director's interest is noted in the minutes of the meeting.

Directors should carefully read the minutes of the Board of Directors' meetings and, if they disagree with the minutes as distributed, it's a good practice for the director to immediately contact the Chair and advise him/her that they disagree with the minutes as recorded and to then implement discussions as to what the minutes should state on the particular issue.

There have been a number of court cases that have resulted in company minutes being examined, therefore it's very desirable that the minutes are prepared accurately in the first place and, if any director disagrees with the wording in the minutes, that he/she raise an objection as soon as possible and argue for the minutes to be changed at the next Board of Directors' meeting if the changes haven't already been made. If a director is not satisfied with the decision relative to the recording of minutes, the director should consider his/her ongoing position on the Board of Directors and seek independent legal advice.

Directors should be aware of any shareholder's agreements that have been accepted by the company (even if by a former Board of Directors) so that the directors can ensure that the terms and conditions of the shareholder's agreement, which is a legally binding agreement between the company and the shareholder, are being implemented.

An important convention of Board of Directors' meetings is that the directors maintain confidentiality on matters discussed at the meeting and that businesses relative to the matters discussed at the meeting are only discussed with other directors.

Benchmarking

Benchmarking is the comparison of a business' operating KPIs and other financial ratios with best practice in similar businesses. Benchmarking enables a business operator to conduct a peer-to-peer review.

It's very difficult and lonely in small business. It's very hard to find authentic data against which a business can compare its performance to others operating in the same business. This information is generally not known or released, which makes it very difficult for small/medium enterprise operators to know where they stand, relative to revenue generated per employee, gross profit percentages, labour to turnover percentages, net profit percentage to turnover and other performance data as compared to the overall industry performance figures.

Benchmarking is undertaken by all types of persons, not just business people. Sportspeople have been doing it for years. Cricketers, for example, are great record keepers and they compare bowling averages, batting averages, number of catches taken, etc. Some cricketers use baseballers to teach the players how to throw and how to speed up their ground fielding. Other sportspeople set and monitor actual performance against personal best for national or world records. They change parts of their technique. They understand the importance of diet. They use the most efficient equipment possible. They visualise future performance. Then they measure progress towards their target.

All these steps involve improving one aspect of their performance or technique, in an effort to improve their overall performance.

Manufacturers buy a competitor's product and then pull it apart, looking for ways of improving their own product.

Benchmarking (cont'd)

The information you could glean from undertaking a benchmark comparison report, at least on an annual basis, will significantly assist your business' overall performance.

If you would like to view a presentation on benchmarking, presented by Benchmarking.com.au, [click here](#).

Sending Cards – A Great Marketing Tool

Electronic communications and online marketing are potentially sending the traditional "snail mail" method into decline. However, nothing else shows "you care" better than placing tangible material into your customers' hands, such as a greeting card.

Cards can provide a personal touch. We all know it's very difficult to communicate at present because of the large number of emails we all receive, with a lot of them not being read. There's a far better likelihood that your card will reach your target and be read. You can utilise cards for communication with families, friends, customers and clients.

You can set up your own Customer Relationship Management (CRM) system for your card distribution. If you wish, you can add a gift to the card and personalise the front and back of the card. You can also include a personalised message and photographs for your clients.

The system, such as SendOutCards, is a time-efficient and cost-efficient way to communicate to your customers.

Sending cards is a great marketing tool and something different. Perhaps you could utilise the cards in your business and make a lasting impression on a customer, client or friend.

If you would like to view a presentation on using cards as a marketing tool, presented by SendOutCards, [click here](#)

Sales Performance Is Vital For Business' Success

The economic growth projection for 2016 of around 2% indicates that business conditions are going to be fairly tough this year. Therefore, businesses need to ensure that the sales team is working as a very efficient unit.

As part of the sales process, customers are looking for better information to be supplied to them. This includes understanding the market trends, being aware of the customers' requirements, differentiating small businesses from larger businesses and the determination of a sales approach.

Salespeople need to understand where the business fits so that a very clear direct sales message can be framed. Part of this will require some conversations with customers, to understand what they're looking for.

Within a business, a team member should appreciate that selling is their business as much as it is to the sales team. Selling is a "team sport". All team members should be conscious of servicing customers, identifying trends and gathering feedback so that the business develops a database of information that's flowing back from customers.

The marketing and sales team within a business need to work in close cooperation. Marketing is about promoting products and services on a very wide basis, whilst selling is trying to pick the "warm" prospects and talking directly to them. Sales personnel need to be passing back information they've gleaned from conversations with customers so that the marketing strategy encompasses all of these information in its presentation.

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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