

BusinessPlus+ Newsletter



INDEX

Businesses Need A Broad Succession Strategy	1
Business Plans	1
Principles Based Test For Early Stage Innovation Company (ESIC)	2
What's In An Information Memorandum?	2
Introducing A Job Costing/Stock System – Part 1	3
Insurance Reviews	4

Issue – June 2016

Businesses Need A Broad Succession Strategy

The normal understanding of “succession” is a question something like this: *“What would happen if something happened to our owner or CEO?”*

Most small/medium enterprises can't afford to have a stand-by CEO sitting in the wings. Alternative strategies need to be developed to ensure that the business has an effective “succession strategy”.

The concept of a “succession strategy” will become a high priority for many businesses that are hoping to expand their operations, by raising capital under the Early Stage Innovation Companies (ESIC) process, starting in July. However, many investors will be asking questions relative to the effectiveness of the business' innovation policies.

Does a business have a “succession strategy”?

The key components of a succession strategy include:

- Review of the corporate management chart – are there any obvious “deficiencies” in jobs that have been allocated to the management team?
- Review of job descriptions for members of the management team – do the job descriptions adequately describe what that management person is doing? Is the person undertaking the work that has been allocated to them in their job description?
- Review of the job description of the CEO/owner – is there any obvious areas that could be delegated to other members of the management team now, not at some time in the future?
- A Corporate Governance Think Tank Workshop with the management team is an ideal way to familiarise all members of the management team of the process of management responsibility, to show them how a Board of Advice operates and how a Board of Directors operates, together with a discussion on corporate responsibilities.

Many businesses prepare a “skills matrix” by working through the key items that require attention on a daily, weekly, monthly and annual basis within a business, to ensure that these duties have been allocated across the management team and not just to one or two persons.

The key aspect of the “succession strategy” is to determine which team members could, on a temporary basis, at least perform some of the CEO's ongoing role if the CEO was not available for a period of time. The outcome of this type of exercise would be that the management team members will have a greater appreciation of the way that the Board of Advice and a Board of Directors work in an organisation. Succession within the organisation will be enhanced by all members of the management team having a better appreciation of their role and, in particular, any aspect of their stated role that they haven't been performing.

The organisation will benefit by each team member having a skills development program for the next 12 months that they will be able to implement for the benefit of themselves as well as the business.

If you would like to have a discussion with us relative to the development of a “succession strategy” for your business, please don't hesitate to contact us.

Business Plans

Business plans are a great June activity. Now is the time to allocate some quality time to developing a business plan for 2016-17. If you would like to have a discussion about business planning, please contact us.

Principles Based Test For Early Stage Innovation Company (ESIC)

In the May edition of Business Plus+, we summarised the tests that the company had to pass to accumulate 100 points relative to innovation or the company had to demonstrate that it was focused on developing for commercialisation one or more new or significantly improved product, process, services, marketing or organisational method. This process is known as the “Principles Based Test” and requires the company to:

- have a high growth potential.
- demonstrate that it has the potential to be able successfully scale the business.
- demonstrate that it has the potential to be able to address a broader than local market including global markets.
- demonstrate that it has the potential to have competitive advantages for the business.

Companies will be able to self-assess whether they satisfy the requirements of the “Principles Based Test”, seek a ruling from the ATO or request an arms-length independent organisation to assess whether they comply with the requirement of the legislation to be deemed an ESIC. This accreditation process will be very important because most investors will probably require assurances that the company will be deemed by the ATO to be an ESIC prior to making their investment in the company because investors will be concerned to ensure that they’re going to receive the 20% investment rebate and be eligible for the Capital Gains Tax exemption that relates to shareholders from the end of year one to end of year 10 in an ESIC.

If you would like to have a discussion with us relative to the ESIC processes, please don’t hesitate to contact us.

What’s In An Information Memorandum?

With all the discussions on ESIC and Crowd Funding Equity Raising, some questions have been raised as to what should be included in an “Information Memorandum”. Information Memorandums are also the basis for an investment pitch.

Information Memorandums have been utilised as a key document for small/medium companies wanting to raise capital, utilising Section 708 of the Corporations Code. Section 708 enables a company to raise \$2M each 12 months, subject to their being no more than 20 investors in that capital raise and under 50 shareholders.

Information Memorandums will be a key document for companies wanting to utilise the new capital raising opportunities that are going to be available from July for ESIC and, hopefully later in the year, when the Senate passes the Crowd Funding Equity Raising legislation.

The key components of the Information Memorandum are:

Introduction

This is also the executive summary of the key components contained in the other sections of the information memorandum. This is the key “sell page” of the document.

Why This Business

This is the WOW factor. Why would investors want to invest in this company? This section could be presented under a number of sub-items including:

- business activities of the company
- the resources utilised within the company
- experience that the business has

Products/Services

What products/services does the business produce? Are there any outstanding milestones on any of these products/services? This section should be supported by some photographs, preferably one page of photographs, to highlight the types of products or services produced by the company.

Differentiation

What differentiates your company from other companies? What are the key points of differentiation from your business and your competitors?

Markets

What markets are you servicing? What are the unique features of these markets?

Customers

Who are your customers? It’s great if you can include some of your customers’ logos, especially if they’re large businesses. Investors like to see that small businesses have customers who are large businesses.

Customer Testimonials

An Information Memorandum is enhanced with some key customer testimonials (one page).

Management Team

Who are the key management personnel within the business? Include a short comment on each of the managers. Include a photograph for the management team. This helps to humanise the Information Memorandum.

What's In An Information Memorandum? (cont'd)

Team

It's a good idea to summarise the membership of the team. Team photographs, especially incorporating a work activity, can be a great promotion.

Other Key People

Who are the other key people within the business or external for the business? This might include external accountants, auditors, lawyers, advisory board, Board of Director members.

Locations

Where are the current locations and the proposed locations of the business?

Intellectual Property (IP)

What IP is being produced by the business? How is it being protected? Has the business applied for any trademarks or patents?

Quality Assurance (QA)

Include some comments on the quality assurance system implemented within the company.

Workplace Health and Safety (WHS)

Investors expect the company to be abiding by the WHS rules. Give them the assurance that you're doing this.

Environment

The environment is obviously a very important issue these days. Give a brief overview of the environmental policy that's been implemented in your business.

Capital

How much capital are you trying to raise? If the reason for the production of the Information Memorandum is to raise capital, you need to include a summary stating:

- The amount of capital that you're trying to raise.
- The number of shares that relate to that capital target.
- Details of the closing date for the application for shares.
- A summary of the key material in the company's financial forecast (sales, net profit before tax, net profit after tax).
- Expenses of the capital raising.

This is a suggested format for an Information Memorandum. Remember, this is the "sales document" relative to raising capital or gaining support for particular business activities that you wish to undertake. It's not a business plan. The business plan may be required by a potential investor at your next meeting with them. The key purpose of the Information Memorandum is to create interest in your company.

If you would like to discuss the development of an Information Memorandum for your business, please don't hesitate to contact us.

Introducing A Job Costing/Stock System – Part 1

Businesses that are producing products and stock items usually grow to a size where it becomes opportune to introduce a computerised Work in Progress (job costing/stock/inventory control system).

There are number of very good computer software products available, however the real challenge is to undertake the pre-planning beforehand, to ensure that systems have been appropriately developed.

The big advantage is that the business will be able to receive full detailed information on each job completed during the previous month, compared to the information all being contained within a traditional accounting report, showing total figures for all jobs for sales and then the cost of sales components, without giving any individual results from the various jobs that have been undertaken.

The preparation process includes:

- Identifying and preparing a list of the description of stock items that will be included in the stock control system.
- Identification and preparation of a list of the consumable items utilised within the business.
- Determination of the method of measurement for each stock and consumable item by length, weight or some other appropriate method of measurements.
- Many of the computer programs have a concept of "standard components" in a standard job. Management will need to determine what the "standard components" are for a standard job.
- Determination will then be required as to what the standard "usage figures" for consumables for each stock item to be produced.
- Management will need to implement a system for the allocation of job numbers for both standard items and non-standard production items and ensure that the tradespeople are aware of the job numbers that have been allocated

Introducing A Job Costing/Stock System – Part 1 (cont'd)

- Forms will need to be provided for the recording of daily usage of stock items and consumable items and the production of new stock.
- Forms need to be produced for the recording of tradesperson's times on the various jobs.
- Team training should be conducted with the tradespeople and administration staff, to ensure that everyone is familiar with the new system.
- Full stock and consumable stocktakes need to be undertaken so that the opening data is available for the computer system.

If you would like to have discussions with us relative to a review of a job costing/stock control system for your business, please don't hesitate to contact us.

Insurance Reviews

It's nearly the 30th June. It's an appropriate time to review the adequacy of your insurance covers.

Some of the items to be considered include:

- Fire and General Insurance – ensure that the sums insured adequately reflect the significant cost increases in the building industry. Have you reviewed the allowances made for removal of buildings, especially if there's asbestos in the building?
- Loss of Profits Insurance – review the key components, especially relative to items such as indemnity period. This is the estimated time that you will be unable to conduct business from your business premises and it must take into account council applications and the rebuilding process (ongoing expenses will be continued to be incurred irrespective of whether the business is actually trading or not).
 - Retained staff – salaries for key people you would want to retain for the indemnity period so that you have key people to re-staff the business.
- Public Liability Insurance – is the level of insurance acceptable for the work you're currently undertaking?
- Professional Indemnity Insurance – does your business give professional advice to clients? If so, you probably should apply for a professional indemnity insurance policy.
- Key Person Insurance – has there been a review of the quantum of the key person insurance cover? Have all key persons been included in the insurance cover?
- Tax Audit Insurance – have you considered taking out an insurance cover in the event of a tax audit to cover the extra professional fees you would undoubtedly incur?
- Credit Insurance – if you're selling a large portion of your sales by credit, have you given consideration to taking out a credit insurance policy?

It's recommended that "insurance" should be a permanent item on the agenda for the monthly management meeting. The person responsible should report whether the insurance company broker has been notified of any new acquisitions, changes or commencement of new business operations for the business' insurance policy.

A properly constructed insurance portfolio is vital for stability of any business. A webinar was recently presented, featuring an insurance broker, on a range of insurance issues as they relate to small/medium enterprise. [Click here](#) to watch the video.

If you would like us to undertake a review of your insurance covers, please contact us.

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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