

# BusinessPlus+ Newsletter



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## Issue – February 2019

Best wishes to you, your family and colleagues for a very successful 2019!

### Crowd Sourced Funding Equity Raising Has Commenced!

The Crowd Sourced Funding Equity Raising Scorecard indicates that \$18.3 million has already been raised by 22 Australian companies. The following is a summary identifying the companies with a brief description on their business activities and the amount of capital that they have raised to date. Completed capital raisings that details have been extracted from some of the intermediary's websites:

- Xinja Bank – 100% Digital Bank - \$2.4M
- Manrags – Premium Socks and Underwear - \$363,250
- Choovie – Digital platform that matches moviegoers with empty seats - \$294,500
- The West Wind Gin – Australian Champion Gins - \$932,000
- Memo Bottle – Flat water bottle designed to fit into your bag - \$383,238
- Bausele – Timekeeper luxury brands with Australian inspired crowns - \$294,928
- Plikan – Global currency App and pre-paid Visa card that you can use anywhere - \$248,930
- Orderup – Investment in a gaming brand - \$361,394
- Park – Leading soccer brand – balls, clothing - \$316,035
- Sash – an Australian take on modern Japanese fusion - \$184,321
- Greenfields Exploration Ltd – Mining Incubator and Project Initiator – \$1.2 million

These companies represent a fairly wide cross-section of Australian businesses. If you are interested in understanding more about crowd sourced funding equity raising as it applies to small proprietary companies and small unlisted public companies please do not hesitate to contact us. Some of the company's currently attempting to raise capital include:

- Endeavour Brewing Co – craft beer manufacturing
- DHF Surf – surfboard design
- Direct Injection Technologies – technology to supplement livestock
- Purahealth – health supplements

- Australian Boutique Spirits – manufactures and marketers of Australian made spirits
- Mobiltech – travel solutions
- Edutech – cloud enabled student tutoring
- Medical Services Group – multi venue medical services business
- Industrial Tech – patented safety device seeking capital after first sale
- Internet Gaming – established company seeking funds to expand into new networks and markets
- Black Hops Brewery – craft beer and wine
- HUTT – tomorrows house today – delivering the future of zero carbon housing
- Dreamcity – an immersive theme park combining education with fun
- Oscar Razor – Australian premier shave club
- Your Mates – craft beer and wine
- Picaluna – network of professional funeral planners and celebrant

What this list of companies illustrates is that any type of business operating in Australia, which has a good business case, has a reasonable chance of being able to raise capital, thus avoiding loans together with the associated security requirements, personal guarantees and monthly principal and interest repayments.

If you would like to have a discussion with us relative to the assistance that we can give your company to get you started on the capital raising journey, please do not hesitate to contact us.

To assist you to self-assess as to whether your company might be eligible to raise capital as a Crowd Sourced Funding Company we are attaching a self-assessment checklist. If you are interested in understanding your company's potential eligibility for Crowd Sourced Funding Equity Raising we invite you to complete the self-assessment form and, if it indicates that you are potentially eligible, please contact us for a discussion. ([Click here](#) and complete - Crowd Sourced Funding Eligibility Matrix Form - BAS5004).

## Co-Ownership Agreements Are Important

The best time to finalise an agreement which relates to disputes, sale of the business, major capital expenditure, policy on the treatment of profits, decision-making, restraint of trade and many other issues is when the business is being formed, not months or years later when the same level of enthusiasm and friendship, that was there at the beginning of the business, may not be as evident.

Going into business with someone else is a big event, so the key reasons to have a co-ownership agreement is to have set the “rules” before you start playing the business game in which your business entity envisages being involved. It’s important to consider setting the clear expectations of everyone involved as a partner, unitholder or shareholder right from the beginning.

Items to consider include:

- Is every partner, unitholder or shareholder required to work full-time in the business? (Called a principal)
- The principals should agree on the decision-making processes to be implemented within the business.
- Restraint of Trade – consideration should be given at the very beginning as to what would happen if one of the principals wanted to do “private work” or wanted to leave the business at some future date. There are various types of restraint of trade clauses and consideration should be given as to which type of restraint clauses should be included in the agreement.
- Working Capital Contributions – the agreement should summarise the founding principals’ intentions relative to the funding of working capital for the business:
- The founding principals need to determine a policy relative to the treatment of profits.
- Sale of equity to third parties – will there be a prohibition on any one selling their equity to a third party?
- What will be the rules that have been agreed to by all of the founders relative to a forced exit from the business?
- A formula for the methodology to be utilised for the calculation of an exit value held by a principal in the business.
- An agreement relative to a “Buy-Sell Agreement”. Consideration of wording and the formula to be utilised for the calculation of the exit value.
- Dispute resolution procedures relative to a dispute that cannot be agreed on from normal negotiations
- Consideration relating to the inclusion of a “drag-along rights” within the agreement. (A right that enables a majority shareholder to force minority shareholders to join in the sale of the company)
- Consideration relating to the inclusion of a “tag-along rights” within the agreement. (If the majority shareholder sells their stake the remaining minority shareholders have the right to join the deal and to sell their shares on the same terms and conditions as the majority shareholder).

Whilst it is preferable that a co-ownership agreement is negotiated at the beginning of an entity’s life there is no reason that a co-ownership agreement cannot be agreed to at any time during an entity’s existence.

If you would like to have a discussion with us relative to

the creation of a co-ownership agreement or a shareholder’s agreement for your business entity, please do not hesitate to contact us.

## Political Issues Add Extra Drama To 2019

There has to be a Federal Election for the House of Representatives and a half Senate Election during 2019. This will certainly dominate the news media and will add a degree of uncertainty to business operations.

Notwithstanding the election debate, the Australian economy is expected to continue to grow by more than 3% during 2019 with a continuation of the recent improvements in the unemployment rate. There is an expectation that interest rates will slightly increase during 2019. Foreign-exchange conversions are expected to see a slight improvement in the relationship of the Australian dollar to the US dollar (around \$0.76) whilst the UK pound is likely to fall because of the ongoing drama of the BREXIT negotiations.

Most commentators seem to expect the Federal Election to be held in May, although one well-known journalist is urging the government to delay the House of Representative’s Election until later in the year. (The Senate Election has to be held in May, but the House of Representatives Election doesn’t have to be held until November). On the basis that the Federal Election will be held in May, there is an expectation that the government will hand down its Budget on Tuesday 2nd April 2019. The Liberal/National Party government will undoubtedly be keen to promote the prospective return to budget surplus in the near future.

There is an expectation that banks will be difficult to deal with as part of the aftermath of the Banking Royal Commission. For this reason, it will probably be beneficial to prepare your Budget Forecast for the 2019 calendar year and to have a discussion with your banker at the earliest opportunity relative to the support that you require during 2019.

If you would like to discuss with us your business expectations and your Budget and Cashflow Forecast for 2019, please do not hesitate to contact us.

## Grants Update

The following grants are all targeted at small/medium enterprise businesses:

### Employers Support Payment Scheme

Provides financial assistance to eligible employers of reservists and self-employed reservists when the reservist is absent from their workplace on eligible periods of defence service. Payments for full-time employees is \$1,567.90 per week – pro-rata payments may be made for a part-time employee. Employers must have an Australian Business Number and can include partnerships, companies, trusts and trustees of trusts.

### Small Business Export Loan

A loan to meet the specific needs of small business exporters who need finance to support their export transactions and their bank is unable to help – the Export Finance Insurance Corporation (EFIC) may be able to provide the company with the necessary funds to satisfy their cashflow needs. Loans are available from \$20,000 to \$350,000 secured by directors’ guarantees. Interest rates are approximately 13% per

annum. In the first instance the business must apply to their bank for financial assistance and they are only eligible for the small business export loan if the company's bank is unable to assist. The company's turnover must be between \$250,000 and \$10 million in the previous financial year and have been established for at least 2 years.

#### Assistance for SMEs Accepting Work in the Defence Industry

The Centre for Defence Industry Capability's administers a program providing advisory and facilitation services to defence sector small to medium enterprises to improve business management, skills development, innovation and access to export initiatives and international and domestic supply chains.

The program also provides grants to defence sector SMEs to implement recommendations from advisory and facilitation services.

Eligible applicants must be a company or an incorporated trustee on behalf of the trust. Businesses are not eligible to apply if they are an individual, partnership or trust (however an incorporated trustee may apply on behalf of a trust).

If an applicant is successful they will be assigned a business advisor or facilitator who will work with the applicant to complete the advisory or facilitation service and produce a report with recommendations. Funding of \$5,000 to \$250,000 is available for successful applicants to implement the recommendations that have been made in the advisory or facilitation process.

If you are interested in having a discussion about any of these grants or for that matter any Australian, State or Territory grants, please do not hesitate to contact us.

### **Salespersons Need A "Story"**

The sales process is not easy and many people believe it can be enhanced by telling a "story" rather than just talking about a product or service. Potential customers like to know who they are dealing with, the salesperson's experience, knowledge and background, together with information about the business and the "success stories" that have emerged from customers who have utilised the products or services referred to by the salesperson. To implement a "story" process requires the salesperson to start with themselves – briefly who are they, what is their experience in the industry, show that there is empathy for the customer's problems.

The next stage in the "story" is to comment on the other members of the team who will be responding to a customer's questions or requests for assistance such as the person responsible for delivery and installation of a product or service, the training person, the accounts person who is going to be following up for payments, the service department person to whom any concerns about the product should be directed and anyone else in the supplier's team who is going to interact with the customer. Customers normally have some interest in the history of the business that is supplying them with a product or service. This is the opportunity to introduce some comments on key products or services that your business has produced, awards won, key intellectual property developed by the business.

Successful salespeople normally undertake some research on the customer or the customer's industry and have developed an understanding as to how the products or services that are being recommended to a

potential customer can be utilised to improve efficiencies, reduce costs, improve the work experience of the customer's team members – these are the types of items that can be blended into the "story".

The "story" is a great opportunity to mention customers who have been very successful in utilising the business' products or services to great effect within the customer's business. The utilisation of a "story" can open up further dialogue with the prospect and enables the prospective customer to gain a significant insight as to how your business operates and therefore gives a strong indication to the prospective customer as to how they will be treated by your business, once the initial sale is completed.

### **Thinking About Being A Business Person?**

That's great – but there are a few issues that you should think about before starting a business or purchasing a business. Unfortunately, there is a high failure rate in the first 3 years of a business' life. An accountant's role is to advise you on systems and processes that will contribute to your business being successful. Some of the problems which confront new business operators include:

- Inadequate planning – it is important that adequate consideration is given to planning when considering starting or acquiring a business. Will the lifestyle of running a business suit you and your family? Most small business people have to work longer hours than they would if they were in paid employment sometimes on weekends and at nights. How will these working hours fit with your family and sporting commitments and perhaps studies?
- Lack of professional advice – the CEO of a public company, or even a larger business, has a team of in-house experts or other key advisers readily available to assist him/her in making decisions. Small business operators do not have this luxury of having key advisers readily available. Successful small and medium-sized business operators establish a network of key advisers who can assist them very early in their business careers. The key professional advice areas include:
  - accountants who are offering proactive business advice – not just preparing annual accounts and income tax returns
  - commercial solicitor to advise on agreements, leases, terms of trade agreements etc
  - marketing consultant to advise on the establishment of a marketing strategy, social media usage
  - web consultant – to implement and maintain a suitable website for your business
  - sales coach – to advise on the implementation of appropriate selling strategies for your business
  - business mentor (who could be your accountant) – to assist in the setting of business strategies, business plans, budgets and cashflow forecasts
  - experienced business people/directors – to be a board of advice and subsequently a board of directors for your business – this is a very important concept because even though it is your business, it introduces the "accountability function" for you reporting to your own board.

- Inadequate capital – this is a big problem for many types of businesses. At the beginning you need to prepare an honest appraisal of your capital needs in your business. Discuss your calculations with your accountant. Your accountant will advise you of some of the financial issues to which you will have to give consideration.
- Not establishing appropriate systems – this is where you should be heeding the advice from your accountant, relative to the establishment of appropriate systems and then implementing those systems so that your business receives prompt accurate monthly financial accounts and, in some businesses, weekly profitability estimates so that you are fully aware of your business performance.
- Not understanding working capital requirements – this relates to your business' investment in stock (inventory), work in progress (applies to trades, businesses and professional practices) debtors (knowing who your customers are, prompt preparation of tax invoices, prompt dispatch of debtors statements at the end of a month, calculation of debtors' days outstanding each month, having effective debtors' follow-up processes in place).

#### **To be continued next month.....**

If you are contemplating starting or purchasing a business, we strongly recommend that you contact us prior to finalising your decisions and signing any contracts, for a discussion.

### **Growing Your Business In 2019**

It's the start of another calendar year. What resolutions have you made relating to your business in 2019? If you made any resolutions you probably made them around 6 weeks ago. How have you gone on the all-important implementation tasks?

If your business is established and it is operating fairly well but you want to grow the business to be a big business, the following are some suggestions on what strategies you might introduce:

- Internal control review to determine whether each aspect of your business is working appropriately.
- Review of your processes relative to registrations on the Personal Property Securities Register – have you implemented a system? Do your team members understand their duties relative to that system?
- Analyse your investment in stock to determine whether improvements could be made. Could your investment in stock be reduced? Could the stock turn be improved?

- If you operate a work in progress system, is it functioning satisfactorily? Is a review undertaken at the end of each month to enquire as to why jobs have remained within the work in progress system for more than one month? (In many cases businesses do not raise invoices until a job is completed – this means that, if a job is taking a long time to complete, the business is receiving no cash – it is a good idea to implement a system of progress payments).
- Have you reviewed your Budgets and Cashflow Forecasts for 2019?
- When the Budget is completed it is an appropriate time to undertake a complete review of your charge out rates (for trades and professional businesses) to ensure that the business' budgeted overhead costs and targeted profit have been factored in to the calculation of charge out rates for the various categories of team members in your business.
- If you are operating a retail business it's an appropriate time to prepare a forecast relative to the product mix, mark-ups, business overhead expenses and desired profit to determine whether the anticipated sales will generate an appropriate gross profit to pay for the overhead expenses and generate the targeted profit.
- A system that enables the preparation of monthly financial accounts (departmentalised profit and loss accounts, balance sheet, inventory analysis, debtors analysis, work in progress analysis, comparison to budget) for consideration by management.
- Preparation of reports on the month's activities by the manager responsible for each of those sections of the business.
- Preparation of key performance indicator reports for each activity undertaken by the business so as to assist the responsible manager to manage that activity and to ensure that senior management receive an overview of the performance of each individual business activity within the business.
- A monthly board of advice or board of directors' meeting to consider the financial performance during the previous month and to assist in determination of strategies to be implemented in the future.

#### **To be continued next month.....**

If you would like to have a discussion with us on any aspect of growing your business in 2019, please do not hesitate to 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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