

BusinessPlus+ Newsletter



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Issue – September 2018

STOP PRESS – Crowd Sourced Funding Amendments Passed

The Senate passed the Corporations Amendment (Crowd Sourced Funding for Proprietary Companies) Bill 2017 on 12th September 2018. The legislation will be operational 28 days after Royal Assent. This means the legislation will be operational from approximately 15th October 2018.

The legislation withdraws the requirements in the original legislation that a private company had to convert to an unlisted public company to be able to raise capital from the public.

The main features of the legislation are:

- Private companies with less than \$25 million in consolidated assets and annual revenue that have their principal place of business and a majority of directors in Australia are eligible to participate in the CSF regime.
- Eligible companies can raise up to \$5 million in any 12-month period.
- Retail investors have an investment limit of \$10,000 per company in any 12-month period.
- CSF offer can only be made via a licensed CSF Intermediary's platform.
- Companies making CSF offer must prepare a CSF offer document which includes prescribed minimum information.
- For a private company to participate in the CSF regime, the proprietary company must have at least 2 directors, and either one director (where there is only 2 directors) or a majority of directors must ordinarily reside in Australia.
- A proprietary company, which raises capital as a Crowd Sourced Funding Company, will have up to 3 groups of shareholders:
 - Private company shareholders which are limited to 50 non-employee shareholders.
 - There is no limit to the number of employee shareholders that the company can have.
 - There is no limit to the number of CSF shareholders that the company can have.
- CSF company has to prepare annual reports and director reports.
- Proprietary companies, with more than \$3 million in CSF capital, will need to be audited.
- CSF company has to notify ASIC when any CSF shares are issued.

If you would like to have a discussion with us relative to the new legislation for Crowd Sourced Funding Equity Raising for private companies, please do not hesitate to contact us.

A Positive Culture Is Vital!

If you want your company to be successful, directors have to embrace the development of a "positive culture".

A director's first priority is the appointment of a Chief Executive Officer (CEO) – the second priority is to ensure that a "positive culture" has been implemented within the company/business.

Where to start on the implementation of a “positive culture”?

Companies need to appoint a CEO who will then appoint a strong management team.

Company directors need to ensure that appropriate systems have been implemented so that management will be receiving information that they can use to manage the business. Directors will be able to review the systems to ensure that everything is functioning satisfactorily in the company.

The systems the company should be considering implementing include:

- Business Management Systems - appropriate for the type of business that the company's operating e.g. retail systems, tradie business systems, manufacturing business systems.
- Financial Management System - appropriate for the company's business operations.
- People Management - this is very important, because there are some aspects of people management for which directors can be personally liable.
- Marketing and Brand Management - is this being handled appropriately?
- Pricing - are products/services being priced according to the methodologies implemented for the company?
- Team Members' Skills Improvement - Is the system being implemented? Is there evidence that the team is working together relative to brand development and marketing?
- Management Team - directors need to monitor the performance of the Chief Executive Officer and the senior management team to ensure that:
 - there is a focus on the development of the “culture” within the company
 - “core values” have been identified and have been communicated to the management team and the other team members in particular identifying – what is acceptable – what is not acceptable.

How is the company performing against the strategy that has been set?

Directors should be satisfied that the structure of meetings within the company will contribute to the “company organisation culture”.

Directors should enquire as to what has happened relative to skills development of the total team within the company.

Core Value Statement

Key components of a “Core Value Statement” include:

- commitment to teamwork within the company
- integrity within the company
- pursuit of a high level of excellence
- a high level of professionalism in the company
- commitment to innovation within the company

Many commentators believe it is vital that the management team develop a “story” around each of these “core value items” and that these “core values” are communicated to all team members and openly discussed in team interviews, induction of new team members and performance appraisals.

Many successful companies have indicated that implementing these strategies and the identification of various processes all contributed to the creation of a “positive culture” within the company.

If you would like to talk to us about the implementation of a “positive culture” within your company, please do not hesitate to contact the accountant with whom you normally deal within our organisation.

Self-Rating For Business Start-Up

If you are considering starting a small business, you have to be honest with yourself and understand your strengths and weaknesses. Unfortunately, well over 60% of businesses do not survive for more than 2 years.

In various surveys the following reasons for failure have been identified:

- failure to manage costs/anticipate rising costs
- inexperienced management
- no business plan
- insufficient capital or adequate access to borrowings
- poor marketing
- insufficient understanding of “social media”
- too much expansion, too quickly
- not enough time devoted to managing the financial records of the business
- not being able to read financial accounts
- failure to seek professional advice – every business needs a proactive accountant that is being communicated with on a regular basis throughout the year so that matters of concern can be discussed and clarified e.g. at least monthly.
- failure to prepare a budget

You need to consider these items as well as the following:

- How do you get on with other people? – Because in business you will be dealing with all types of business personalities – can you handle that?
- Can you handle failure? – Because in a business you will encounter a significant number of “failures”.
- Can you set clear goals and then work towards achieving them?
- Can you “sell products/services”? If not, before starting a business, it might be advisable to undertake a “selling course”.
- Do you have drive and energy? – Are you prepared to work the extra hours, that most businesses will require you to undertake, if the business is going to be successful?
- Do you have self-confidence?
- Are you prepared to continue to learn? – Businesses change every day, the marketplace can change every day, businesses require you to be flexible and definitely require you to commit to an on-going learning process, whether it’s technology, marketing and selling tactics, new products and processes, continually refreshing you and your team’s knowledge on business matters.

When you have considered these items, we suggest that you prepare a SWOT Analysis (Strengths, Weaknesses, Opportunities and Threats) on yourself as a business operator.

When you have completed this self-evaluation, if you still want to proceed with a business opportunity, we suggest that you make an appointment to have a discussion with us, so we can give you an overview of the types of services that we believe you will require for you to operate a very successful business.

Lifetime Value Of A Customer

Businesses need to ensure that there is ongoing education of the team on the “lifetime value of a customer”.

Customers should represent “repeat business”. Repeat business equals profit. Businesses need to install appropriate systems, so every customer becomes a valued lifetime customer.

Many businesses find that, with good service, a customer will stay with them the seven to ten years. If you assume that the lifetime value of a customer is seven years on average, to determine the “lifetime value of the customer” you would multiply the average sale by the number of times you expect to see the customer each year and then multiplied the projected annual sales by the number of years expectancy for “lifetime value”. This will give you an idea of what the customer’s potential worth is to your business and give you an indication of the ongoing investment that your business might make with the customer.

For example, if an average sale to a customer was \$100 and you anticipated visits from that customer once a month, this would mean that the annual sales were expected to be \$1,200 and, if the life expectancy is seven years, the lifetime value of the customer is estimated at \$8,400. This is a significantly higher figure than what a salesperson might have considered in the first instance, when they might have looked at sales of \$100 or perhaps the forecast annual sales of \$1,200.

One of the most effective ways of marketing your business is to increase the number of visits your long-term customers make to your business. This will add to the lifetime value of your customer.

To develop lifetime value of customers, you should consider the implementation of a referral system, where current customers are encouraged to refer new people to your business, with an appropriate incentive being given to the referees. This could be a “lucky weekly price” or a discount on a product in your business.

How do you develop lifetime customers?

- improve your referral system
- create outstanding service to all customers to encourage them to become lifetime customers
- create a database of customers and offer them outstanding service
- keep improving your level of service
- offer special events and promotions to your customers
- continually keep in touch with your customers via newsletters, social media, events
- go the extra mile!
- get your customers to say “WOW”!

Export Market Development Grant

The Export Market Development Grant aims to assist the development of exports by Australian firms. The grant provides financial incentives in the form of taxable grants, based on eligible expenditure, to promote exports. An applicant’s maximum turnover worldwide has to be under \$50 million. The grant focuses on direct promotional activities and does not assist the general establishment of a business or product development. The Export Market Development Grant is administered by Austrade. The Export Market Development Grant reimburses up to 50% of eligible export promotional expenditure, provided that the total expenses are, at least, \$15,000 in the year.

Eligible expenditure which can be claimed (subject to some category limits and an overall maximum grant of \$150,000 per annum) include:

- Overseas representation – all reasonable costs that you paid to have an overseas representative act on your behalf to monitor and promote your product – subject to a maximum of \$200,000 per application claimable under this category.
- Marketing consultants – professional fees for the engagement of short-term market development consultants – subject to a maximum claim of \$50,000 per application under this category.
- Overseas marketing trips taken to seek out potential export markets to promote your product to increase export sales. Expenditure relates to:
 - airfares outside Australia (only 65% of 1st class airfare may be claimed as an eligible Export Market Development Grant expenditure)
- Free samples – all reasonable expenses incurred to provide a free sample outside of Australia to a non-Australian resident.
- Free tourism samples – if you are an inbound tour operator who buys tourism amenities from other Australian tourism providers, you may claim the costs you paid for the amenities.
- Trade fairs and promotion events – directly related costs to participate in an international trade fair, seminar, in-store promotion, international forum, private exhibition or similar activity.
- Promotional, literature and advertising – for brochures, flyers, billboard advertising.
- Overseas buyers – bringing an overseas buyer to Australia who has the influence to purchase, or potentially purchase, your products and who travels to Australia in order to view, evaluate or have your products demonstrated to them.

This category is capped at \$45,000 per application, subject to a sub-limit of \$7,500 for bringing an individual person to Australia. If you require any assistance on determining your business' eligibility for an Export Market Development Grant, please do not hesitate to contact us.

The closing date for the lodgement of Export Market Development Grant applications, in respect of the year ended 30th June 2018, is 30th November 2018.

If you would like to discuss with us the preparation of an Export Market Development Grant application for your business for 2017/18, could you please contact us at your earliest convenience.

Director Penalty Notices

Changes coming to the Director Penalty Notice regime.

The most dreaded weapon in the arsenal of the Australian Taxation Office (ATO) is the "Director Penalty Notice" (DPN) and its powers are being broadened and expanded to increase the liabilities for all directors.

A DPN is a notice that the ATO can send to a director or directors which will make that director(s) personally liable for the unpaid PAYG Withholding and the Superannuation Guarantee Charge (SGC) liabilities. A company director becomes liable to a penalty at the end of the day the company is due to meet its obligation, at this time the penalty is created automatically, however, the ATO cannot commence any recovery for these liabilities until 21 days after a penalty notice is issued to a director.

There are two types of DPNs:

- 21 Day DPN – 21-day DPNs are issued to company directors who have lodged BAS, IAS and SGC statements within three months of the due date for lodgement, but the PAYG withholding and SGC remains unpaid. If the company has all the lodgements completed on time, the issuing of a DPN allows the directors 21 days to make payment which results in the penalty being remitted.
- Lockdown DPN – a lockdown DPN is issued where a company has failed to lodge its BAS, IAS or SGC Statements within the three months' time frame. If this occurs, the penalty permanently remains with the director and there is no ability to remit the penalty, other than by paying the debt.

Lodgements Should be Made on Time

All companies need to ensure all their lodgements occur on time. The use of a tax agent allows for an additional period of time of four weeks, for these lodgements, which gives business owners an extra reason to pay for a tax agent's help with lodgements. The simple fact is, the DPN regime punishes those who are unorganised and do not meet lodgement requirements.

Further Changes Proposed

The changes announced in the 2018/19 Federal Budget included that the government is proposing to include the GST as an additional liability that directors will incur in the DPN regime. This is not law as yet but will change in the future.

Refresh Your Approach to Sales

In "The Sales Factor" Trevor Marchant – Marchant Dallas Pty Ltd makes the following comments relative to the sales process:

- selling is giving
- selling is happiness
- selling is not about you – it's about them

Marchant's suggested approach is:

- develop the right mindset – and sell with purpose
- create and give value – become a "giver" – not a taker. Give to get.
- build networks – approach people you want to do business with – create followers
- ask questions that find out what people want to do and why, and then...
- show them options – let them choose
- create raving fans and more followers

Shifting your focus from getting to giving is not only a positive way to live your life and conduct business, it's also very profitable."

Want to learn more on "The Sales Factor" click on to www.esssmallbusiness.com.au/the sales factor

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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