

# BusinessPlus+ Newsletter



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## Issue – July 2019

Welcome to a New Financial Year – We trust that 2019/2020 will be very successful for your business!

### Navigating 2019/20

If you have not already done so, could we suggest that you find some “quality time” over the next few days and prepare some notes on the key issues that you will need to navigate your business through in 2019/2020.

Some suggestions which we have for matters which you may not have thought about for some time include:

#### ➤ Business Planning

It is not too late to prepare a Business Plan for 2019/20. Your Business Plan should examine your current operations and document your thoughts on how you are going to meet your customers’ requirements during the next twelve months and how you are going to respond to competitive challenges from your competitors.

#### ➤ Social media

What is your skill level like on social media? It is difficult for some people to imagine running a business these days without having an appreciation of how social media can affect your business. At the same time there are many people running businesses who do not appreciate how social media operates and what benefits could be contributed to your business. If you do not consider that social media is one of your strong points why not enrol for a social media training course on the Internet?

#### ➤ Financing your business

Are you concerned about dealing with banks and other financial institutions following the aftermath of the Banking Royal Commission? Do you receive a positive welcome when you discuss your financing arrangements with your bank? Are you looking for alternatives? There are number of new banks that are available on the Internet that might be worth looking at but there is also the changes that the Federal Government have made to the *Corporations Act* and the *Taxation Act* over the last couple of years to introduce two new types of companies that could be of interest to you.

If you are a start-up business that has developed a

new product process or service it’s probably worth getting some information on the Early-Stage Innovation Company the structure of which was deliberately established by the Federal Government to encourage investors to invest in start-up companies that had developed new technologies.

#### ➤ “Scaling up”

Some businesses have always embarked on a “scaling up” process without possibly describing it this way. There is a lot more interest these days in the implementation of strategies that were developed about 100 years ago by John Rockefeller that were referred to as the “Rockefeller habits”. This process is now referred to as “scaling up”. The scaling up process commences with an appreciation of the key strategies that are needed for a business to move up and grow which are:

- ❖ attracting and keeping the right “people”
- ❖ Creating a truly differentiated “strategy”
- ❖ Driving flawless “execution”
- ❖ Having plenty of “cash” to weather the storms

Andrew Geddes who was Chair of Greencross Ltd (an ASX top 200 company) for 11 years has indicated that Crowd Sourced Funding Equity Raising offers the possibility for companies wishing to undertake the “scaling up” process to access the “cash” that is a vital component for businesses wishing to scale up.

#### ➤ Research and Development

If you have been undertaking research and development activities in your company and you are currently trading at a loss it is beneficial to lodge your company’s income tax return as early as possible in the new financial year because your company is probably entitled to a tax rebate based on the amount of research and development expenditure that your company has undertaken. The Australian Taxation Office will pay the tax rebate to your company’s bank account within 30 days of your company’s income tax return being lodged.

#### ➤ Exporting

If your business has incurred expenditure relative to export activities or proposed export activities during

2018/2019 your business might be entitled to an Export Market Development Grant. To claim an Export Market Development Grant the grant application can be lodged at any time from now on with the closing date for lodgement being 30 November 2019. Grants of up to \$150,000 are available under this scheme from the Australian Government.

#### ➤ **Business Diagnostic Review**

The end of the financial year is an appropriate time to be reviewing your business activities in some detail utilising a business diagnostic review so that you can plan improvements for 2019/2020. You might be able to obtain a government grant from the Australian Government – Business Growth Grant to provide assistance towards the cost of a Business Diagnostic Review. Grants are available for these types of reviews for companies which are operating in one of the following “growth sectors” as identified by the Australian Government:

- ❖ Advanced manufacturing
- ❖ Food and agribusiness
- ❖ Medical technologies and pharmaceuticals
- ❖ Mining equipment, technology and services
- ❖ Oil, gas and energy resources

Or from one of the following “enabling technologies” and sectors underpinning the 5 growth sectors:

- ❖ Freight and logistics
- ❖ Infrastructure related construction and services
- ❖ Information and communication technologies
- ❖ Digital technologies and
- ❖ Professional services

Outside of these key enabling technologies and sectors the definition includes other businesses that enable or support one of the five growth sectors through a direct commercial relationship but excludes routine business operational activities.

The Business Diagnostic Review can include:

- ❖ Strategic Plan Development
- ❖ Financial Management System Review
- ❖ Marketing Strategy Review

The key components of these reviews are:

#### **Strategic Plan Development:**

The company’s management would meet with the advisor appointed by the company and Australian Government to develop the scope of the work to be undertaken by the company in conjunction with a suitably qualified consultant to assist in the preparation of the company’s Strategic Plan.

The Strategic Plan normally will address a number of broad elements including:

- ❖ Identification of the businesses vision, mission and values;
- ❖ Identifying the future directions for the business;
- ❖ Developing strategies to achieve the overall vision, together with detailed Action Plans to achieve the company’s goals;
- ❖ Development of a Succession Plan and exit strategy for the company;
- ❖ Identification of risks relating to this company and the development of a risk management document;
- ❖ Development of a Business Plan for the business.

Items which would normally be considered in the development of these strategic documents include:

- ❖ Review of the business premises – are they suitable? What changes need to be made?

- ❖ Review of the assets of the business – do any need replacing or is there a need to purchase new emerging technology?
- ❖ Is the job costing system working effectively to produce detailed costing information including profit or loss on each job?
- ❖ An analysis of customers, identifying their demographics, average sales, potential to sell more to them or to similar people.
- ❖ Team review including productivity, attendance, training.
- ❖ Reworks, wastage, lean management review.
- ❖ Team meetings, how often held, who attends, minutes of meetings?
- ❖ Management meetings, who attends, frequency of meetings, what information is submitted?
- ❖ Debtors including debtors’ days outstanding, registration on Personal Property Securities Register, history of bad debts.
- ❖ Inventory including review of stock control, stock turn rates being achieved.
- ❖ Creditors including creditors’ days outstanding, how do the creditors’ days outstanding compare to the negotiated terms?
- ❖ Research, development and innovation – what projects will be undertaken? Who is to monitor these projects – what is the reporting process to senior management that has been implemented?
- ❖ Key Performance Indicators need to be established for each aspect of the business with appropriate training being given to the team and line management and to senior management so that effective use is being made of the data being produced by the key performance indicators.
- ❖ Prospects for expansion of the business, what type of activity, potential customers, revenue that could be created?
- ❖ Board of Directors meetings, how often, who attends?

#### **Financial Management System Review**

Businesses need to prepare realistic operational Budgets for each business unit operated by the company together with a Cash Flow Forecast that has been prepared on a realistic basis relative to inventory investment, finished goods, work in progress, debtors, creditors with particular attention to the Terms of Trade Agreement with individual creditors, the company’s capital expenditure program, payment of dividends to shareholders, loan repayments, taxation payments.

The Budgets would normally be set up on a monthly basis showing details of the projected income together with details of the estimated expenditure to be incurred.

Growing businesses require cash. The review process will consider the financing of the business and will identify potential cash shortfalls so that a determination can be made as to whether the company should be attempting to raise some extra funds by borrowing from a bank – does the company have suitable security that can be offered? Or alternatively exploring other financing opportunities that are available including raising capital as a Crowd Sourced Funding Equity Raising Company.

From the Budgets the Cash Flow Forecast can be prepared with due consideration being given to the company’s record on debtors’ days outstanding and

when creditors' payments have to be made.

As part of this process it is important to identify Key Performance Indicators that management can then utilise for comparison of actual performance against the predetermined KPIs.

The company's consultant will be able to analyse the company's actual performance as compared to the Budgets and Cash Flow Forecast.

The real effectiveness of the creation of a Financial Management System is to enable a detailed evaluation to be made of actual performance as compared to the Budget forecasts that were prepared at the beginning of the financial year.

### Marketing Strategy Review

As part of the Business Diagnostics Review it is important that there is a detailed evaluation of the Marketing Strategy. This will enable an analysis to be made of the company's current markets as well as new markets that the plan has recommended.

The Marketing Strategy could cover some of the following items:

- ❖ A review of markets, marketing activities currently undertaken, research that has been obtained on customers.
- ❖ Customer surveys that have been completed or perhaps a new customer survey is undertaken as part of this diagnostic review.
- ❖ In most cases marketing material will have to be produced.
- ❖ Team training in marketing and sales techniques.
- ❖ Social media training to ensure that the company is receiving the best possible return from the investment that has been made in social media.
- ❖ Review of the branding strategy that has been implemented within the company.
- ❖ Review of the company's website – is the company's image been appropriately conveyed to the marketplace.

These are some of the items that a Business Diagnostic Review supported by a Federal Government grant known as the "Business Growth Grant" could support.

### ➤ Key Performance Indicators

Play a very important role in assisting management at all levels from the factory floor through to the CEO/General Manager to gain an insight into the day to day financial /operational performance of a business. Now is a good time to review all of the Key Performance Indicators being utilised within your business to decide:

- ❖ Are they being prepared properly?
- ❖ Does the immediate management personnel understand how this key performance indicator is being calculated and how the KPI could be used to improve the performance of their immediate team?
- ❖ Are senior management in the organisation utilising the key performance indicators being prepared to guide them in implementing strategies for improvements to customer services and the financial performance of the business?

If you would like to discuss with us any of the items included in this overview please do not hesitate to contact the person in our organisation whom you normally have discussions with.

## Definition of Large Proprietary Companies Changes

The definition of a "large proprietary company" changed from 1 July 2019. The new definition of a large proprietary company is that it is a company which satisfies at least two of the following requirements:

- The Consolidated Revenue for the financial year of the company and any entities it controls is \$50 million or more (previously \$25 million)
- The value of the Consolidated Gross Assets at the end of the financial year of the company and any entities it controls is \$25 million or more (previously \$12.5 million)
- The company and any entities it controls have 100 or more employees at the end of the financial year (previously 50 employees)

If your company is a large proprietary company, the company must prepare and lodge a Financial Report and a Directors' Report for each financial year. The Financial Accounts must be audited unless Australian Security Investment Commission (ASIC) has granted release from the requirement to have an audit prepared.

If your company was previously defined as a "large proprietary company" and no longer complies with the definition you do not have to prepare and lodge the Financial Reports and Directors' Report for 2019/2020 onwards but you may continue to prepare these Reports and have an audit prepared if the Directors so resolve.

If you have any question on any aspect of Directors' responsibilities relative to your company being deemed to be a "large proprietary company" please do not hesitate to contact the person in our firm that you normally work with.

## Assessment of a Business

Planning the assessment of a business requires the identification of accounting information, management data, marketing statistics and Key Performance Indicators so that a range of key management and financial data is being considered in assessing the business' performance over the most recent period and planning how the business might perform in the future.

The type of information to be considered could include:

- Key Performance Indicators relating to:
  - ❖ Revenue analysis – types of customers – average sales – types of products being sold or types of services being sold.
  - ❖ Where did customers come from – which marketing initiative did they respond to?
  - ❖ Who referred customers to the business?
  - ❖ Gross profit analysis – overall performance – individual product performance – individual market performance.
  - ❖ Cost of labour analysis – overall performance – different location performance.
  - ❖ Number of reworks – comparison to various locations (if the business has more than one location).
  - ❖ Wastage cost – reflected as a percentage of income.

- Lean management strategies that have been introduced – Key Performance Indicators that relate to these items:
  - ❖ Cost analysis – can savings be made?
  - ❖ Creditors – renegotiation of credit terms.
  - ❖ Talent development – KPIs relative to training, professional development, accidents, sick leave.
  - ❖ Team member monitoring – superannuation payments owing – long service leave owing for team members with over 10 years' service – long service leave owing for team members with over 15 years' service.
  - ❖ Health and safety – number of accidents – severity of accidents – comparison to past events.
  - ❖ Team recruitment – applications – team turnover.
  - ❖ Research and development – projects commenced – results determined.
  - ❖ Individual expense item monitoring – comparisons to previous periods.
  - ❖ Development of new products – how many – projected margin.
  - ❖ Customer satisfaction reviews.
  - ❖ Social media posts and responses.
  - ❖ Debtors' days outstanding.
  - ❖ Work in progress investment.
  - ❖ Inventory – stock turn – ageing of stock.
  - ❖ Days taken to ship orders – average – best – worst.
  - ❖ Taxation monitoring – BAS returns lodged – GST/PAYT payments owing, business taxation payments owing – taxation returns lodged – payroll tax returns lodged – payroll tax payments owing:
    - Business –SWOT review – quarterly
    - Competitor –SWOT review – quarterly
- Performance against long-term plan e.g. 5 year plan (do you have one?).
  - ❖ Turnover
  - ❖ Team members
  - ❖ Profitability
  - ❖ Company valuation

There are many other items that can be included within an assessment of a business to determine realistic strategies to be implemented for future operations. If you are interested in having a discussion relative to an assessment of your business please do not hesitate to contact the person in our firm that you normally deal with.

## Developing Leadership “People Skills”

The high cost of replacing staff is well known, as is the evidence that the majority of people leave their jobs, not because of the type of work that they are required to do, but because of poor relationships with their managers.

A manager might ensure the processes, procedures and systems are done correctly, but have little idea about the right approach to take in leading people. Skill and genuineness in dealing with people is the key to affective leadership.

Whilst it is vital to gain the respect of your team, it is not necessary to try to be popular. The key points are:

- involve team members in determining shared behaviours to be agreed and followed by all and endorse support and practice those which you agree;
- attitude influences behaviour, so ensure your attitudes and behaviours reflect those you wish others to adopt – be genuine and set the example;
- everyone is different, so adjust your leadership style with individuals as they develop in confidence and commitment;
- practice good leadership continually to foster the development of strong relationships and mutual trust.

If you would like to have a discussion in relation to the development of the leadership strategies within your business, please do not hesitate to contact the person in our firm that you normally deal with.

## Culture is the Hidden Success for Business

To be successful, a business needs culture – the “icing on the cake”. Culture affects every aspect of the business, shareholders, directors, management, team members, customers, suppliers and the general public.

Culture is the hidden success and takes into account:

- The attitude of team members of “going the extra distance” to satisfy customers’ requirements – the attitude of customers who might be prepared to overlook late delivery because of their overall satisfaction of dealing with your business.
- Culture relates to the image that your business creates in the marketplace.
- Is staff pleasant and presentable?
- Is the telephone answered in a professional manner?
- Are emails produced in a professional manner?
- Is your website up-to-date?
- Are products/services delivered promptly in accordance with the sales contract?
- Is quality a priority in the business?

Culture is one of the main attributes of business that will hold the business together, and will give the business that extra strength and perseverance to battle through and survive harsher economic circumstances. If you would like to discuss a “cultural review” for your business, please contact the person in our firm that you normally deal with.

### 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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