

BusinessPlus+ Newsletter



CHARTERED ACCOUNTANTS

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November 2014

'Digital Disruption' Is A Major Concern

A clear warning was issued by Jason Bender, partner at Deloitte Chartered Accountants, at the Australian Technology Showcase for Accountants (ATSA) Conference in Melbourne, held on 20-21 October 2014, that the 'digital disruption' is starting to affect many industry groups.

Two years ago, Deloitte produced a report, 'Digital disruption – short-fuse, big bang?' The report predicted that six different industry groups would encounter 24% to 43% of revenue becoming 'disrupted' over time.

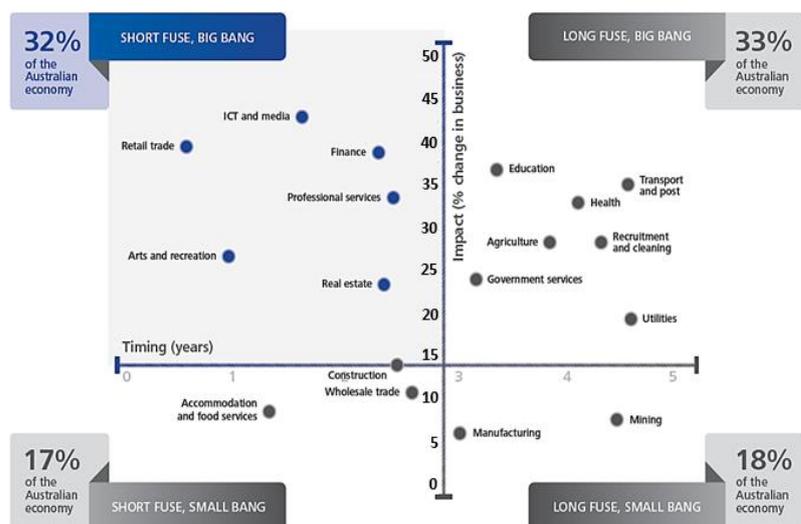
Mr Bender indicated that 'disruption' doesn't mean revenue is gone. However, there would be a need for the affected industries to develop strategies on how to respond to changing market conditions.

Mr Bender referred to the changes that have occurred, over recent years, to businesses such as video stores and the flow-on effects that were then felt by property investors and shopping centres where other tenants missed the customer drawing power that the video stores used to generate. Mr Bender indicated that there's a flow-on effect from one business closing down to others in the location.

The 'digital disruption' forecast highlighted significant changes that will occur.

Mr Bender said, "These changes can creep up on you." It's the same as the 'rear vision mirror' of your car – it doesn't show you how close the vehicle behind you is to your car." The market forces that are going to require changed strategies within the six affected industries in 'short-fuse, big bang' are a lot closer than what they appear to be.

"One of the prime examples of what can happen, if a business does not respond to changing technology is what happened to Kodak." He indicated that "Kodak had the first patent of digital technologies, but were happy with their existing model. The business went into bankruptcy."



If you would like to have a discussion with us relative to developing a strategy to combat 'digital disruption' for your business, please don't hesitate to contact the accountant within our firm with whom you normally have dealings.

Bank Relationships Are Important

At present, the majority of bank lending is for property investments. Banks are saying this is where the demand is. Bank lending for property is easier than lending for small businesses.

To have a successful relationship with your bank, you should consider implementing a bank strategy, including preparation of a budget and cashflow forecast, which indicates that you have a profitable business and the ability to repay the loan. Prior to approaching the bank, it's a good idea to think about what the bank's questions are going to be and formulate your answers. These questions might relate to previous discussions you've had with the bank. Other potential questions include:

- Are you running a profitable business?
- Do you have the cashflow to repay the loan?
- What security are you offering?
- How are you running a sound business? To be able to convey to the bank that you're doing this within your business, you should be able to show your banker that you're doing your homework on your customers, that you have an appropriate debtors' management system, you might insure your debtors.
- Does your staff have adequate training? Are they able to make day-to-day decisions?
- What is your relationship with the ATO? Are you in arrears or are you up to date with them?

It's also a good idea to find or build a 'cashflow buffer' within your business, so that you're able to negotiate the difficult conditions, which most businesses around Australia are in at present.

If you would like to have a discussion with us relative to the development of strategies that suit your business or your dealings with your bank, please don't hesitate to contact us.

Disciplined Approach To Marketing

Having a disciplined approach to marketing the business can make the difference.

Marketing is a process, not a one-off event. It's not advisable to copy what your competitors are doing. How do you know if they're doing it successfully?

When you examine the marketplace, only 3%-4% of your potential customers are ready to buy at any one moment in time.

The main reason for marketing is to generate some interest by using a time-based process, such as a 'drip' campaign of communicating with potential customers until they're ready to buy. This can be built around four words – interrupt, inform, educate and offer.

It's a good idea to give consideration as to how you might be able 'interrupt' potential customers. This could be done via email or a telephone call, to advise them of your product or service at some particular point, followed up with information which will inform the potential customer of how your products can assist them in their day-to-day business operation.

Business owners and consumers receive hundreds of offers everyday, directly and indirectly. Therefore, you need to determine how you're going to 'educate' your prospective customer on the services you're providing. You're then in a position to make an 'offer' to your prospective customer, having gone through the process of 'interrupt, inform, educate', as part of the disciplined marketing process, to inform and educate your customer on the products and services your business is offering.

If you would like to have a discussion with us relative to the development of a marketing process for your business, please contact us or have a discussion with a marketing consultant. If you don't know a marketing consultant, we're happy to give you an introduction to a marketing professional.

What Services Can Accountants Offer – Part 8

BUSINESS HEALTH CHECKS – PART 1

Your business' health is very important for the long-term, successful operation of your business. As your accountants, we can assist you by preparing a number of reports and reviews to measure your business' health, including:

Break-Even Calculation

This is the amount of sales that need to be made each week or each year, so the business is neither trading at a loss nor failed to create a profit. The key components of the calculation of break-even are your business' overhead expenses and the business' gross profit percentage.

Working Capital Evaluation

Detailed evaluation of amounts owing for sundry debtors, investment in stock, investment in work in progress, owing to creditors and bank accounts will assist in the calculation of the excess of current assets over the current liabilities or working capital.

If you would like to have a discussion with us relative to the implementation of business health checks for your business, please don't hesitate to contact the accountant within our firm with whom you normally have dealings.

Characteristics Of A Well Run Business – Part 15

Planning

To run an outstanding business, it's necessary to produce written procedures for all activities of the business – from the opening of the front door at the beginning of the day's activities, through to the closing of the door at the end of the day's business activities.

The procedure manual should establish procedures by which the business is going to abide

- telephone calls
- telephone messages
- emails sent
- received emails
- correspondence
- stock ordering
- receipt of stock
- stock takes
- cash control
- electronic banking
- management planning
- meetings
- productivity of staff
- payroll records
- work care
- research and development
- government grants for which the business might be eligible
- updating or preparation of the business plan
- budgets and cashflow forecasts
- planning for the launch of new products
- planning for marketing and professional selling activities
- staff training and professional development

Planning will give the business an excellent foundation, not only to plan the future, but to compare actual progress to what was originally targeted.

If you require assistance in the establishment of written systems and planning procedures within your business, please don't hesitate to contact us.

Debt Recovery Is An Ongoing Task

In these difficult times, many business operators have found the need to extend credit to customers and potential customers. The key to offering credit terms is to manage the credit you're offering. The objective to managing credit effectively is to ensure that you've implemented an appropriate system. Have you got a written system?

A written system would include the following key components:

- **Application Form** – An application form for a prospective new customer to complete. In the application, it's a good idea to indicate that, if the customer is in default, you will elect to transfer the debt to a debt collection agency or legal firm and the customer will be responsible for all of the collection agency and/or legal firm's fees.

If a potential customer is a private company, ensure that a director's guarantee is received and appropriately filed, so the guarantee is available if you require it in the future.

A decision also needs to be made as to whether you're going to register this customer on the Personal Property Securities Register (PPSR). The registration process requires you to submit a 'Terms of Trade' agreement and a 'Retention of Title' agreement (in most cases) to your customer. Your customer must sign these agreements and return the agreements to you. It's a good idea to have these documents signed before any sales are made to the new customer. If you're going to register on the PPSR, you then have to ensure the registration is completed on the PPSR, within the very limited time period allowed.

An internal system is recommended to ensure the credit application form is checked, referees are contacted, a decision is made on what credit limit and terms of payments are going to be offered to the prospective new customer.

- **Welcome to New Customer Letter** – Issuing a 'welcome to new customer' letter is an appropriate way to summarise your terms of trade and to confirm the credit limit and payment dates set for the new customer. It is recommended to ask them to sign a copy of the letter and return the signed copy to you. If you have implemented the terms relative to expenses of the collection agency and/or legal firm, it's a good idea to incorporate this clause into the 'welcome to new customer' letter.
- **Debtors' System** – A sound debtors' system would then ensure that tax invoices are promptly prepared and dispatched to the customer and make sure there are no errors on the tax invoices. If you're sending statements, they should be prepared promptly at the end of the month and sent through to customers within 48 hours of the end of the month. This way, you've laid the foundations for an effective debtors' management system.
- **Debt Recovery Process** – The other key component of the system is the debt recovery process. The system should signify a prompt follow-up by an email or an SMS to a customer, advising them that their payment is overdue. If the customer doesn't pay within seven days, a further follow-up should then be issued. If that request is again ignored by a customer, it's time to transfer the debt to a debt recovery organisation, to collect the money that's owing to your business. If you continue to give credit to that customer, it will probably end up as 'bad debt'.

Debt recovery is an ongoing task if you're going to keep on top of your finances within your business. If you would like our assistance in the establishment of a debtors' system manual for your business, please contact us.

Government Grants For SMEs

Export Market Development Grant – Reminder

If you are an exporter or proposing to export, Export Market Development Grant applications for the year ended 30 June 2014 have to be lodged by Monday 1 December 2014 at 5pm.

If you require any assistance on the preparation of the grant application, please contact us.

Accelerating Commercialisation

The Australian government has introduced the long-awaited replacement to the Commercialisation Australia program, with the release of the details of the Accelerating Commercialisation Grant.

Accelerating Commercialisation is the final component of the Entrepreneurs' Infrastructure Program, which also includes:

- Business Evaluation
- Business Growth Grant
- Research Connection

Accelerating Commercialisation will assist entrepreneurs, researchers, inventors, start-ups and small/medium enterprises address the challenges associated with commercialising novel intellectual property, in the form of new products, processes and/or services.

Eligible applicants include non-tax exempt company, an individual, researcher, partnership or unincorporated trustee, who agrees to form a non-tax exempt eligible corporation before signing a funding agreement. The combined annual turnover of the applicant and of each related body corporate (if any), for each of the three years prior to lodgement of the application, is less than \$20million. The applicant has to have a novel product, process or service that they wish to commercialise and trade to customers, external to the state or territory of their place of business. The applicant has to have ownership, access to or the beneficial use of any intellectual property that is the subject of or is necessary to carry out the eligible project.

Grant funding of up to \$1million is available on a 50% contribution basis.

Eligible project aims to achieve at least one of the following:

- Complete development of a novel product, process or service.
- Prove commercial viability of a novel product, process or service to a customer, investor or strategic partner.
- Make the first sale of the novel product, process or service in Australia or overseas.
- Drive the business towards commercialisation of its novel product, process or service in the marketplace, by engaging an experienced executive.

If you're interested in submitting an expression of interest for Accelerating Commercialisation, you need to complete the EIP Accelerating Commercialisation Expression of Interest form, which can be accessed online at www.business.gov.au.

If you would like our assistance in completing the expression of interest form, please don't 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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