

BusinessPlus+ Newsletter



CHARTERED ACCOUNTANTS

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June 2013

An "Adverse" Economy

The financial information tabled by the Federal government, as part of the presentation of the Australian budget, highlighted the difficulties that are being experienced in the Australian economy.

The Treasurer indicated that, instead of a forecast surplus of \$1B, the actual performance for the year ended 30/6/13 is now forecast to result in a deficit of \$19B. The government has indicated that company tax payments were well down on expectations, highlighting that the downturn is affecting big business as well as small businesses.

The Reserve Bank also expressed an adverse view on the economy when they lowered the official interest rate to 2.75%. The "unofficial" election campaign has also contributed to confidence sapping for businesses. The continued economic problems are reflected in Dun and Bradstreet's report that the debtors' days outstanding is now 55 days, an increase from the previously announced 52 days. There is an expectation of a change of government after the September 14 election which will probably lead to the new government introducing a brutal budget in 2014 in an attempt to generate a surplus within the next 1-2 years. The movement down by exchange rates is welcome news for exporters, but it means that importers will be paying more for products.

As we approach the end of the 2012/13 financial year, the general economic position highlights the need for businesses to be diligent with monitoring their cashflow (particularly debtors and stock) and ensuring that any covenants, contained in bank loan agreements, are being closely monitored to ensure that businesses are not running into problems with their bank.

This edition includes commentary on "action plans prior to the 30th June 2013". Now is the time to be planning for the 2013/14 fiscal year. If you'd like our assistance with the preparation of a business plan, updating business plans, preparation of budgets and cashflow forecasts or a general review of your business operations, please contact us.

Pitfalls In Starting A Business

If you're contemplating starting a business, you'll need to avoid the pitfalls. It would be a good idea to read the CCH review of small businesses, 'SMEs – The Fine Line Between Failure And Success',¹ before starting a business; and determine strategies on how you're going to manage some of the key reasons for business failure that are identified in that document.

Here are some tips before signing any contracts:

- Seek good advice from an accountant and solicitor.
- Review the costs of operating a business.
- Remember the most important item identified in the CCH survey was "failure to manage costs or anticipate rising costs".
- Prepare or have prepared realistic market analysis and verification. The CCH survey indicated that "poor marketing" is one of the key issues resulting in business failure.
- Prepare a realistic business plan. This is very important. Business plans for business people are like maps for tourists. CCH's survey identified that one of the critical areas for SME failure is a "poorly designed business model (eg. no business plan)".
- Review your management skills. The CCH survey indicated that one of the prime causes for SME failure was "inexperienced management".
- You need to identify the skills input you require relative to accounting, marketing, professional selling, workplace health and safety, human resources activities, relating to both day-to-day involvement with employees and Fair Work Australia requirements.

¹ CCH Report SMEs – the fine line between failure and success

- Ensure you'll be able to receive prompt and regular financial information and accounts (eg. weekly financial information and monthly financial accounts). CCH identified that one of the key problems was *"SMEs not having sufficient time to spend on managing the books"*. This problem causes business failure. You need to determine a strategy to ensure that you will receive accurate financial accounts, at least on a monthly basis, and that you'll examine those accounts. Have discussions with your accountant so you have a clear interpretation of what the accounts are telling you.
- Instigate systems so you can regularly monitor the investment your business has in stock, work in progress and debtors. CCH identified a real problem in *"insufficient capital or inadequate access to capital"*. Capital problems can be exasperated by tying up too much money in stock, work in progress and debtors.
- Promptly chase up debtors.
- Instigate ongoing staff training.
- Supply motivation and leadership of your team.
- Understand the business' products, services, customers' requirements and suppliers.
- Identify the business' "unique competitive advantage".
- Be aware of the hours you'll need to work in the business.

Having considered all these items, if you believe you can make a go of running a small business, we would be very happy to have discussions with you relative to the services our firm can supply; to assist you in implementing the strategies for a successful SME operation.

Self-Rating For Business Startup

If you are considering starting a small business, you have to be honest with yourself and understand your strengths and weaknesses.

CCH conducted a national research of SMEs and accountants to produce a document entitled 'SMEs – the fine line between failure and success'. The prime reasons for failure, according to the 1,100 SME operators who were interviewed, included:

- Failure to manage costs/anticipate rising costs.
- Inexperienced management.
- Poorly designed business model (eg. no business plan).
- Insufficient capital or inadequate access to capital (borrowings).
- Poor marketing.
- Too much expansion, too quickly.
- Not enough time on managing the books of the business.
- Failure to seek professional advice.

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

- How do you get on with other people?
- Can you handle failure?
- Can you set clear goals?
- Do you have drive and energy?
- Do you have self-confidence?
- Are you prepared to continue to learn (businesses change every day and operating a business does require you to commit to an ongoing learning process)?

Survival In Difficult Times (cont'd...)

- Are your tax invoices prepared in accordance with the customer's requirements and sent promptly?
- Monitor debtors' aged analysis on a weekly basis.
- Ensure payment arrangements made with the customer are confirmed in writing, including details of key dates that the customer has indicated the invoices have to be lodged by to ensure prompt payment.
- Follow up with a customer to ensure that payments are made by the due dates.
- Monitor stock turns – will relocating stock within the store or special promotions help move stock?
- Monitor work in progress – are jobs being completed and invoiced as fast as possible?

We can assist you in implementing strategies for the present difficult business environment. Please do not hesitate to contact us.

What's It Mean?

Trend Analysis

Assists in planning your business' growth and goal setting based on prior year's performances. Factors affecting "trend analysis" include:

- competition
- management
- business planning
- business reinvestment
- demographic information on customers

Action Plan Prior to 30th June 2013 (cont'd...)

Team Members

- Have you reviewed your Human Resources Manual? Are any updates required?
- Do you normally conduct team member appraisals at this time of year? Have these been done?
- Have you conducted a survey of team members on their suggestions to improve services to your customers?
- Is there a need to discuss productivity improvements with team members?
- Are you receiving regular input from your team members on operational issues?
- Are regular team member meetings held?
- Have you encouraged the formation of teams within the business? The team could consider ways and means to improve business productivity and performance.
- Have you empowered team members to exceed customers' expectations?
- Are there any changes necessary for the team training program in 2013/14?
- Do you conduct exit interviews with any team member who resigns?

Gross Margins

- Are you happy with the key margins being achieved in your business?
 - Gross Profit Percentage?
 - Labour to Turnover Percentage?
 - Net Profit to Turnover Percentage?

Debtors

- Are you receiving a monthly debtors' aged analysis within 2 working days of the end of each month?
- Are you calculating debtors' days outstanding each month? How does the days outstanding compare to your budgeted figure?
- Are you going to change any of your policies or procedures for debtors in 2013/14?

Products

- Are any new products proposed to be introduced? Have these products been subjected to intensive review by the team?
- Have any focus group reviews been conducted?

Bank

- Are there any concerns in your relationship with your bank?
- Do you need to make any operational changes in 2013/14 to enable the business to comply with your bank's lending requirements?

Insurance

- Have you completed a detailed review of your insurance requirements for 2013/14?

Suppliers

- Have you thought about approaching some of your suppliers for assistance in 2013/14? Assistance could include:
 - price reduction;
 - longer payment terms;
 - promotional assistances;
 - joint submission to major prospects; and
 - assistance in marketing campaign to compete with competitors.

Wastage, Theft, Pilferage

- Have you quantified the cost to the business from wastage, theft or pilferage?
- Have the team members been informed of these costs?
- Have you developed policies for 2013/14 to try to reduce these costs?

Succession Planning

- Have you developed a succession strategy for your business?
- Have you prepared a summary of the succession strategies that require implementation in 2013/14?

Business Plan

- Have you reviewed your business plan and determined any changes to be implemented in 2013/14?
- If you haven't prepared a business plan, should this be one of the priorities for 2013/14?

The CCH Survey identified some significant areas of concern for small/medium enterprise operators. We can give you assistance in these areas. Please contact us if you would like our assistance in planning your activities for 2013/14.

Export Market Development Grant

Any small or medium sized Australian business which has expended money to develop export markets or expand export operations could be eligible for an Export Market Development Grant. The grant reimburses up to 50% of export promotion expenses, provided the total expenses are, at least \$20,000. Grant applications for the 2012/13 grant year open on the 1st July 2013 and close on 2nd December 2013.

"Digital Disruption" Forecast to Affect On Third of the Economy In The Next 3 Years

According to a report released by Deloitte², one third of the Australian economy faces immanent and major "digital disruption" - a "short fuse, big bang" situation. The report stresses the importance of each organisation looking at the issues raised, in fine detail, before developing specific, pragmatic and proportionate responses. The report also indicates that digital opens up unprecedented possibilities. *"These innovations are changing economies and markets and reinventing relationships between organisations, suppliers and customers. They are changing society".*

The report identified those sectors such as *"finance, retail, media; and information and communications technology have a short fuse and can expect a big bang"*. At the other end of the spectrum, miners, construction groups and many manufacturers have longer fuses and face less incremental disruption to their businesses.

"Sectors like education and health, while set to experience profound changes, have a longer fuse and potentially a greater opportunity to plan their response".

The report identifies that the "short fuse - big bang" will affect 32% of the Australian economy with the effects forecast to be felt over the next three years, as follows:

- 1 year and under - retail trades, arts and recreation
- 1 to 2 years - information and communications technology and media
- 2 to 3 years - finance, professional services, real estate and businesses

The effects of internet trading are well understood by retail operators with some retailers bearing a greater exposure than others. Similar affects are likely to be felt by other industries identified as likely to bear the effects of the digital disruption in the next three years.

For businesses operating in the specified industries, now is the time to be undertaking a detailed review of your business operations to determine what revised strategies might be necessary to compensate for the forecast change in conditions which are likely to affect your business.

If you'd like to have discussions with us relative to these issues, please don't hesitate to contact us.

Fringe Benefits Tax Processes

"Fringe Benefits Tax" are three little words most business people loathe with a passion. The Australian Taxation Office (ATO) has advised that this is an area they are auditing yearly because they believe non compliance is high. The latest method to increase compliance by the ATO involves the system of data matching income tax returns with information from each state government's motor vehicle registration department for purchases of new motor vehicles.

This is a fairly simple process where the ATO data matching will be able identify a business which has purchased a car above \$10,000 in value and then, once ownership is established, be able to identify businesses which are likely to provide car benefits to employees who do not lodge a fringe benefit tax return or include a fringe benefit reimbursement amount at the appropriate label of the income tax return.

Ignoring the issue, or hoping that an audit will never happen, is not going to solve the matter and discussions need to be held each year with your accountant. The discussions needs to be specifically about:-

- Is your business subject to FBT?
- What record keeping is necessary for compliance?
- Consequences of not keeping adequate records or non compliance.
- Methods of dealing with the fringe benefits, either by the Fringe Benefit Tax Return or the elimination of the Fringe Benefit via employee reimbursements (where available).

If you would like us to review your exposure to Fringe Benefits Tax, 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.



CHARTERED ACCOUNTANTS
LEVEL 7 63 EXHIBITION STREET, MELBOURNE VIC 3000
TEL: (03) 8663 5100 FAX: (03) 8663 5199
EMAIL: info@preda.com.au
WEBSITE: www.preda.com.au



Institute of
Chartered Accountants
Australia