

BusinessPlus+ Newsletter



CHARTERED ACCOUNTANTS

INDEX

Getting A Business Ready For Sale	1
Staff Disputes – Do You Have A Process For Handling?	2
Government Grants For SMEs	2
Business Entities – Sole Trader	3
Characteristics Of A Well Run Business – Part 3	3
Company Directors’ Duties Are Onerous	3
What’s It Mean?	3
Have You Developed Risk Management Strategies?	4

October 2013

"Three grand essentials to happiness in this life are something to do, someone to love, and something to hope for."
– Joseph Addison, English poet and playwright

Getting A Business Ready For Sale

Most businesses will require a complete review of a number of key factors, which will contribute towards the achievement of a satisfactory sales value from the sale of the business.

Key Items

- Are any changes needed to improve staff performance and attitude?
- Customers – are they happy? Are there more products or services customers could purchase?
- Suppliers – have key suppliers contributed support, which is reflected in the performance of the business?
- Management – is the management team functioning at an appropriate level? Will the management team be able to drive the business’ performance if the current owner is no longer involved?
- What type of financial data is available? Are sales dissected into component sales, and are gross profit percentages and gross profit contribution figures determined for each sales segment?
- What is the labour-to-turnover percentage?
- How does the business’ financial performance compare with industry benchmarks?
- What is the unique selling proposition of the business?
- If the business is offering credit terms, how effective is the business’ debtors’ system?
- What are the business’ debtors’ days outstanding?
- Has all intellectual property, owned by the business, been appropriately documented, and have any ownership disputes been settled?
- Will key staff remain with the business, if the sale is negotiated?
- If key staff decided to leave, could a new owner effectively operate the business, especially in the short term?
- Have you considered offering a staff retention bonus to retain key people for a period of time after the sale, so an assurance can be given to a purchaser that, for at least a period of time (say 12 months), the key people will remain in the business?

Action to Consider

As part of getting the business’ ‘house in order’ to maximise the sales value, a review of the following items is advisable:

- Review of the systems operating in the business – could improvements be made?
- Are steps being taken to eliminate unnecessary expenses and wastage?
- Are all business sales being appropriately recorded in the business’ books of account?
- Does the database of customers show names, addresses, contact details and a record of previous purchases?
- Are the business’ intellectual property records current?
- Have team members signed intellectual property agreements? Are these filed correctly?
- Do the business premises present a pleasing aspect to a potential buyer?
- Do the team members require additional training so the potential buyer may be favourably impressed?
- Have you reviewed your business’ key performance indicators against industry best practice?

This article will be continued in the next edition. If you would like to have a discussion with us relative to a review of your business, to maximise the potential of a satisfactory sale, please do not hesitate to contact us.

Staff Disputes – Do You Have A Process For Handling?

Staff disputes or feuds can be very costly for businesses. Management needs to determine a strategy to, firstly, try to avoid staff disputes/feuds arising and, secondly, having a process to handle any disputes.

- The two main dispute categories are interpersonal and structural issues.
- Interpersonal relates to personality clashes with other members of staff, which can lead to a lack of understanding and intolerance of other staff.
- Poor communication styles can also contribute to the simmering issue. This can relate to differences in values and beliefs by team member.
- The structural disputes can arise through the lack of understanding of the roles each team member has in the organisation. This can lead to confusion on who is doing what.
- The advent of social media, over the last decade or so, is undoubtedly contributing to some staff disputes. Social media is the new medium, whereby people are displaying discontent about their workplace and some of their colleagues. They are using the 'shield of anonymity', giving them a medium to vent their frustrations about their workplace or some of their colleagues to a lot of people.

The question for management is what to do about this? Many of these issues will not fix themselves. It is a very risky management strategy to ignore the issue, hoping that it will go away. Many of these issues start as a very small item, which can turn into a very large issue, if management does nothing.

Staff disputes and feuds can affect productivity of staff, both those involved and those not involved in the actual dispute.

Management has a legislative duty of care, under the Occupational Health and Safety Legislation, to address these issues. Management needs to be monitoring and proactive about these issues.

The members of the team are generally looking to the manager to resolve staff disputes. There is no doubt that some of these disputes can be very difficult to resolve.

In the first instance, there is a need to try to understand the issue. Then try and get the parties involved in the dispute together, for each of them to give their side of the story. It is very important that the manager remains fair and neutral in these discussions. Don't take sides! Don't be dismissive of a claim if you believe it's a very minor issue. It is obviously a big issue for one of your team members. In these types of meetings, it is very desirable that you always prepare notes on the matters that have been discussed – you never know when you might need these meeting notes.

At these meetings, there is an opportunity for the manager to set the expectations of behaviour for all team members. You can set up a program whereby there will be a regular meeting, involving the parties involved in the dispute, to monitor ongoing progress.

Businesses can suffer heavy financial penalties from staff disputes. These can contribute to a lack of morale in the organisation, affecting a large number of people. The business' productivity suffers. People take days off, go on sick leave, or resign – in some cases, staff who are not directly involved in the dispute, but don't like the atmosphere certain disputes are causing in the workplace. Unresolved issues could lead to litigation, which can be very costly.

Under the Fair Work Act, there is an obligation for employers to address these types of issues. This needs to be done to avoid 'adverse action claims' or stress and bullying claims. These types of actions against an SME can destroy the business financially. 'Adverse action claims', in particular, can be very expensive, because there is no cap on the compensation that can be awarded.

Suggested System for SMEs

- Management needs to define the business' expectations of behaviour, and the values of the business, in their staff manual.
- Make sure this manual specifies what you expect staff to live by, whilst they're at work.
- The workplace rules should include appropriate clauses on how the business will handle workplace grievances.
- Prepare a summary of the key values of the business.
- Prepare a short list of supporting behaviours for each of these values.
- Some of the values for consideration could include:
 - communication within the business;
 - respect of fellow team members;
 - trust within the business;
 - business' ethics;
 - loyalty to team members; and
 - honesty of all members of the business.
- Conduct staff training programs so everyone understands their responsibilities.

If you would like our assistance in reviewing your team manuals, and other aspects of your human resources system, please do not hesitate to contact us.

Government Grants For SMEs

Export Market Development Grant – Lodgement Requirements

The lodgement date of Export Market Development Grant applications for the year ended 30th June 2013 is Monday, 2nd December 2013. If you were an exporter in the year ended 30th June 2013 and would like our assistance on completing the Export Market Development Grant application form, please do not hesitate to contact us.

Business Entities – Sole Trader

If you are contemplating commencing a small business, you will need to consider the various types of business entities. The simplest business entity is to operate a business as a sole trader. A sole trader can trade under his/her own name, or can register a business name. A business name registration does not create a separate legal entity. Registration under a business name has no legal implications other than allowing a business to trade under that name. Even though you may have registered under a business name, you cannot prevent someone else incorporating a company with exactly the same business name.

A sole trader has to include all business income received by him/her in their personal income tax return. All assets owned by the sole trader, both personal and business, are potentially available to pay lenders/creditors of the sole trader's business, because the business has no separate legal status.

In future additions, we will comment on partnerships, trusts and companies.

If you would like to discuss business structures, please do not hesitate to contact us.

Characteristics Of A Well Run Business – Part 3

Stock Control

- To improve stock control, utilise a stock analysis chart so your team members understand the financial contribution that is potentially available from each item or section of stock.
- Think about bonuses and other incentives to generate a desire from your team member to sell the higher margin lines of stock.
- Determine a desired stock turn rate for each stock item and ensure your team members, involved in the sale of product, have been informed of the targeted stock turn rate.
- Analyse the stock performance at the end of each week. This would relate to:
 - gross percentages generated for various items of stock;
 - stock turns achieved; and
 - sales person's individual performance, showing total sales, gross profit margin and gross profit percentage achieved.

Effective Cash Control

- If you're handling cash within your business, you need sound systems to protect the cash, including:
 - documentation of cash register receipts;
 - establishment of an appropriate system for the security of large sums of money located on the business premises.
 - system to ensure cash is banked intact daily; and

Work in Progress Control

- If your business is operating a work in progress system, it is recommended that appropriate controls are introduced, which include making sure all materials and subcontract invoices, for purchases of products for individual jobs, are charged on a progressive basis during the month, to the job for which the work relates.
- Ensure that all labour, including labour on cost, is charged to the job.
- Ensure that progress claims and progress claim invoices are processed regularly.
- Calculate the contribution received on each completed job.

Company Directors' Duties Are Onerous

Directors are trusted with the responsibility of administering the company, and monitoring its day-to-day performance. Some of the key tasks of a board of directors include:

- appointment of a CEO or managing director;
- approval of a company's business plan, including budgets and cashflow forecasts;
- review and supervision of a company's risk management strategies;
- approving borrowing of funds by the company;
- reviewing interim financial reports and key performance indicators;
- reviewing business benchmark performance reports on the company;
- ensuring appraisals are conducted for all executives and team members;
- ensuring the company has introduced an adequate internal control system;
- monitoring the company's exposure to foreign exchange risks (applicable if an exporter or importer)
- signing off on the annual financial accounts for the company;
- monitoring any shareholder's agreement to ensure the agreement is properly implemented; and
- making sure all documentation required to be lodged with the Australian Securities and Investments Commission (ASIC) is lodged prior to the final lodgement date.

If you are a company director, and would like us to review your duties and responsibilities, please do not hesitate to contact us.

What's It Mean?

Net Asset Value – Net asset value describes the market value of the business' total assets, less its liabilities, normally determined by adding the value of all tangible assets in a business (eg. plant and equipment, motor vehicles, land, buildings, debtors, cash on hand), then subtracting liabilities owed by the business (eg. creditors and loans). The resulting figure is termed the net asset value (normally goodwill is not included in the calculation of net asset value).

Have You Developed Risk Management Strategies?

All businesses operate in an ever-changing world, where different risks can affect the performance and, in some instances, the survival of the business. Some of the risks that may affect your business could be categorised as follows:

- Commercial Risks – risks associated with the market and the sustainability of the business.
- Compliance/Legal Risks – relates to compliance with legal requirements and other regulations.
- Environmental Risks – includes consideration of environmental issues that might affect the business, including:
 - weather temperatures, cyclones, storms, floods, tsunamis and droughts; and
 - other environmental risks, including incorrect disposal of products.
- External Risks – risks over which the business has very little control, but to which some consideration should be given, such as:
 - wars; or
 - global financial upheaval, eg:
 - global financial crisis – consider current governmental problems in America
 - political uncertainty in Italy
 - continual problems in Greece
 - war in Syria
- Financial Risks – this is a very large risk area, including cashflow, debtors and stock.
- Fixed Asset Risks – damage, deterioration or obsolescence of plant, equipment or building.
- Staff Disputes – interpersonal or structural.
- Operational Risks – includes:
 - communications;
 - email;
 - website; or
 - electricity failures.
- Organisational Risks – including:
 - key management leaving the organisation;
 - death or disablement of senior management personnel;
 - workforce unrest; or
 - workplace bullying, sexual harassment, discrimination, claims, etc.
- Reputation Risks – including unprofessional conduct and false product claims.
- Research/Intellectual Property Risks – incorrect documentation of who owns particular inventions.
- Safety Risks – safety issues affecting team members, customers and visitors to your premises.
 - Have satisfactory pre-start checks being undertaken on vehicles, trains and conveyor systems?
- Security Risks – such as:
 - armed robbery;
 - brawls; and
 - theft and pilferage.
- Stakeholder Risks – change of directors, shareholders, management team and key suppliers.
- Technology Risks – continual improvements in technology to your business, keeping up to date.
- Corporate Governance Risks – directors and management understanding their responsibilities.

Businesses need to firstly identify the risks which relate to their business, then develop strategies to minimise the risk, or have pre-prepared procedures in place, if a particular risk emerges.

If you would like to have a discussion with us relative to risk management within your business, 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.



C H A R T E R E D A C C O U N T A N T S

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