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### Characteristics Of A Well Run Business

#### Excellent Systems

You need excellent systems that give you current information on:

- bank balance;
- sales made yesterday;
- amount owed by debtors;
- stock on hand;
- stock turn;
- work in progress;
- debtors' days outstanding;
- amount owed to creditors;
- last week's results compared to budget; and
- cashflow problems likely to be encountered in the future.

#### Analysis Of Results

- analysed monthly financial accounts (including detailed profit and loss account);
- comparison of periodic financial accounts to budgets and cashflow forecast;
- key performance indicator report for every segment of the business;
- benchmarking comparison to other businesses in your industry; and
- regular team meetings to analyse performance.

### Succession Planning – Have You Thought About It?

Succession planning is a very personal thing for most business operators. Firstly, you need to consider what you want to achieve from the business. This could include:

- Creating a legacy?
- Develop the business so you can move on to another business?
- Providing inheritance to your children and your grandchildren?
- Getting the business ready for sale so you can sell and retire?
- Have you thought about your options for exiting the business?
- Would a partner buy you out?
- Could you introduce a new partner/shareholder into the business and then exit?
- Could you hand the business on to another family member to run?
- Could you appoint an external CEO to run the business on behalf of the family?
- Could you negotiate a 'trade sale' with a competitor or large organisation?
- Do you want to develop the business so you can undertake an Initial Public Offer (IPO) to list on the stock exchange?
- Do you think the business is 'exit ready' or 'succession ready'?
- What retirement needs do you have that will need to be supplied through the business?
- Will the business survive with the reduced reliance on 'you'?

Items which might affect 'you' and the business include:

- is the business name your name?
- a large percentage of the clients perceive that they have a direct link to you; and
- could you effectively make yourself 'redundant', to enable other team members and management to take over the roles previously undertaken by you?

These are some of the questions that need to be considered in planning a succession strategy for business operators.

## Marketing Hints

### Information Events

A great way to promote a new product or service is to invite your customers and prospects to an event. This could be a special sales promotion, or to hear an expert key note speaker, who is relative to your customer base.

### Why Not Establish A Customer Club?

A great way to impress your customers is to establish a special 'members only' club, and then organise special events, promotions, product previews, etc, to enable you to show your customers how much you appreciate them.

### Telephone Calls To Customer

Communication is very important to your customers. Why not pick up the telephone and ring them for no apparent reason, other than to say "how are you going"? This can be a great way of getting 'titbits' of information, and also letting your customer know that you really do appreciate their business. You might even get an order out of that telephone call!

### Promotional Gifts

Promotional gifts can be a great way to promote your business, whether they are pens, mouse pads, umbrellas, caps, USBs, and so on. Make sure the products are of good quality and your name is discreetly placed on the object.

## Lifetime Value Of A Customer

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

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

Many businesses find that, with good service, a customer will stick with them for 7-10 years. If you assume that the lifetime value of a customer is 7 years on average, multiply the average sale by the number of times you expect to see the customer each year, and then multiply the projected annual sale 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.

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 could 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 prize' 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.
- GO THE EXTRA MILE!
- Get them to say "WOW!"

## An Annual Legal Check Up Can Help

There are many areas that the law can affect the operation of your business. Many SME operators receive assistance with the development of strategies for their business, from marketing consultants, advertising consultants and their accountant. One area that many business people overlook is having an annual consultation with their commercial solicitor, to ascertain whether their business is complying with all of the laws, and to ensure they are aware of any recent court decisions or changes in the interpretation of the law which may affect their business operations.

There are a large number of laws which can affect all business operators. By having an annual meeting with your commercial solicitor, you have the opportunity to update your knowledge of the law, particularly as it relates to your business. This will also enable your commercial solicitor to gain more knowledge of your business operations, hopefully encourage your commercial solicitor to be mindful of contacting you during the year if they notice any developments in the law that may have an effect on your business operations.

## Fair Work Australia – Action Over Contractor

A recent court case, involving Fair Work Australia and a business, has highlighted the necessity for businesses to be very careful, relative to the classification of people who work for the business. There are legal implications if classifications are incorrect.

The employment relationship revolves around 'control'. In a normal employer-employee relationship, the employer has the ability to control how work is done by the worker.

The type of relationship with an independent contractor, is that the business principal will not have 'total control' over the work being undertaken by an independent contractor. The contractor is responsible for his/her own performance, and the supply of tools, equipment, devices and materials to the job site.

Another very important test, as to whether a worker is an employee or a contractor, is how 'prominent' the worker figures in the organisational chart/structure for the business. If the person is branded as part of the organisation, it would probably be difficult to argue that the person is not an employee. If they are a contractor, they should be retaining their own identity.

Some years ago, the Australian Taxation Office introduced an 80% rule, as a way of trying to regulate the deductions for PAYG tax, but that is not the prime determination of Fair Work Australia.

In a recent court case, the Fair Work Ombudsman claimed a 'sham contract'. The Ombudsman claimed the 'people' were employees and not contractors.

Fair Work Australia has the right to prosecute 'employers', and they did so in this case, on the basis that Fair Work Australia alleged the persons were not contractors and that they were employees. The court found that the 'people' were not contractors but employees, and fined the business \$170,000, and the company director who was responsible for the engagement of the persons, \$28,000.

Fair Work Australia targets various industries from time to time, and may demand to see employment records. Complaints can also be made to Fair Work Australia by disgruntled employees, past or present.

The message in this case is, employers need to be very careful in hiring people who are going to be regularly involved with the business, and who will be accepting directions from the business' management relating to the performance of their duties. Management should ensure that proper systems are in place, to ensure that a potentially 'dubious engagement' is referred to senior management before being finalised. Questions might relate to:

- The 'person's' estimated working hours per week.
- The control and reporting obligations of the 'person'.

If the 'person' is being engaged on similar terms and conditions to those which relate to a 'normal employee', then senior management should seriously consider whether it's worth the risk to engage someone as a 'contractor'.

The employer could also face action from the Australian Taxation Office, because PAYG tax has not been deducted, and superannuation has not been paid. This is a real area of 'risk management' for businesses. It is advisable that, any person engaged under independent contractor agreements, should be reviewed every six months, to ensure the engagement process is appropriate for the work being undertaken by the 'person' during that time.

When engaging a 'person', who you believe is a legitimate contractor, it is very important to document the contractual obligation; who will the 'person' report to, what are the contract milestones and how are they going to be paid. Proper written documentation is also required between the employer and the contractor's entity, which clearly identifies the commercial agreement that has been reached.

Another area that the employer should be monitoring closely is the situation where a decision is made to terminate an employee, and then engage that former employee as a contractor within a reasonably short period of their termination as an employee. This is a high-risk area that needs to be closely managed and scrutinised to ensure the person being engaged as a contractor is a legitimate contractor. Does the new contractor have:

- |   |  |
|---|--|
| • public liability insurance;                         | • come and go as they wish;  |
| • sickness and accident insurance;                    | • report as a contractor;  |
| • professional indemnity insurance (if appropriate);  | • milestones that are achieved; or   |
| • supply own tools, computers and research materials; | • are they being supervised on an hourly basis, as if they were an employee? |

## Keep On Marketing

In difficult economic times, it is tempting to stop marketing. However, if you wish to take advantage of the business upturn when it arrives, you have to be thinking differently, to take advantage of the changed economic circumstances.

- Why not consider giving guarantees on your products or services?
- Have a vision. Don't try to be 'all things to all people'.
- You don't need to spend huge sums of money on advertising.

Have you considered being proactive with the use of public relations and communications, by issuing well-prepared news releases on products/services/activities that your business is undertaking? The news release could be sent to your local news outlet, included in a newsletter, and placed on your website.

If you have some slow moving stock, is it possible to package that stock with other stock items and sell the total as a packaged product?

Have you explored the opportunities of marketing your business, in conjunction with other businesses in your area, whereby you share the customers and jointly market and promote the businesses?

You need to be thinking differently in the current economic conditions, by being proactive in marketing, public relations, communicating with the market and targeting products and services directly to specific customer segments.

## A New Government!

There are many challenges confronting the new LNP government, and they will need to get down to work very quickly to solve significant problems which are affecting small businesses throughout Australia. Key issues continuing to confront SME operators, besides the unreasonable amount of paperwork required by the government, are:

- Cashflow Management
- Debtors' Days Outstanding now at 55 days – far too high
- The lower interest rates doesn't mean that the banks are going to be more lenient. In fact, recent articles indicate that the banks are becoming tougher in their dealing with small businesses.

The other big issue is change that is occurring within the economy. The Deloitte's 'Digital disruption – short-fuse, big bang?' report identified industries, which Deloitte believe would be significantly affected over the next three years. These include:

- Retail trade
- Finance
- Arts and Recreation
- Information Communication Technology
- Professional Services
- Real Estate
- Media

If you're in any of these businesses, now is the time to start thinking about some strategies to reduce the impact of the digital disruption and, hopefully, create real opportunities for your business. These strategies could include:

- Re-calibrating cost structure – what changes need to be made in terms of people, supply chains and overheads, to radically re-think costs, so you are able to compete with the digitally powered, low-cost newcomers.
- Replenishing revenue streams – do you need to build new sources of revenue across different segments from what you're relied on in the past? Should different revenue streams be developed for different geographies and business models, as your traditional streams of income are subjected to competitor pressure from businesses utilising the new technologies?
- Do you need to reshape your own corporate strategies? This could include disposal of some assets that are no longer being fully utilised or changing your business operations.

Now that the election is out of the way, this is a good time to start thinking about some of these issues, especially if you are operating a business in one of the six industry groups that Deloitte forecast will suffer a 'big bang short-fuse' over the next three years.

*This is not advice. Clients should not act solely on the basis of the material contained in this bulletin. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. This bulletin is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential*