BusinessPlus+ Newsletter

CBSW
TAX & BUSINESS ADVISORS

Level 2, 49 Oxford Close
West Leederville WA 6007
PO Box 1475, West Leederville WA 6901
T: +61 8 9363 7300
E: admin@cbswtax.com.au
W: cbswtax.com.au

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Issue – November 2018

Stop Press: Government Announcement 16 November 2018
SME Businesses to Save Significant Regulatory Costs

Small and medium businesses affected are estimated to save more than $300 million over the first four years of commencement of the proposed legislative changes. **The Regulations are intended to commence on 1 July 2019 and applies in relation to the financial years beginning on or after 1 July 2019.**

The Government will reduce the reporting burden for small and medium businesses by raising financial reporting thresholds which have not been adjusted since 2007.

Currently, proprietary companies are considered to be 'large', for the purposes of ASIC reporting requirements, **if they meet at least any two of the following three thresholds for a given financial year:**

- $25 million or more in consolidated revenue;
- $12.5 million or more in consolidated gross assets; or
- 50 or more employees.

These 'large' proprietary companies are required to prepare and lodge a financial report, a director's report and an auditor's report with ASIC each financial year.

The thresholds will be doubled as follows:

- $50 million or more in consolidated revenue;
- $25 million or more in consolidated gross assets; or
- 100 or more employees.

Around a third of large proprietary companies (2,200 out of approximately 6,600) will no longer be classified as large and will therefore no longer be required to comply with financial reporting and audit requirements. This is estimated to reduce the regulatory cost on these businesses by $81.3 million annually, as the average cost of preparing and auditing financial reports is approximately $36,950 per company, per year.

Small proprietary companies will still be required by law to keep written financial records and may be required to prepare or audit financial reports if directed by ASIC or five per cent or more of their shareholders. All other corporate obligations that apply to propriety companies will continue to apply.

Ten Things the Best Founders Do

Bain & Company through their “Founder’s Mentality” concept that has been extensively researched, have concluded that**: Leaders and the front line staff must share a bold mission, a focus on the needs of their core customers, and a commitment to develop the routines, behaviours and talent that transform their business and industry.**

Only 1 in 11 companies grow sustainably – and yet in only 15% of cases do those that fail to grow blame the market. The other main factors attributed to failing to grow are all internal business complexity factors, namely:-

- Insufficient resources;
- Inability to focus;
- Poor Culture and risk aversion;
- Organisational complexity;
- Weak business plans;
- Missing capabilities;

We believe in the old adage, ***“If you want to be great, learn from the things that great people/businesses do well.”***

We have been able to observe what the best founders do, how they think and how they act in their businesses. As we spot these trends of what the best founders do, we can then help other founders copy those habits of success.

Here are the top 10 things the best founders do (in no particular order):

1. **Long term vision, short term focus**. The best entrepreneurs can paint a compelling and exciting vision of the future and the way in which their company will play a role in that future. It’s long term and in some cases, somewhat abstract. But they are very good at boiling that vision down to the next most important steps to take in the business on a daily, weekly, monthly, quarterly basis that will take them toward that vision.

2. **They are capital efficient.** It’s common in start-up venture culture to raise a bunch of investor money, and burn through it before you start to make any profit. This makes a lot of sense if you are investing in activities you know will generate value. But the downside is that in many cases it can lead to a culture of fairly reckless spending on inefficient customer acquisition, development of features that don’t need building or bloated overheads that don’t take the company to their next major milestone. The reality is, investment is just a means to create more value (revenue and eventually cash flow and profit), at a faster rate than what they would be able to by ‘bootstrapping’. The best companies are very careful with capital expenditure and recognize that every dollar invested is a dollar of margin that needs to be earned in the future to be back to square one (so they tread carefully).

3. **They know their margins and how they will make money**. In every start-up there is a bit of ‘spreadsheet magic’, that shows a perfect hockey stick, but the best founders don’t discount that and say, “*Oh I just wrote that revenue for the investors, cause they wanted to see an upward revenue trend – a ‘hockey stick’”.* The best founders have a working hypothesis at all times that is being tested and iterated on to find the money. They don’t invest in companies to build technology, they invest in them to find a customer’s need and fill it with a new product or service (technology). They invest in the potential of long term, durable, free cash flows.

4. **They swim downstream.** They are not trying to build a market, they don’t have any ego around their idea and they don’t have the ‘build it and they will come’ mentality. They are focused on finding a customer pain point (that the customer is willing to pay for) and building a product fit for the customer’s needs. They swim downstream toward a market need that already exists.

5. **They spend a lot of time with customers.** They are good at listening to their customers, have genuine empathy for their customer’s needs and translate this into a product that meets those needs. They look for nuance in their customer’s answers to questions or product feedback. Instead of trying to validate their own hypothesis, they are comfortable invalidating their own hypothesis with customer feedback to find the “real problem” that customers want solved and will pay for.

6. **They work insanely fast**. They surprise you with how quickly they produce high quality work.

7. **They know that the main thing is keeping the “main thing” the main thing.** They are incredibly focused on achieving the most important next milestone. They are really clear about what they are going to do next. They can clearly justify why they need to do that and how it plays into their long term plan. They have thought about steps 3 and 4 before taking step one while still maintaining the flexibility to adapt if needed.

8. **They are “reality junkies”.** They know the metrics that represent the creation of value in the business and they stay focused on those, ruthlessly. They don’t report on vanity metrics, they report on reality. The best founders get their teams together every week and talk about key metrics, what they have learned from the tests performed against hypothesis in the previous week and what this means for the next step in the business.

9. **They eat risk for breakfast.** Being in a start-up is not inherently about having a higher tolerance for “risk”. The best founders are actually quite risk averse. They work hard to de-risk the next step, the next business investment. They do this with research, planning, testing and measuring. When taking big risks, the best founders know, with a fairly high degree of certainty it’s going to work before they leap. This makes it much less risky. They take leaps of faith, but try their best to know the ground they will be leaping to is solid on other side.

10. **Know they can’t ‘boil the ocean’.** Good founders focus on delivering on a core need for a focused group of customers. Once they have found product market fit with the customer set, they expand horizontally and vertically.

Ultimately, there are many different types of founders with different skill sets. Some of the best would have all of these attributes; some would have only a few and not be so great at others. But one thing that all great founders have in common is that they are ***'Learn It All’s'*.** They identify their areas of weakness and they fill it in, by learning new skills, or by bringing great people around them.

Prepare For the Cost of Raising Business Capital

If only securing finance was as easy as a handshake or a verbal agreement. The cost of raising capital can be in the tens of thousands (depending on the size of your business and the amount of funding required). Much like applying for a home loan and paying for building reports, you will need to pay for forecasts, valuations, and various other professional services. Here are five considerations when raising capital for business so that you can budget your money and time accordingly.

1. **Set a Capital raising budget**
   Just as you would budget to purchase new assets or hire a new staff member, you should determine exactly how much you think you will need to pursue your capital raising goals. As always, it’s best to over-budget as opposed to under-budget – make sure you plan for extra expenses so they don’t take you by surprise.
2. **Get some trusted advice**
   If you’re raising capital for the first time, it’s a good idea to speak with someone who is experienced in preparing businesses for investors. This may be an accountant, a lawyer, a business mentor – if possible, speak to as many trusted experts as you can to gain a broad understanding.

3. **Decide if you need to extend your timeline**
   Once you know the exact costs involved, you can assess whether raising capital is still the best course of action for your business. You may decide it’s better to extend your timeline and wait a year, so that you can save enough money to cover all expenses. It’s better to do your research before starting the application process than to get blindsided by the cost further down the track.

4. **Find out how much Capital you need**
   Another thing to do is be very clear about how much capital you need. The cost of raising capital is relatively fixed (although it may be less if you only require a small amount). Therefore it makes sense to ask for what you need. Be careful not to ask for too little, otherwise the cost of raising it in the first place may not be justified. If you have a sound business plan, you should be able to quickly identify the exact figure you need to take the business forward.

5. **Consider the non-financial costs of raising Capital**
   It’s also important to consider the non-financial costs of raising capital. In addition to the financial burden, attracting investors also takes a considerable amount of time, energy, and resources. If anything, raising capital forces you to run a tight ship; your business should be operating efficiently, with good systems and processes in place. If you’re encountering difficulty in this area then it might be a sign that you’re not quite ready to bring on an investor. You may decide to spend a few months getting your business in good shape before you start approaching potential partners

There are now some new and unique ways of raising business expansion capital that have been legislated in Australia that may make the whole exercise more achievable and attractive to investors than was previously available for SME businesses. To find out more please contact Lyall Bear our CBSW Business Advisor.

What Is A 'Break-Even Analysis?' – Part 1

Managing profit and loss is all about managing the relationship between costs, volume and pricing. Break-even is a tool that can help business owners and managers gauge the results of future changes to costs (expenses) or pricing.

A break-even analysis focuses on two types of costs - fixed costs and variable costs - and how changes in either affect profits. By using the break-even tool, we can map changes to costs and/or pricing to the corresponding changes that are required in sales volume if a given level of profit is to be maintained.

Why is the simple calculation of break-even so important?

Used correctly, a break-even analysis can:

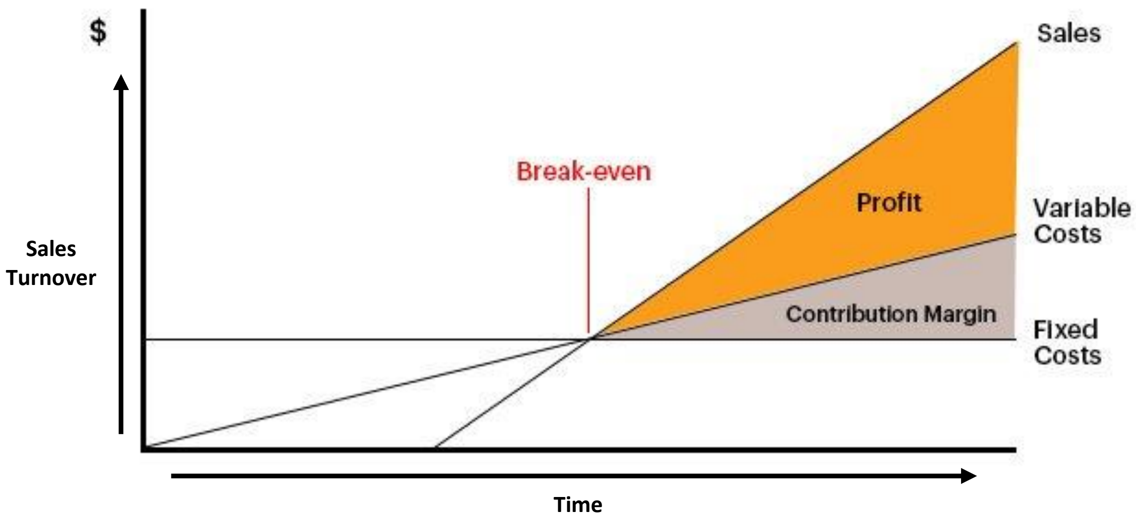
1. **Lead to better pricing strategies**
2. **Demonstrate the full impact of discounting and what it really costs you**
3. **Improve variance analysis and your ability to manage risk**

Sounds like the silver bullet that all business owners need, so why aren't more businesses taking the time to use it correctly?

In our experience up to 75% of business owners do not know their break-even point in terms of sales dollars or volume. Those that claim to know their break-even point often have incorrect estimates and are not using it to maximum effect.

What affects breakeven?

- Contribution margin
- Costs - distinguished between fixed and variable



An initial hurdle is often the assessment of Fixed Costs versus Variable Costs. Fixed Costs happen whether you sell something or not (e.g. rent). Variable Costs are directly related to producing a product or delivering a service (e.g. packaging, sales commissions), so as sales increase so do variable costs.

We will continue with Part 2 of this article next month.

Business Needs Review – Part 9 - Retirement

The “end game” of being in business should always be on the business owners mind, after all what are you taking all the risks and spending the long hours at work for otherwise? So one of the key objectives will surely be to ensure you can fund a very comfortable lifestyle in retirement and have time and the choice to do the things you want.

So please take a look at the following questions to ensure you have covered off the main things that need to be addressed when looking at aspects of retirement from a "big picture" perspective.

1. ***What does a comfortable retirement look like to you and your family?***
2. ***What investments do you currently have and do you think that they are sufficient?***
3. ***What is your current net wealth and how do you intend to develop it from now until retirement?***
4. ***Have you considered when you are going to retire? If so when do you think that may be?***
5. ***Have you considered what education funding goals need to be set? If not what do you think they may be?***
6. ***What other health, living and holiday funding goals need to be set to ensure your retirement is sustainable?***
7. ***What is the proper spending rate from your savings, and what economic factors does it depend on?***
8. ***Would you consider retiring later if it was necessary to attain your financial goals?***
9. ***How long will your money last if you stop working today?***
10. ***Taking everything into account is your retirement income plan sustainable?***

If you need assistance in any of these areas of your business or personal retirement planning, please contact Lyall Bear our Business Advisory consultant.

"Scaling Up" - Crowd Sourced Funding Could Help!

Doesn't it really "frost your cookies" that medium-sized businesses always seem to get left out of the most important decisions by Government?

Well, as it turns out, the medium-sized ("SME") business sector has finally scored a big win!

Many SME's will be perfect candidates for the concept that is going to revolutionise capital raising for Australian business and it's already underway.

Last month we discussed the effect that Crowd Sourced Funding Equity Raising will have on small companies – this concept also applies to medium sized companies – companies with turnovers $2 million to $25 million are ideally placed to utilise Crowd Sourced Funding Equity Raising to raise capital.

"Scaling up" to the next level or even 2 or 3 higher levels requires:

- **People** – management needs to identify core values and then engage people who can implement those values for the benefit of every person within the business.

- **A Strategy** – the company needs to identify what the plan is and document how this will be achieved:
  - Will this strategy appeal to your present and future customers?
  - Will your business be able to differentiate itself from competitors?

- **Driving Execution** – companies committed to "scaling up" need to implement policies which will:
  - identify priorities
  - identify meeting schedules – daily, weekly, monthly
  - keep everyone in the loop

- **Managing Cash** - it is very important for a company that is "scaling up":
  - to ensure that the company doesn't run out of cash
  - cashflow management is vital for company's "scaling up"
  - Directors and management need to be very aware that "growth sucks cash" – inventory, debtors, capital expenditure, training, research and development, protecting intellectual property, people, premises – all cost money.

The other key requirements for SME companies to raise capital as Crowd Sourced Funding Companies are:

- group gross assets valued at less than $25 million
- the company and no associated company is listed on a stock exchange anywhere in the world
- neither the company nor any associate is registered on a financial market outside of Australia

Implementing capital raising as a Crowd Sourced Funding Company could prove to be an "apprenticeship" for a subsequent Initial Public Offer (IPO) for a listing on a Stock Exchange, if that is what the company directors are interested in doing.

The experience of participating in the Crowd Sourced Funding Capital Raising process, working with a Crowd Sourced Funding Intermediary, accepting that a group of external shareholders own a percentage of your company, gaining from the experience of having some external directors on your board of directors, potentially dealing with auditors, are all valuable corporate governance experience if your company ever decides to proceed with an IPO or just wants to double the company's turnover over the next 3 to 4 years.

If you would like to discuss your vision for your company, please don't hesitate to speak to your CBSW contact for a discussion.

Export Market Development Grant Application

Applications for the Export Market Development Grant in respect of the year ended 30th June 2018 must be lodged with Austrade by **30th November 2018**.

If you would like our assistance with the preparation of your business' Export Market Development Grant Application Form, please do not hesitate to contact us.

Cost Control an Ongoing Task

Cost control strategies should be part of an ongoing activity, not just considered once a year. A good idea is to create a checklist of the key costs being incurred in the business with an analysis being performed on the cost and reviewed on an ongoing basis to see whether value for money is being obtained.

In some instances, it may be found that it is necessary to increase the amount of money that a business is spending under a particular cost heading, so as to get a significant improvement in value for money. If this helps the overall performance of the business and bottom-line profitability, then that additional expenditure is money well spent.

However, in most cases the ongoing costing review will be centred on an analysis as to whether the incurred cost is still justified and whether the business is receiving the best possible deal from the suppliers of the product or service.

When undertaking a review, it's a good idea to ask a question "*Why are we incurring this expense*?"

Is it necessary that the business incur this expense so as to continue to service your customers at the highest possible standard? Or is it an expense that is frivolous and a luxury in today's market that your business could do without?

Is the product or service being acquired of superior quality to that required to meet your customers' requirements? Are you buying a "brand name" when that is not necessary?

Many small and medium sized businesses have established a cost control review committee which meets periodically to consider the various costs that have been incurred by the business and, after some investigation, to determine whether that cost should still be incurred or whether changes can be made to the type of product or service that is being acquired, so as to reduce the overall cost impost to the business.

A dollar saved in purchasing of products or services usually goes directly to bottom-line profitability of your business.

If you would like to discuss a strategy of how savings can be affected within your business, please do not hesitate to contact Lyall Bear our Business Advisory specialist.

Single Touch Payroll - Small Business Next

Single Touch Payroll (STP) is an Australian government initiative that changes the way businesses report on salary or wages, Pay-As-You-Go (PAYG) withholding and superannuation. Under STP, this payroll information will be sent electronically from the business' payroll system directly to the Australian Taxation Office (ATO) at the same time as the employer pays their employees.

Employers with 20 or more employees have been required to use the Single Touch Payroll system from 1st July 2018.

Small business employers (less than 20 employees):

- Legislation to extend the Single Touch Payroll to include employers with 19 or less employees is currently before Parliament.
- Businesses with less than 19 employees can elect now to utilise Single Touch Payroll system if you wish. To find out more about this, we suggest that you talk to your software provider to find out what you need to do to update your software and start reporting.
- The ATO has stated that it will not force employers, with 19 or less employees, to purchase payroll software, if they don't currently use payroll software. The ATO has indicated that different STP reporting options **will be available by 1st July 2019 to help smaller employers.**

Micro employers (1 – 4 employees)

- The ATO has requested that software developers build low-cost STP solutions at or below $10 per month for micro employers – including simple payroll software, mobile phone apps and portals.
- The ATO has indicated that they have received over 20 expressions of interest from software developers and will publish a register of the successful expressions of interest that they have received by 30th November 2018.
- The ATO has indicated that micro employers will also have a number of alternative options that are not available to employers with 20 or more employees – such as initially allowing the micro business' registered tax agent or BAS agent to report quarterly, rather than each time the business prepares a payroll.
- The ATO has also indicated that exemptions to STP reporting will also be available, if you have no internet or an unreliable internet connection.

In summary:

- The STP will streamline reporting to the ATO and will make it easier for employers to meet their obligations as an integral part of payroll processing.
- Employers, who report through STP, will no longer need to provide employees with an end of year payment summary.
- TP will allow the ATO to better assist employers who are having difficulties meeting their PAYG withholding and superannuation obligations.
- Using their myGov account, employees will be able to interact securely with the ATO to view the year-to-date salary or wage amounts, PAYG withholding and superannuation entitlements.
- Salary or wage information and PAYG withholding amounts reported through STP will be prefilled to the employer's Business Activity Statement (BAS).
- If you are currently using a computerised payroll system, we suggest that you have a discussion with your software provider to gain an understanding of the upgrading that will be necessary with your present system or should you obtain a new system which fully incorporates Single Touch Payroll?

Developing a Growth Plan For 2019

Last month we summarised some of the key questions to consider for the development of a business growth plan for 2019. This month we explore some particular items for you to take into consideration in the development of your plan for 2019.

- **Culture is everything**
  Are you satisfied with the culture in your business?
  Does your team understand the core values of your business and the core purpose?
  Is your brand honoured by your team?

- **Do you have a framework for success?**
  A healthy sustainable growing business needs clarity around 6 questions:

  1. Who are we?
  2. Why do we exist?
  3. What do we stand for?
  4. What do we do?
  5. Where are we headed?
  6. How will we get there?

Does the whole team know where the business is heading?
Can you answer these questions clearly, or do you need to do more work on some of these questions?

- **Is there a "sign on" to the key ideology for your business?**
  Underlying drivers to make a difference – to do something of value?
  Is your group able to accomplish something collectively?

- **Is your vision for 2019 to grow your business?**
  If so, 4 key areas for management and the team to work on:

  1. People – establish a handful of rules and act consistently within those rules.
  2. Strategy – a real strategy must past two tests:
     - firstly, what you're planning to do really matters to enough customers
     - secondly, your strategy differentiates you from your competitors
  3. Execution – businesses need to implement at least 3 key habits:
     - set a handful of priorities
     - gather information relating to the business daily/weekly and review it
     - establish effective daily, weekly, monthly and other periodic meetings to review performance and keep everyone in the loop
  4. Cash Management – key objective – don't run out of it – growth sucks cash!
     If your plan calls for a major expansion of your business during 2019, you need to remember the pressure on cashflow from extra business activities, including investment in inventories, debtors, research and development, intellectual property development, new equipment and people.

Do you aspire to achieve world's best practice? Benchmarking is very important to understand how your business is performing. It's common to benchmark against other businesses in the same industry as yours, but you do not need to be a "slave" to only ever comparing with businesses in your same industry.

Some businesses, wishing to achieve significant growth and world's best practice, are going outside their industry to benchmark specific internal operations of their business, as compared to a completely different industry. Examples of specific internal operations include:

- Debtors' management;
- Inventory control;
- Corporate governance training - where the difference in industry has probably got little bearing on how the specific internal operation is treated – by comparing to businesses outside your industry you might get some great ideas

What strategies are you going to implement in your plan that relate to customer feedback? Some businesses make telephone calls to customers the following day to see whether they were satisfied with the service that they received the previous day. What does your business do and, more importantly, what are you planning to do during 2019?

Strategy

You need to consider the following questions in developing your overall strategy for 2019:

- How is your business different?
- Do you do one thing really well?
- Do you work very hard to be "unique"?
- Don't try to be everything to everyone.
- Have you considered specialising in a product and know-how and then dominating it?
- Many successful businesses focus on a niche. Should you be identifying what you're good at and then dominating that niche market?

These are some of the questions that we believe you should be considering as you develop a strategy for your business in 2019. We will continue this article next month.

If you would like to discuss your business strategies with us, in relation to the development of your plans for 2019, please contact Lyall Bear for an initial discussion.

The Reason for Marketing Is To Generate Some Interest

Marketing is a process, not a one-off event. When you examine the marketplace, only 3% to 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”.

How might you “interrupt” potential customers? This could be done via email or a telephone call, to advise them of your product or service followed up with information, video or webinar, which will inform the potential customer of how your products can best assist them satisfy their objectives and needs.

Providing you professional direction