

# BusinessPlus+ Newsletter



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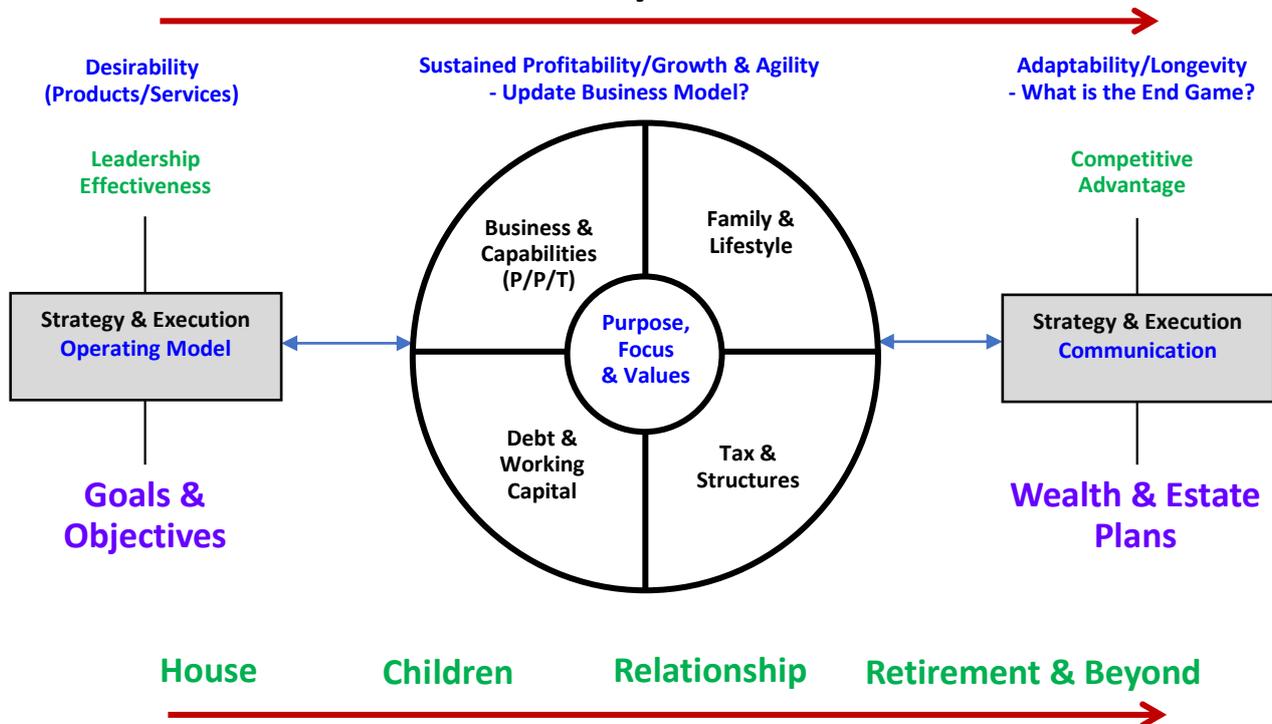
## Issue – April 2019

### The Business Strategy Circle

I developed this circle many years ago (in a much-simplified format) to help business owners really think more effectively about how to develop and implement the most appropriate business strategies at a point in time.

Too often I had found the focus of the strategies that profitable business operators had, were skewed to one specific quadrant of the circle –tax. Unfortunately, this may be without due consideration for the longer-term implications of this on the other three quadrants and the potentially adverse consequences of taking such an approach, albeit with perhaps some perceived short-term gains ie paying less tax.

## Business Lifecycle Timeframe



Although the diagram has evolved significantly beyond just a simple circle, it remains the central core of my model and is always the starting point for the thinking process to begin.

The procedural approach should be to develop business strategies that are initially run back and forth through the quadrants 1 to 3 (Capabilities, Family & Debt), until everyone is comfortable that they make sense and do not create stress points in any quadrant beyond an acceptable degree of risk that is supported by a suitable risk management/contingency plan. Then and only once that position is reached, should the question be asked – “*And how can this strategy best be structured to get any legitimate and optimal tax outcomes (if applicable)*”; and of course, many priority business strategies will have no direct tax implications.

The enhancements that have been made to my model over time, were driven by my endeavouring to help align the strategic thinking process with:

- **The Core Business Purpose;**
- **The Core Values of both the Business and the Owners/Family;**
- **Relate the Strategies to the timelines of both the Business and the Business Owners/ Family;**

### **The Business Timeline**

**On the Business timeline, some of the things to be considered would include: -**

1. At what stage is the business on the maturity/growth cycle, that is start-up, growth, maturity, decline, re-engineered by nurturing an emerging business?
2. What sort of differentiated products/service capabilities does the business have that provide a competitive advantage in the market?
3. Are the business or operating models in need of update and innovation?
4. What is the “end-game” for the business and or the current business owners?
5. What are the leadership capabilities in the business?
6. How effective has the business been and developing and implementing good strategic decisions in the past that contribute to sustained growth, operational & competitive agility and profitability?

### **The Family/Personal Timeline**

**Whilst equally important are the various priorities that will arise along the Family timeline, including: -**

1. What are the key family/personal priorities? (in many cases this will be both age and relationship issue determined)
2. What are the personal objectives – short-term, medium- term and long-term?
3. What is the end-game objectives around retirement – when, how much capital to accumulate to fund the planned retirement lifestyle and perhaps assistance to children and/or grandchildren?
4. What asset protection strategies may be appropriate that should be considered and implemented?
5. What Risk Management strategies should be addressed – Insurances, Estate Planning, Other?
6. How do the Family objectives and goals align with the Business plans and strategies?

### **Conclusion**

**The idea of the Strategy Circle model is to help business owners think more holistically about both the business and family/personal implications of any decisions they make, seeking aid them to make more informed (and balanced) decisions that ultimately lead to better outcomes and benefits.**

**Please contact me at CBSW should you want to discuss this model (or related matters) further.**

## **Trusted Leadership**

Inside a business, Trust provides focus, passion, fosters innovation and helps employers hire and retain the best employees. **Effective leaders are encouraged to master three critical types of Trust: strategic, organisational and personal.**

An effective leader is also entrusted with two sets of interrelated responsibilities:

- They must ensure the **business vitality** is maintained and improved through innovative practices;
- They must identify and **model appropriate personal attributes and behaviours** for everyone connected with the business – both internally and externally;

So, because of these interrelated responsibilities, the leader is like the skipper on a yacht – setting the course may be the easy part. The hard part is being constantly vigilant, initiating regular corrective action in response to the unpredictable and ever-changing wind and water conditions that is - the external business & competitor environment).

**Trusted leaders are charged with, at a minimum, achieving all the following:**

- Executing as flawlessly as possible;
- Thinking strategically;

- Formulating and articulating persuasive business cases with clarity, rigour, logic and commitment, linked to attaining the core business purpose;
- Balancing between the three levels of Trust, namely –
  1. **Strategic Trust:** *On a Mission level, is the business doing the right things with its goals and focus?*
  2. **Organisational Trust:** *Are appropriate processes and decision-making in play so that things are done in the way they should be done?*
  3. **Personal Trust:** *Does two-way trust flow between the business leader(s) and the people throughout the organisation?*
- Behaving with scrupulous neutrality and integrity on behalf of the business;
- Understanding how they will impact on the business and all its stakeholders;
- Always striving to “play high” on the leadership ladder – demonstrated by engendering trust, providing inspiration, rationality and positive influences;

### Building Trust

So how can a leader build trust now?

There is of course no magic bullet, however you can initiate the trust improvement process immediately by allowing your people (the business team) to become a part of the process, starting by asking for their advice and acknowledging the input is valuable and using their responses.

**One of the fundamental tools of trust-building is getting people engaged by inviting them into the process**, rather than mandating their participation.

## Creating Value in your Business

Business owners often get so buried in the day to day, that we forget the myriad of essential building blocks required to be kept in check, to create, build, maintain and ultimately sell a business.

It can be a real challenge to keep all the plates spinning, regardless of the size or stage of the business. In addition, you might be juggling where you are at personally. What we can be sure of however, is that business is tough.

**Here is an overview of the key areas that are critical for the business owner to regularly review and assess, to ensure that progress is being made.**

These ten focus areas might be used whether you simply have an idea, are a start-up, have a going concern or indeed are considering selling and/or a succession plan for the business’s next chapter. It’s ideal if a business is saleable on any given day, as the sale process is usually not straight forward.

**But even if you’re not planning to sell your business right now, asking the following questions and many more within each focus area, will provide some good outcomes to help you to achieve daily and long-term value in what you do.**

### Value Proposition

- What is our business’ value proposition? Is it unique?
- How are we differentiated from the competition?
- Can we refine it for an ‘elevator pitch’?

### Asset Creation

- Are we clear about what are our tangible and intangible assets?
- Do we have a strong brand?
- What’s our offer?
- Do we have quality, long-term customers and how close are we to them?
- Do we have the right audience?
- What are our revenue streams?
- What content can we offer that others can’t?
- What’s unique about us?
- What do others value about us?

### Technology

- Do we have the right platforms in place and the right systems architecture across the business?
- How are we innovating?
- Have we done UX testing?
- What does the rapid advancement of AI, IoT and related fields mean for us?

## Relationships

- How are the relationships with our colleagues, customers/clients, (strategic) partners, distributors and other stakeholders?
- Who do we need to be speaking with?
- Who would we like to be speaking with?
- Do we have a 'community'?
- Who are our 'distributors'?

## Operations

- How is our budgeting and forecasting looking?
- Is the P&L in good shape?
- Where are the gaps?
- How are our people performing and do we have the best processes in place?
- Is the business structure working?
- Are we transitioning and if so, what to, why and when?

## Marketing & Communications

- What are our activities?
- Do we have an Action Plan?
- Are these activities working?
- What research is currently underway or being analysed?
- Are we looking at Marketing Automation and what that can assist us with?
- Do we have a single view of the customer amongst all of our data?
- Do we utilise customer segmentation?
- What's the customer journey?
- What's the Return on Investment of our marketing spending?

## Succession or Exit Planning

- Are we in a position to sell today? If not, why not?
- Who is on our list of potential buyers?
- What's our plan and timetable?
- Do we have a 'blackbox' of future potential?

## Capital and Resources

- Do we know what we require, why we need it and how we can provide it?

## Guidelines (Governance) and Pitfall (Risk) Avoidance

- What must go right?
- What are those things that we know we need to look out for?
- What have we learned?
- Do we have a Plan B?

## Bringing it all together

- Do I have a clear purpose with what I'm involved with?
- Does the business have a clear purpose?
- Is the business resilient and do I have a plan to ensure ongoing resilience?
- Am I or are we investing to ensure that there is indeed a sound future for the business?
- Do I need someone independent to help guide things and keep moving forward?

When you have time, it's a good exercise to answer these questions to get clarity for you and your business. Once you step back and recognise any gaps, it's a good idea to put your Action Plan in place.

If you would like a consultation on this process, please speak to Lyall Bear our business advisory specialist at CBSW.

## Why your Business needs an Innovation Strategy

Interestingly over the years, the term "innovation strategy" may have been something for corporates or the 'in' or 'cool' companies. What small-to-medium sized business owners don't realise are the opportunities that having an innovation strategy can uncover. For example, a business was able to develop new competitive services creating an opportunity for their existing customer profit to increase and additionally stopping customer churn.

**To be clear, this is not about creating a 30-page document or a subject to consider at your next business planning session in 3 years' time. Start thinking about your innovation strategy now. If you really care about your customers and/or growing good margin revenue, you won't just 'keep doing what you've always done'.**

### What is an Innovation Strategy?

For small-to-medium business owners, managers or teams, an innovation strategy can be a positive key (or possibly huge elephant!) to opening a prime competitive advantage in what we all see as crowded customer markets - let alone if you are thinking about taking your business internationally.

An innovation strategy (for most small-to-medium business owners) is not a "big bang theory" (e.g. completing all actions in one business period, possibly disrupting normal customer or operational matters), but more about **creating new value, leveraging current business models, being focused on your customers, then collaborating with your entire team to achieve a selected competitive business goal.**

An innovation strategy should not be separate from your overall business purpose, but an addition to it, to create real opportunities for collaborative work between different teams or bringing individuals together that have different responsibilities.

**We suggest taking a one-page approach for a chosen innovation strategy idea. This one page could contain information such as (but not limited to):**

- Why do we need a new strategy?
- What pain points exist?
- What are the measurable outcomes that define the strategy?
- What competitive or unique selling points does this create (your differentiated capabilities)?
- Outline the playing field, (undertaking some reverse analysis on the above points)
- What offerings or value is provided for customers?
- Are internal or external partnership collaboration capabilities needed?
- What system changes are required?

Supporting this, have simple implementation action and communication plans (specific, measurable, attainable, results-oriented and time bound) created and monitored for progress.

### How to create your Innovation Strategy

A good starting point is to decide on what the basis of your innovation strategy will be, starting with grouping the many ideas you may have.

**We suggest segmenting all your ideas into these categories:**

- Business plan actions (cost savings or operational)
- Unmet customer need or collated customer feedback
- Incremental changes to products/services
- Leap frog R&D efforts or technology breakthroughs

Once you have grouped your ideas, it's often a struggle within everyday business to choose or shortlist the items you need to work on. To help, select a few impactful ideas, create a business-based criterion to rank the most important ideas. Imagine a simple voting process and make sure to involve a cross section of people. The selection criteria could contain (but is not limited to):

- How they fit with key business objectives
- What is the playing field like for each (segments, competitors)?
- Does this leverage your current business model?
- Customer value (measure possible?)
- Competitive advantage
- Capabilities to deliver
- Systems and processes required

We recommend that only a few ideas (1 to 3 depending on time and resources) are carried forward, not eliminating all the others but parking them for the meantime, ready for another wave of innovations. Each selection can then be managed with multiple short-phased steps, of course involving your team with defined customer feedback (recognising that you are or “should be” completing regular customer feedback sessions, e.g. part way through delivering a service or obtaining through online survey feedback) at select points.

#### **Top tips to make the most of your innovation strategy and implementation are:**

- Define the basis of your innovation strategy
- Carry out the innovations that will leverage your current business model
- Involve your people at all stages by seeking their view on operational or customer ideas, getting them involved to rank ideas or participating in preparing an implementation plan.
- Obtain a customer view and define the value proposition
- For each selected idea, create a one-page innovation strategy canvas, mentioned above (reverse engineering a strategy, test barriers and assumptions)
- Create a simple customer metric to measure the innovation progress
- Know your market and customer competitors

#### **Final Thoughts**

- (1) Does your company have a clear and differentiated way of creating value for customers?**
- (2) Do all your products and services leverage your unique capabilities systems?**
- (3) The real engine of value creation are the 3 to 6 unique capabilities that allow you to deliver your value proposition.**

If you are a small-to-medium business, take this opportunity to plan and differentiate or grow your business through innovation.

Use the key team members and customer ideas you have identified in the process above to create value and improve user experience processes. Bring your team together, focus on more than normal operational matters and allow for collaboration in your business to drive additional quality revenue and customer value and satisfaction.

### **Hazard or Risk? Do you know the difference?**

*By Jordan Lowry, Managing Director, Blackstone Business Group – Email: [jordan@blackstonegb.com.au](mailto:jordan@blackstonegb.com.au)*

To understand how to manage risk we must first understand the difference between a “hazard” and a “risk”.

So, what is the difference between a “hazard” and a “risk”?

A “hazard” can be identified as anything that has the potential to cause harm.

A “risk” is the potential that a hazard will cause harm.

When it comes to health a “hazard” is the possibility of something causing harm whilst “risk” is the likelihood or probability of something causing harm.

Take for example a ladder; the ladder is a “hazard” and someone climbing the ladder and falling off is a “risk”.

With a ladder there is always the possibility of someone misusing the ladder, but, until they misuse the ladder, the ladder remains a hazard. Therefore, when someone misuses the ladder, the hazard converts to a risk of falling or injury.

Another example is a venomous snake. The snake is a hazard, getting bitten by the snake is a risk.

Now that we understand the difference between a hazard and a risk, how then do we determine the specific risk that a hazard poses?

First, we assess how likely it is that someone will be exposed to a hazard.

The likelihood will then depend upon the probability and frequency of exposure to the hazard. We also assess the most likely outcome. The outcome is the severity or range of the potential consequences resulting from the hazard.

Remember our venomous snake? The hazard, in this case, is our venomous snake. In this instance, however, the snake is contained in a secure glass snake enclosure. Rating the hazard, our snake, against the severity and probability scale, we would most likely say that the risk to a person in the room is minor and remote.

Change the circumstances and take the snake out of its enclosure and we change the rating to probable and severe.

This is how we must assess hazards and risk within our workplace. The same hazard in two workplaces can have vastly different outcomes based on how we manage and control the risk associated with that hazard.

There are tools in place to manage risk and control hazards such as the hierarchy of controls.

Another tool that employers must implement are risk assessments and JSEA's. These are vital in mitigating risk and protecting your workforce.

## What's it Mean?

### "Retail Investor"

The terminology "retail investor" is being used on a wider basis since Crowd Sourced Funding Equity Raising commenced.

The following is the definition of a retail investor:

The person to whom the crowdfunding service is provided will be "a retail client" unless one or more of the following tests are satisfied:

- a) The product value test:  
The price of the financial product (the securities on offer) or the value of the financial products to which the financial service relates, equals or exceeds \$500,000.
- b) The securities or crowdfunding services provided for use in a business other than a small business: For these purposes a small business is defined as a business employing less than 20 people, unless the business includes the manufacture of goods, where the business must employ less than 100 people.
- c) Where securities or the crowdfunding services is not provided for use in connection with the business, the person acquiring the securities or crowdfunding service gives the Intermediary a certificate prepared by a qualified accountant within the preceding 2 years that states that the person has net assets of \$2.5 million or gross income in the last 2 financial years of at least \$250,000.
- d) The person to whom the crowdfunding service is provided is a professional investor. A professional investor includes an Australian Financial Services licensee, a listed entity, a bank, or a person who has or controls gross assets of, at least, \$10 million.

### "Sophisticated Investor"

A "sophisticated investor" is defined as follows:

An offer of a body's securities does not need disclosure to investors if:

- a) the minimum amount payable for the securities on acceptance of the offer by the person to whom the offer is made is at least \$500,000; or
- b) the amount payable for the securities on acceptance by the person to whom the offer is made and the amounts previously paid by that person for the body securities of the same class that are held by the person add up to at least \$500,000; or
- c) it appears from a certificate given by a qualified accountant no more than 6 months before the offer is made that the person to whom the offer is made:
  - has net assets of at least \$2.5 million; or
  - has a gross income for each of the last 2 financial years of at least \$250,000 a year.

## Creation of a Special Division for Small Business Taxation disputes welcome news

It is pleasing to see that the Australian government has made changes to the approach to small business taxation disputes with the Australian Taxation Office.

The way the Australian taxation system works regarding disputes with the Australian Taxation Office (ATO) has been on a pay now fight later basis and even if there is current legal litigation occurring with the ATO, the Taxation Office's position was that the debts still have to be paid even though the dispute is ongoing.

This situation, of having to pay the ATO and then having to fund a legal battle against the ATO is never pleasant and the payment to the ATO and funding of the legal and accounting expenses can prevent a taxpayer from being able to adequately mount a defence and continue trading in business.

A recent initiative of the Australian government was the creation of a special division within the Administrative Appeals Tribunal (AAT) that deals specifically with small business taxation matters known as the “Small Business Taxation Division”. The major benefit to small business operators of this initiative is that only taxation matters will be dealt with in the special division of the AAT.

It is also welcome news that the Australian Small Business and Family Enterprise Ombudsman’s office will provide the unrepresented small business taxpayer with some free and discounted legal advice and a dedicated case manager throughout the process with the Administrative Appeals Tribunal.

A dispute resolution instruction bulletin has been issued by the ATO which summarises the ATO policy and principles on conducting litigation in the Small Business Taxation Division of the AAT. The key commentary in this bulletin is that the ATO “will not enforce recovery of the tax debt in dispute before the Small Business Taxation Division – other than in exceptional circumstances”.

Many small businesses, subject to an adverse finding from the ATO, do not have the funds to pay the alleged debt and pay for accounting and legal advice to fight the finding by the ATO which is why this change, implemented by the Australian government, will make a difference to small business operators who have a disagreement with the ATO, as long as the taxpayer has an aggregated turnover of less than \$10 million per annum.

At a recent convention of the Taxation Institute of Australia, the Commissioner for Taxation in a speech mentioned that “small business taxpayers had the highest percentage “tax gap” across all the ATO taxpayers’ segments.”

The tax gap is the ATO’s attempt to calculate the difference between the “theoretical level of tax paid” and the “actual level of tax paid”.

In his speech the Commissioner of Taxation identified that the ATO is of the belief that small business taxpayers are paying less income tax than they should.

The consequences of this statement will probably mean that the level of tax audits for small business taxpayers is likely to increase and the number of disputes with the ATO in the future is likely to increase.

Small business taxpayers, caught up in these types of disputes, will have reason to be appreciative that the government has created the special division within the AAT to decide on small business taxation disputes.

If you have any questions concerning the policies of the ATO relative to disputes on taxation matters, please do not hesitate to contact us.

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