

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

INDEX

Making sense of Strategy	1
Business Strategy Ideas in a Changing World	2
Planning Vital for all Businesses	4
Do your Customers recommend your Business?	6
Succession Planning – Have you reviewed your plan lately?	6
Crowd Sourced Funding Equity Raising Update	7
Which trends will Impact your Business the most in 2019? ..7	
Experienced Public Company Director endorses Crowd Sourced Funding Equity Raising	8

Issue – May 2019

Making sense of Strategy

Effectively communicating strategy can be one of the trickier challenges facing an organisation. Go into too much detail and audiences glaze over pretty quickly as death-by-PowerPoint is inflicted upon them. Or pitch it at too high a level and no-one is any the wiser about what it means for them; which, by the way, is the question that the majority of audiences are most interested in hearing the answer to.

A great strategy communication needs three elements:

- 1. A clear framework**
- 2. A great story**
- 3. Leaders who interpret for their teams**

1. A Clear Framework

It's easy to bamboozle colleagues with mission statements, visions, values, behaviours and all the other management speak before you even get to the strategy piece. And it's then completely confusing when there's no apparent relationship between these things, and the strategy simply appears as if it's in some kind of parallel universe.

To address this problem, you may like to use this simple framework to make sense of the various elements, based on the work of Kevin Murray, author of *Communicate to Inspire*. **Refer to the Purpose and Performance Model on the next page.**

The left side is the more emotive side of the framework that shapes beliefs and attitudes, the right side is the more tangible and rational and the side where strategy neatly sits.

Together they will help the business on its journey towards the True North.

Sometimes all of these elements are in place, so the job is one of articulation rather than definition. Or it may be that you want to enlist the help of the organisation to fill in some missing pieces which can be great for building ownership.

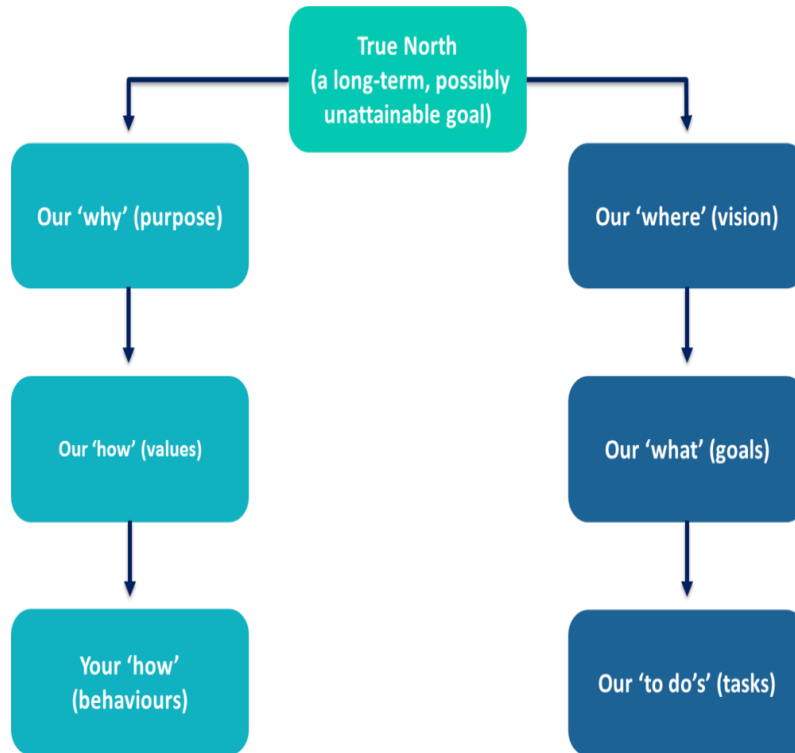
Or you may have a blank canvas that you need the leadership team to begin to complete...What matters is that all of it needs to be in place if the wider organisation is to make sense of what they're being asked to do.

2. A Great Story

No matter how clear the strategy, without a story to carry it forward it will appear dry and remote. A great way around this is to find a story device that allows you to 'unpack' the strategy in terms that people in the business can relate to.

As an example, you could take a typical family and show how different members of it interact with your products or services. What are their frustrations? Which products do they love? Which other brands do they love and why? And how will their interactions change in the coming years thanks to your new strategy? Or it could be a year-in-the-life of a customer, or a prospect or even a competitor.

The point is such a device makes it easier to communicate the strategy, but also a whole lot easier to understand. And it means the story can be told consistently across the organisation.



Business Purpose & Performance Model

3. Leaders who interpret for their Teams

'This is all great, but what does it mean for me?' is THE question that people want answered whenever there is a strategy announcement, but usually the announcement can't answer that question. So, it's over to function and line leaders to make sense of it all.

This is about equipping them with the content (the story device, Q&A's for discussion etc.), the skills and the materials they need to land the strategy with their teams. But this should only be the start of a conversation, one that will continue beyond the initial briefing and become a productive and engaging dialogue for all.

This approach can be enormously valuable in helping colleagues in some of the world's largest and most complex organisations to get their arms around the strategic direction of the company. But it also works for those leading divisions or functions, as it helps to create a sense of connection and contribution and brings the intangible to life. Without it, leadership becomes an exercise in explaining what we need to do. Get this right, and it gives leaders the license to empower and unlock.

Among the constant stream of business prescriptions over time, what are the most powerful ideas (none of which are new – but deepen our understanding of how to thrive in today’s dynamic world) that have made the biggest difference in practice?

Our Only Sustainable Competitive Advantage Is Our Ability to Learn Faster Than Our Competitors.

In his 1997 article, “The Living Company” Arie de Geuss asserted that sustainable competitive advantage cannot be achieved through products or strategies. These are soon overtaken by fast-moving events. Instead, he argued, **an organisation’s survival depends on its ability to build an adaptive enterprise – one that constantly learns and renews its strategies as the environment changes.** Learning must be imbued in the culture of every organisation for it to sustain itself as a “living company.” Organisational learning, however, does not happen by itself. It must be ignited, sustained and directed through a deliberate company-wide process.

To contend with today’s dynamic world, this must be a dynamic process – a learning cycle that guides organisation’s continuously from the discovery of fresh insights to the implementation of innovative actions. This requires an essential shift of gear from strategy as planning to strategy as learning.

Success Means Putting the Customer at the Centre Of Business Decisions

Products, Levitt argues (in Theodore Levitt’s book – “Marketing Myopia”), are a means to an end, not an end in themselves. Their job is to satisfy customer needs. As a result, a product-centered, rather than a customer-driven, orientation can destroy a company’s ability to survive change. The railroads failed, according to Levitt, “because they assumed themselves to be in the railroad business rather than in the transportation business.” Levitt’s underlying idea is that companies don’t sell products. They sell benefits. Competition expresses itself through the provision of benefits that transcend the product itself.

Take Hallmark Cards’ statement of purpose: “We help people connect with one another and give voice to their feelings.” The cards themselves are simply a vehicle. Human connection is the value they provide.

This means there is no such thing as a commodity. There are human beings at either end of any transaction and the service model – the way the transaction is conducted – is the key benefit.

In the burgeoning “tech revolution” we see dangerous signs that product centrality is beginning to eclipse customer centrality. Customers are too often offered acronyms or buzzwords – AI, IoT, Cloud Computing, Big Data – rather than the benefits they confer. To compete successfully, claims Levitt, companies must build “a customer-satisfying process, not a goods-producing process.”

Strategy Is About Achieving Differentiation by Making Choices

Strategy is plagued by greater confusion than any other business discipline. Ask five companies to explain their strategy and you will get five very different notions of what a strategy looks like.

Strategy was born in the military, then co-opted by business. Businesses, however, court failure by neglecting to apply the key concepts of this essential leadership domain.

Michael Porter, in a 1996 article titled “What is Strategy?” defines strategy’s essentials as follows:

- 1. Strategy is a process of making choices on where to compete, what to offer, and how to differentiate your business by creating greater value for customers than competing alternatives.**
- 2. Such choice-making requires balancing trade-offs. The essence of strategy is deciding what *not* to do.**
- 3. Operational effectiveness is not a strategy. It is necessary, but not enough.**

There is a dangerous notion that in a world of rapid change, strategy is no longer necessary; this, Porter calls “ridiculous” and “a deeply flawed view of competition.” While strategies may need to be updated more frequently, without a clear direction, no company can succeed for long.

Customers have choices. To succeed, companies must have what I call a “winning proposition”, a compelling reason why customers should choose their offering over their competitors.

Amazon provides a striking example: “We make it easy for people to buy things by offering a wide range of products at great prices with fast delivery.” This statement not only explains the benefit to the customer, it tells employees what (and what not) to concentrate on every hour of every day to enhance that benefit.

Leaders Must Be Able to Simplify a Complex World

In the mid-90s the United States Army War College introduced a new acronym to describe the confusing world order left behind in the wake of the Cold War: **VUCA**. Today the business world, no less than the military one, is beset by the same forces of **Volatility, Uncertainty, Complexity and Ambiguity**.

It is the responsibility of leaders to create clarity from a bewildering world. Effective leadership is impossible without the ability to distill an organization’s challenges and its strategic focus. Simplicity is not a short cut: it is hard, messy work. No organisation’s strategy should be longer than 10 pages. Boiling it down in this way is an exercise in clarity of thought which can then be shared by the entire organization.

Sam Palmisano, the former CEO of IBM, insisted on this clarity of thought, requiring that every executive in IBM be able to answer these 4 questions in a concise and compelling way:

1. **Why should customers choose to do business with us?**
2. **Why should investors choose to give us their money?**
3. **Why should employees choose to work for us?**
4. **Why should communities welcome us in their midst?**

By laying out these simple, yet profound questions, Palmisano forced his executives to address the needs of all the company’s key stakeholders and to understand how they fit together.

To Move People at the Deepest Level, You Need Compelling Stories

The final deliverable of a strategy is not simply a document.

People don’t follow documents, they follow leaders and ideas. Of course, it is important to record your strategy for easy reference, but that is only where the main task begins. **The aim of leadership is to win the hearts and minds of your employees in support of your strategy.**

Howard Gardner, the developmental psychologist, in an interview in *Strategy + Business*, emphasised the importance of story-telling to engage and motivate employees. “People have a real thirst for stories that give them a better sense of how they belong” he said. He emphasized that effective leadership involves the creation of powerful narratives, and that the greater the change you aim to make, the more important the story becomes.

3M has embraced this concept by transforming business planning from a list of bullet points into a narrative that not only tells everyone what the goals are, but also how to reach them.

The crucial task is to translate the strategy document into a compelling leadership message, then to convey that message repeatedly with impact and sincerity. Leaders must return to one of our oldest human traditions, that of story-telling.

What are the elements of an effective story? We suggest they contain the following essentials:

- **They simplify complexity**
- **They engage people emotionally through vivid metaphors and examples and pictures**
- **They raise – and resolve – an important issue**
- **They clearly frame a “call to action”**
- **They are embodied by their tellers**

Stories arise from our universal search for causes and effects, for purposes and ideals. Stories create meaning.

Increasingly, this desire for meaning and authenticity is being subjugated to the deadening dominance of PowerPoint presentations.

These five ideas convey an overriding truth. In our world of escalating change, the core principles of strategy have not only remained the same; they are now more important than ever for creating enduring success.

Planning Vital for all Businesses

You wouldn't go on a cross-country holiday without looking at a roadmap to plan where you are going to stop and what sightseeing activities are available on the way, would you?

Planning a business, irrespective of the age of the business, is no different. You need to find some quiet time and sit down and think about what your business wants to achieve for the owners, management, team, customers, suppliers and the community in which you operate.

To undertake the preparation of a business plan you need to consider:

- How the business is going to operate.
- What is happening in the marketplace?
- Who are the potential customers for the products or services that your business is going to produce or is already producing?
- What marketing strategies do you utilise?
- The sales strategies that you will need to utilise.

There are a number of key items to be considered in the development of a business plan including:

- Current business situation.
- Financial position of the business.
- Resources that are available for the business to utilise.
- The products or services that your business is producing – Is your targeted market aware of them? Do you need to employ significant marketing strategies to inform your target market about your products or services?
- What is happening in your industry?
- Who are your customers/clients – Do you understand why your customers/clients might be interested in your products/services?
- Is the location of your business suitable for your current customers and prospective customers?
- Who are your competitors? Have you prepared a SWOT (Strengths, Weaknesses, Opportunities and Threats) Analysis on your competitors?
- Have you developed a marketing strategy, including social media, internet?
- Are you a manufacturer? If so, has your business invested in state-of-the-art manufacturing plant and equipment?
- Have you had discussions with suppliers relative to their terms and conditions relative to the products that you're going to purchase from them?
- Do you subject your costing processes to regular review?
- Have you reviewed your business' approach to setting prices?
- Are you exporting, or do you have the potential to export product or services? If so, have you had discussions with Austrade and reviewed your eligibility for the Export Market Development Grant?
- Have you implemented appropriate staff training for your team?
- Has your debtors' management system been reviewed so that you can reduce, as far as possible, your debtors' days outstanding?
- Do you benchmark your business against industry averages or against a group of similar businesses?
- Do you need to review your business funding including the relationship with your bank, and the possibility of raising capital as a Crowd Sourced Funding Equity Raising Company?
- Is your company undertaking significant research and development activities? If you are, is your company claiming the research and development rebate? If your company is developing new products, services or processes? Have you implemented procedures to ensure that the intellectual property that has been developed is being protected?
- If your business is a new business – under 3 years of age and you are developing new products, processes or services, have you researched the possibility of your company being deemed to be an "Early Stage Innovation Company"?
- Is your management team aware of the challenges that are going to be facing all businesses over the next few years? Has your management team developed policies to assist your business to navigate the problems that some commentators are forecasting are going to affect all businesses in the next couple of years?
- Has your management team and board of directors analysed the risks that could potentially affect the ongoing performance of your business, including Personal Property Securities Register non-registration potential problems, adequacy of insurance covers, succession planning within your business?

- Are you contemplating “scaling up” your business? If so, what do you envisage your business will look like in 3 years' time? What strategies do you need to implement so that your vision for 3 years' time can be achieved?

These are some of the items that we would assist you to consider in the preparation of a business plan for your business. **In future editions of Business Plus we will supply additional information on each of these items to assist you in the analysis of your business and in the preparation of your business plan.**

If you would like to have a discussion with us on the preparation of a business plan for 2019/20, please do not hesitate to contact Lyall Bear, our CBSW business advisory consultant.

Do your Customers recommend your Business?

Every so often it's a good idea to undertake a review of your approach to your customers/clients.

- Do your customers say “wow”?
- Do your customers recommend your business to their friends and associates?
- Do you acknowledge long-term customers/clients for their continuous support of your business?
- Do you send letters to new customers thanking them for their patronage?
- Do you encourage customers to give you referrals to their friends and associates?
- Do you ask customers for testimonials which you can post on your website?
- Do you give customers guarantees on your products or services?
- Do your team members understand the “value of a lifetime customer”?
- Do you have a prospect/customer database known as a Customer Relationship Management system (CRM)?
- If you have a CRM, are you using the system to maximise your communications with prospects and also your customers?
- Do you have procedures in place for handling customer complaints?

We can assist you in reviewing the services that your business is offering to your customers.

Succession Planning - Have you reviewed your plan lately?

Succession planning is one of those items that many business people know is important, but it tends to get put off as it seems to be something in the future and there are always pressing current issues that demand attention. Does this sound like you?

Succession planning is a very personal activity for most business operators. Most of us would prefer not to really have to think about it.

However, a succession plan that is continually reviewed can assist in identifying issues that need attention, can assist with the motivation of the team in that they can gain an understanding of what the future within your business might look like for them and will assist in the professional development of many of your team members as they prepare themselves for future roles within your business.

There are many questions to be considered in the development of a succession plan that you're happy with. These questions could include:

- What type of business do you want to pass on to the next generation?
- Are you more interested in being able to sell the business? If this is your strategy, are you ensuring that your business is in an “investment ready status” at all times?
- Would you like to “scale up” the business before you cease your day-to-day operations with the business? If so, have you articulated your vision for the business in 3, 5 or even 10 years' time?
- What is your preferred timetable for your personal succession within the business?
- Have you identified persons currently employed within the business who should be groomed for senior executive roles in the future? Do these persons need to undertake some specific additional professional development activities to prepare them for the responsibilities that you envisage them assuming within the business? e.g. Institute of Company Directors Diploma Course to give them a better grounding of corporate governance and corporate law, an understanding of business financing – dealing with banks and the opportunities that are now available for small companies and medium-sized enterprises to raise capital direct from the public, leadership training, training to understand the concepts of “scaling up”?

- If you are unable to identify suitable persons to fulfil senior executive positions in your organisation in the future is it time to commence internal team training and professional development activities to upgrade the skill level of your team members?
- If you envisage that your organisation will have to identify potential new executive members from outside your organisation have you developed a strategy to assist in this executive identification process including identification of outstanding talent working for one of your competitors, identification of talent working in other specific organisations?
- Are there family members who could undertake a wider range of responsibilities within your organisation? If so, should a personal development program be implemented for each of these persons to develop their skills and their knowledge of “business matters”?
- What do you envisage your role will be in the first phase of the implementation of your succession? Do you wish to still be involved on a regular basis with the company for example as a director?
- At this stage, is the business heavily reliant on your reputation, knowledge and skills and, if so, what are the strategies that you will include within your succession plan as to how to ensure that others in your organisation gain a complete understanding of your knowledge and skills and contacts so that they can ultimately gain a genuine reputation for their personal skills within the marketplace?

These are some of the questions that need to be considered in planning a succession strategy for business operators. If you would like to have a discussion on succession planning in your business, please do not hesitate to contact Lyall Bear our accredited family business advisor. We also have some useful checklists and other documents on Succession that may be useful for you in further considering this important matter. Let us know if you want copies sent to you.

Crowd Sourced Funding Equity Raising Update

Last month we commented on Shebah Rideshare, which had raised \$3 million and, in so doing, broke the Australian record for the largest crowdfunding deal to date.

The crowd sourced funding intermediary for Shebah, Birchal has noted on their website that Shebah had been “dismissed by Australia’s Angel and VC Investors”.

The success of Shebah in raising capital highlights to company directors and senior management the opportunities that Crowd Sourced Funding Equity Raising is now presenting, even though the company may have been dismissed by other segments of the Australian capital market.

Crowd Sourced Funding Equity Raising Scorecard

The updated scorecard as at 23 April 2019 reveals that \$28.9 million has been raised by 36 companies.

ESS BIZTOOLS - CROWD SOURCED FUNDING EQUITY RAISING							BAS5027
SCORECARD AS AT 23 APRIL 2019							
Intermediary	Progressive Capital Raise		Completed Fund Raising		In Progress Raising		Location
	Number	\$	Number	\$	Number	\$	
Equitise	8	\$ 7,905,220	7	\$ 7,796,420	1	\$ 108,800	Sydney
Birchal	12	\$ 7,281,373	12	\$ 7,281,373	0	\$ -	Melbourne
Enable Funding (Global Funding Partners Pty Ltd)	2	\$ 870,300	2	\$ 870,300			Adelaide
OnMarket Bookbuilders Pty Ltd	6	\$ 5,048,262	5	\$ 4,631,568	1	\$ 416,694	Sydney
Billfolda	1	\$ 4,200,000	1	\$ 4,200,000	0	\$ -	Sydney
Pledge Me Pty Ltd	3	\$ 2,478,561	2	\$ 2,352,760	1	\$ 125,801	Sydney
Crowd 88 Limited	4	\$ 1,142,711	2	\$ 1,098,440	2	\$ 44,271	Sydney
Big Start Pty Ltd	0	\$ -	0	\$ -	0	\$ -	Perth
Capital Labs	0	\$ -	0	\$ -	0	\$ -	Sydney
AG Crowd	0	\$ -	0	\$ -	0	\$ -	Sydney
Crowd Funding AFSL Pty Ltd	0	\$ -	0	\$ -	0	\$ -	Gold Coast
Galaxy Crowd Funding Pty Ltd	0	\$ -	0	\$ -	0	\$ -	Melbourne
Pulse Markets Pty Ltd (BIR Financial Limited)	0	\$ -	0	\$ -	0	\$ -	Sydney
Venture Crowd	0	\$ -	0	\$ -	0	\$ -	Sydney
Total	36	\$ 28,926,427	31	\$ 28,230,861	5	\$ 695,566	

If you are interested in exploring the potential for your company to be able to utilise Crowd Sourced Funding Equity Raising to raise capital of up to \$5 million in a 12-month period, please don't hesitate to contact us.

Which trends will impact your Business the most in 2019?

By Andrew Geddes - AndrewGeddes.com.au

At a recent Harry Dent seminar in Adelaide there was commentary and learnings on what demographic-based trends he reckons will impact business in Australia.

Is your senior leadership team ready to manage and lead your business through these predicted changes? Here's a summary of Harry's research and predictions...

Two factors drive economic health more than anything else...consumer demand and urbanisation.

The continuing urbanisation of SE Asia and India will help Australia's economy through the 2020's.

Australia and NZ have immigration to thank for a higher percentage of Millennials in their populations than say Japan where growth has been stalled for decades. We will do better into the future than them re growth because of better consumer demand from young people having families. Short term pain will occur later in 2019 when both housing price and share price bubbles burst both here and in the USA.

China's economy is not sustainable with its present focus on building apartments in which no-one lives!!! Hence the switch to the Belt and Road focus. There will be another major technology influenced change over the next ten years...biomedicine and Artificial Intelligence (AI) will drive this.

Over-priced assets (shares and real estate) will have a correction as governments and central banks try to manage debt into the future. This will cause economic chaos in the short term...are you ready for the worst? Will your business survive several years of reduced demand? Have you done a risk review of this possibility? Do you have various cost reduction strategies planned and cash reserves ready? Is your Senior Leadership Team ready?

If you would like us to assist your leadership team to review your business' preparation for challenging business conditions, please do not hesitate to contact our business advisory specialist – Lyall Bear.

Experienced Public Company Director endorses Crowd Sourced Funding Equity Raising

Andrew Geddes, a public company director and for 11 years the chair of Greencross Ltd, has endorsed the availability of Crowd Sourced Funding Equity Raising for the benefit of small companies and medium-sized enterprises in answering some questions that were submitted to him.

Question 1: Traditionally private companies had only section 708 of the Corporations Act or IPO (Initial Public Offer) that they could utilise to raise capital. What do you think of the opportunities for capital raisings that are now available for small businesses and medium-sized enterprises with turnovers up to \$25 million?

Andrew Geddes' answer: *"Traditionally SMEs could have found support from angel investors, but their investments usually came at quite an expense in terms of equity required and for the fees charged. Smaller companies have had difficulties in obtaining finance."*

"Now we have a process with Crowd Sourced Funding Equity Raising and the appointment of Intermediaries by ASIC."

"I particularly like the requirement for companies, which wish to raise capital, to have:

- *business plans that are well documented*
- *budgets and cashflow forecasts*
- *identified a structured business*
- *identified a senior management team that have been allocated functional responsibilities*
- *goalsetting has been a priority*
- *documented their vision, purpose and goals*
- *looked at what will happen in their business in the next 3 to 5 years*
- *documented their strategies*
- *identified who their ideal customer is*

- *thought about brand, promises and guarantees*
- *established how they are going to execute the pattern of meetings and who will be involved*
- *identified the targets that they are going to set*
- *utilised the process to plan and document”*

“All of this forces directors and senior management of companies, seeking to raise capital, to have identified what they have done about these matters if they are going to be able to raise capital.”

Question 2: As a former top 200 ASX company chair what impact do you expect Crowd Sourced Funding Equity Raising will have on the number of companies seeking to utilise IPOs in the future?

Andrew Geddes’ answer: *“It costs about \$500,000 minimum but more likely \$1 million to do an IPO. There is a heavy emphasis on:*

- *due diligence*
- *special accountant's reports*
- *auditor’s reports*
- *and there are significant costs each year to remain a listed public company”*

“Too many small companies have done IPOs because they didn’t have alternatives to raise capital – but now they do, they can utilise Crowd Sourced Funding Equity Raising which is considerably cheaper. This might be a first step – later on, if the company wishes, the company could move into the public environment and they will be better prepared to do that efficiently as they have been through the Crowd Sourced Funding Equity Raising process.”

“I think there will be a lot less IPOs and more companies using Crowd Sourced Funding Equity Raising because of the cost differential and the amount of work that is required to become a public company and then to remain a listed company.”

“Some listed companies have been taken over by private equity and removed from the Stock Exchange. I think there will be more Crowd Sourced Funding Equity Raising companies and a lot more companies will remain private because they are in control and there is a lot less cost and scrutiny from institutional investors, proxy advisors and shareholders. For these reasons I think Crowd Sourced Funding Equity Raising is going to grow.”

If you would like to discuss with us any aspect of Crowd Sourced Funding Equity Raising, please do not hesitate to contact your CBSW director or accountant.

Disclaimer:

Business Plus is distributed monthly by CBSW Tax & Business Advisors to provide information of general interest to our clients. The content of this newsletter does not constitute specific advice. Readers are encouraged to consult their CBSW advisor for advice on any specific business matters.

Providing you
professional
direction

