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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Welcome to a New Financial Year – We trust that 2019/2020 will be very successful for your business!

The Key Questions every Strategy should answer, and the Key Tensions every Business Owner/Board should embrace

After 30 years, the core questions about strategy remain the same: -

1. *What is your core business, and can you lead in that business? If not, how can you create a path to sustainable and profitable growth?*
2. *What are the biggest threats to the core business over the next decade and what can you do now to start responding to these threats?*
3. *How can you manage the complexity of execution? What is the set of Repeatable Models that will help you win in your core markets?*

But we’ve added some additional questions, which must be answered as well: -

1. *How can you compete not only on scale, but also on speed? How can you rediscover your sense of Founder’s Mentality (see definition of this term below)?*
2. *How can you get better and faster at business building? How can you nurture the communities that will help create new businesses?*
3. *What leadership qualities do you need in your executive team leaders to respond quickly in times of uncertainty, to create the required pull from the front line and to act like scale insurgents?*

Every strategy is about navigating the following five core tensions: -

1. Delivering the **core business vs. developing new businesses**
2. Competing through **scale** (***Profit from the Core*******)** **vs. speed** (***The Founder’s Mentality ******)
3. Launching **horizontal initiatives** (debate the trade-offs all at once with a top-down effort) **vs. vertical initiatives** (align the strategic ambition with the execution team, learn by doing and win in the marketplace)
4. Discovering your **business definition** (core purpose) during the strategy process **vs. shaping and influencing your business definition** to gain competitive advantage
5. Developing your **strategy as a map vs. a compass that guides** through alternative futures.

These five tensions are inherent in all strategies.

When business owners and their boards find that their organisation is settling on one side of any of these tensions, they must bring back balance. If the strategy is focused on the current business, the owner/board should ask, "***But what businesses are we failing to build for tomorrow***?"

If the strategy says we can only compete on speed, then you should ask, "***But where can we leverage our scale to prevent new insurgents (competitors)in our industry?***" Tension and conflict are good things.

These new questions and tensions have led to a burst of creativity in strategy. The next decade will lead to even more innovation as we learn to compete in the era of the scale insurgents.

Some Definitions
*** ***The Founder's Mentality*** **consists of three main traits**: **An insurgent mission** (*a clear and unique business purpose linked to one or two differentiated business capabilities that are valued by customers*), **an owner's mindset** (*a strong focus on the core business operational costs/cashflow and the need to prioritise their linkage to the on-going delivery of customer value*) and **an obsession with the customer** at the frontline of interactions (*clarity about core customer's needs and value delivery through innovative practices, products & services*).

**** ***Profit from the Core*** argues that most growth strategies fail to deliver value—or even destroy it—primarily because they wrongly diversify away from the core business. **Building market power in a well-defined core—remains the key source of competitive advantage and the most viable platform for successful expansion in most businesses.**

The key to unlocking hidden sources of growth and profits is usually not to abandon the core business -but to focus on it with renewed vigour and a new level of creativity and innovation, together with speed of implementation and delivery.

The Purpose Statement that powers Growth

Ask any business leader today what the purpose of their business is, and you may get a range of replies.

Some might reply that it is to maximise profit for shareholders. Others might say that it is to create value for all stakeholders, including customers, employees, suppliers and local communities, as well as shareholders. In some cases, they might even refer to a higher purpose – to find solutions to human needs – from which they believe customers and profits will follow as a natural result. **Defining common purpose is a key task of leadership.**

So what Purpose should you decide on to maximise your Business Success?

Leaders who put customers at the centre of their endeavours, with the aim of making customers' lives better, are more likely to inspire truly customer-centric staff, who work hard to keep those customers coming back, thus driving growth.

To do this, they articulate their purpose as a customer-focused benefit – describing why they exist as a clear added value to their target customers.

Only by starting with the needs of the customer will you then fulfil the wider purpose of creating value for all stakeholders.

Here are the six steps to ensuring a successful customer focus: -

Focus on making Customers' lives better

This shared goal resonates more than the profit motive with both consumers and employees and helps companies to outperform their competitors. By increasing customer centricity, you are more likely to build purchase intent, driving business growth. The purpose of improving people's lives is the only sustainable way to recruit, unite and inspire all the people a business touches, from employees to customers.

Taking customer focus to a new level is the key to success, not just because it resonates with customers and emphasises the importance of serving those customers (and understanding their needs), but because it puts managers and employees into customers' shoes. This attitude is powerful because it shows 'we are doing something for someone else'.

Make serving Customers exciting to your employees, too

The purpose of your company has to be made personal to every individual within it and enable them to see how they are improving lives outside the business. You cannot articulate a purpose that resonates with customers but fails to excite employees. Employees need to feel excited by the purpose, because it does good for others and makes them feel worthy. A purpose that is explicitly about serving shareholders can turn people off. The Chairman of Trust Ford Retail Group in the UK agrees that you need to articulate your purpose in a way that works across the organisation as a whole – it has to be versatile and applicable to everyone: 'It's all about relevance – to the employee and to the customer. If it's not relevant to every job role and every layer of the organisation, if you can't articulate it clearly and simply, then I think your purpose is wrong. It has to be able to help you to steer every decision you make.'

He describes the modern consumer as buying into a brand's values and purpose. They make decisions based on whether they trust the brand and whether they think the company cares about them. To earn that trust everyone in the organisation must understand what the company's purpose means and why it is so important.

Measure all Performance against the Customer Purpose

Leaders who transparently measure performance against customer purpose enable individuals throughout the company to act and have responsibility for delivering the purpose.

Make the Customer Experience come to life for every member of staff

Creating value for customers is the only way to create value for shareholders and other stakeholders. No company can be a force for good for all its stakeholders unless it makes a profit. Serving customers better than your competitors helps to keep your business in existence, give employment, hire suppliers and provide value to local communities.

If every person in the organisation knows and understands exactly who the customer is, what their needs are and what they are trying to do, it shifts the emphasis from an inside-out focus to an outside-in one. By bringing the customer to life in these ways, companies stand a better chance of driving greater engagement inside and outside the organisation and improving trust and reputation.

Stay ruthlessly True to the Customer Purpose

Leaders are guardians of the purpose and have to be ruthless about ensuring that teams deliver it. For example, when The Cambridge Satchel Company was founded in 2008, the owner's vision was simple: to revive the traditional British leather satchel. They were determined to produce all products in Britain, and ensure they were made with care and expertise by skilled craftspeople.

With the business now worth more than £50 million, the owners are still fiercely committed to preserving British manufacturing and, despite enormous pressure to satisfy demand with an overseas production model, they have ensured that each stage in producing every bag takes place on British soil.

The owners believe that Cambridge satchels have become a truly inspirational global brand because they stayed rigidly true to their purpose – *to make authentic British satchels*, which have enormous appeal with customers.

Express your Purpose as a Benefit to Customers

Take care to express your customer purpose as a benefit those customers value. It is essential that your core purpose must be focused on your customer. Your wider purpose, to create value for all your stakeholders, is better placed in your vision statement – either long-term or near-term. Employees will then take pride from the purpose and align with the good you do for the people you serve, helping you to create value for all.

Ford Retail Group operates as Trust Ford at over 65 sites in the UK and sells more than 100,000 vehicles per annum.

With more than 3,000 staff, the total turnover of the group exceeds £1.5 billion a year. **Their expressed purpose is '*to drive the standard in customer care'*** – not simply to provide a good product range, but also to wrap around that very good service from highly engaged employees who care about their customers and the brand.

The Trust Ford Chairman said: ***"We considered how to sustain our growth and profitability; we had a huge debate about whether or not our purpose was to make a profit for our shareholder. The overwhelming view was that <u>profit was not sustainable without good customer satisfaction</u> and only that would drive loyalty, which would drive a sustainable business."***

Business Performance Monitoring

Business owner/operator's need easy access to a few key performance indicators to monitor how healthy the business is on a regular timeframe. It's imperative to identify only a handful of metrics that you see daily or weekly.

These metrics should tell a quick story and give insight into both external and internal trends **that may need owner/management intervention and action.**

But, which KPIs belong on the owner's KPI dashboard?

Business leaders need to keep up to date in real time (or as close as possible) so that they can have the actionable insights needed to adjust their priorities. Here are some examples of possible KPI's (as are appropriate) that you should be watching: -

CEO/Owner

- "A" Players on the Leadership Team - the goal would be to have at least 75 percent of the Leadership Team be considered "A" players.
- Net Cash Flow %
- Return on Investment (or Assets) %
- Brand Promise Delivery
- Net Promoter Score
- Repeat Customers % (The goal is to have at least 95 percent of existing customers become repeat buyers)
- Leadership Team Development Plans - 100% complete
- Gross Margin %
- Profitability
- EBITDA
- Market Share

Sales Leader

- Sales Pipeline Value / Conversion %
- Leads Converted #/ month
- % of revenue goal
- Year over Year Revenue Growth (New & Existing Clients)
- Sales Efficiency Ratio $? /$1.00
- Market Share Growth + percent
- "A" Players on the Team - the goal would be to have at least 75 percent of the Team be considered "A" players
- Sales Team Development Plans - 100% complete

Manufacturing Team Leader

- Gross / Contribution Margin, e.g. 58 percent / 42 percent
- Labour Efficiency Ratio $? /$1.00 (Labour Efficiency Ratio is measured by how many gross-margin dollars are generated for every dollar of direct-labour salary.)
- Machine Utilisation Rate - %
- Days Lost Due to Injury - 0 days
- Quality / Bugs
- "A" Players on the Team - the goal would be to have at least 75 percent of the Team be considered "A" players
- Manufacturing Team Development Plans - 100% complete

Innovation Leader

- Products Developed on Time ± 1 week
- Products Developed on Budget ± 2.5 percent
- First Year New Product Market Share - 20 percent
- Accurate Product Market Forecasts ± 5 percent
- "A" Players on the Team - the goal would be to have at least 75 percent of the Team be considered "A" players
- Innovation Team Development Plans - 100% complete

Purchasing/Supply Chain Leader

- Reduction in Cost of Goods Sold - 5 percent
- Days Lost Due to Product Shortage - 0
- Supplier Mistakes
- Supplier Quality Ratings +90 percent
- Material Quality Specifications - 100 percent
- "A" Players on the Team - the goal would be to have at least 75 percent of the Team be considered "A" players
- Purchasing/Supply Team Development Plans - 100% complete

Quality Assurance Leader

- QA Standards Compliance - 100 percent
- OSHA Compliance 100 percent
- Product Defect Rate ± 2 percent
- Environmental Compliance 100 percent
- "A" Players on the Team - the goal would be to have at least 75 percent of the Team be considered "A" players
- Quality Assurance Team Development Plans - 100% complete

Customer Service (Advocacy) Leader

- Customer NPS
- Customer Retention 95 percent (low churn)
- Customer Issues Resolved on Phone 75 percent
- Top Five Issues Occurrence Reduction 10 percent each
- Operations Training for Key Issues 100 percent
- "A" Players on the Team - the goal would be to have at least 75 percent of the Team be considered "A" players
- Customer Service Development Plans - 100% complete

Successful business owners are always watching KPI's that fall into one of the 4 categories

- **Customers** - Do your customers love, appreciate, and refer you?
- **Employees** - Are your employees engaged, productive, delivering results, and excited about the future?
- **Revenue** - Do you have the right product/service offerings and marketing/sales strategies to support your current and future quality revenue goals?
- **Processes** - Do you have healthy operations and disciplines that you can scale for the future?

Thinking about your business, what Customer, Employee, Revenue, and Process KPI's are key for your company's success?

Your list should be uniquely based on your industry and specific goals, but the ideal KPI dashboard for business operators should include one or two metrics from each of the four areas listed above, to ensure a balanced scorecard of your company's success.

Keep in mind that there may be more than KPI's on your performance dashboard. You'll also want to keep an eye on the key projects that help drive your numbers towards your strategic plan. This will help ensure that you are not only looking at the key numbers, but you're also looking at what you are doing to improve those numbers. This will give management the performance dashboard that they need to keep the business performing at a high level.

Directors and Super Guarantee Obligations – An Update

Company directors need to keep in mind that the Corporations Act holds directors *personally* liable for many of the legal and financial obligations expected from a company. This update mainly focuses on the superannuation payment obligations of employers.

There are also some tax obligations for PAYG withholding and superannuation guarantee charge payments, which are outlined under the ATO's "director penalty regime". Since its introduction in 1993 there have been several changes made to the regime, but the latest change to the rules came into law only recently (from 1 March 2019). The measure could be said to flag a more rigid approach by the ATO on the collection of employer obligations. **There is even some talk that GST liabilities will be covered under the director penalty regime in the near future.**
Since 2015, company directors have been expected to personally shoulder pay-as-you-go withholding requirements

should these not be met, and superannuation guarantee payments that are not paid on time (within 28 days of the end of each quarter). The latter generally also includes a "superannuation guarantee charge" (SGC, which is the amount not paid plus interest plus an administrative penalty).

As well as directors possibly facing a personal liability, the options available to the ATO under its director penalty regime includes garnishee proceedings to recover amounts owed, offsetting amounts owed against any other tax credits, and initiating legal recovery proceedings.

Before any of such actions are taken however, the ATO is obliged to issue a "director penalty notice" outlining the unpaid amounts and remission options open to the concerned directors. Until recently (more below) it was generally the case that the ATO would issue a director penalty notice three months after the due date of the relevant overdue obligation should the owed amounts either not be paid or not reported to the ATO. Directors would have 21 days from the date of the notice to act or be held personally liable.

Should the shortfall amounts be reported to the ATO within the three months, the director penalty is deemed "non-locked-down" — that is, there are still certain options available to avoid personal liability: pay the amounts owed; appoint an administrator; or begin winding up the company.

Outcomes now changed

The latest change <u>means that there is now no three-month period allowed</u> after the due date (28 days after each quarter) for superannuation guarantee (SG) and SGC payments. After the due date, the amounts owed by the company are "locked-down". In other words, <u>directors can now become automatically personally liable</u>.

Previously, placing a company into voluntary administration or insolvency within the 21 days from receiving a director penalty notice would avoid the penalty. This option, which the ATO seemed to be taking aim at, is now closed. For a recent financial year, the ATO estimated that more than $100 million of SGC debt was irrecoverable due to insolvent businesses, so the change to this part of the rules should help improve this outcome.

ATO Discretion

The Tax Commissioner is still left with some discretion in regard to the application of the rules, both incumbent and new. However, the legislation states that the Commissioner must have regard to certain matters, including:

- the employer's history of compliance with the requirement to pay the SGC and compliance with any other tax laws
- whether the amount of unpaid SGC is substantial having regard to the size and nature of the business
- any steps the employer has made to pay the unpaid SG amount, and
- any other matter the Commissioner considers relevant.

Navigating 2019/20

If you have not already done so, could we suggest that you find some "quality time" over the next few days and prepare some notes on the key issues that you will need to navigate your business through in 2019/2020.

Some suggestions which we have for matters which you may not have thought about for some time include:

- **Business Planning**
  It is not too late to prepare a Business Plan for 2019/20. Your Business Plan should examine your current operations and document your thoughts on how you are going to meet your customers' requirements during the next twelve months and how you are going to respond to competitive challenges from your competitors.

- **Social media**
  What is your skill level like on social media? It is difficult for some people to imagine running a business these days without having an appreciation of how social media can affect your business. At the same time there are many people running businesses who do not appreciate how social media operates and what benefits could be contributed to your business. If you do not consider that social media is one of your strong points why not enrol for a social media training course on the Internet?

- **Financing your business**
  Are you concerned about dealing with banks and other financial institutions following the aftermath of the Banking Royal Commission? Do you receive a positive welcome when you discuss your financing arrangements with your bank? Are you looking for alternatives? There are number of new banks that are available on the Internet that might be worth looking at but there is also the changes that the Federal Government have made to the *Corporations Act* and the *Taxation Act* over the last couple of years to introduce two new types of companies that could be of interest to you.

  If you are a start-up business that has developed a new product process or service, it's probably worth getting some information on the Early-Stage Innovation Company the structure of which was deliberately established by the Federal Government to encourage investors to invest in start-up companies that had developed new technologies.

- **"Scaling up"**
  Some businesses have always embarked on a "scaling up" process without possibly describing it this way. There is a lot more interest these days in the implementation of strategies that were developed about 100 years ago by John Rockefeller that were referred to as the "Rockefeller habits". This process is now referred to as "scaling up".

  The scaling up process commences with an appreciation of the key strategies that are needed for a business to move up and grow which are:

  - attracting and keeping the right "people"
  - Creating a truly differentiated "strategy"
  - Driving flawless "execution"
  - Having plenty of "cash "to weather the storms

  Andrew Geddes who was Chair of Greencross Ltd (an ASX top 200 company) for 11 years has indicated that Crowd Sourced Funding Equity Raising offers the possibility for companies wishing to undertake the "scaling up" process to access the "cash" that is a vital component for businesses wishing to scale up.

- **Research and Development**
  If you have been undertaking research and development activities in your company and you are currently trading at a loss it is beneficial to lodge your company's income tax return as early as possible in the new financial year because your company is probably entitled to a tax rebate based on the amount of research and development expenditure that your company has undertaken. The Australian Taxation Office will pay the tax rebate to your company's bank account within 30 days of your company's income tax return being lodged.

- **Exporting**
  If your business has incurred expenditure relative to export activities or proposed export activities during 2018/2019 your business might be entitled to an Export Market Development Grant. To claim an Export Market Development Grant the grant application can be lodged at any time from now on with the closing date for lodgement being 30 November 2019. Grants of up to $150,000 are available under this scheme from the Australian Government.

- **Business Diagnostic Review**
  The end of the financial year is an appropriate time to be reviewing your business activities in some detail utilising a business diagnostic review so that you can plan improvements for 2019/2020.

  You might be able to obtain a government grant from the Australian Government – Business Growth Grant to provide assistance towards the cost of a Business Diagnostic Review. Grants are available for these types of reviews for companies which are operating in one of the following "growth sectors" as identified by the Australian Government:

  - Advanced manufacturing
  - Food and agribusiness
  - Medical technologies and pharmaceuticals
  - Mining equipment, technology and services
  - Oil, gas and energy resources

Or from one of the following “enabling technologies” and sectors underpinning the 5 growth sectors:

- Freight and logistics
- Infrastructure related construction and services
- Information and communication technologies
- Digital technologies and
- Professional services

Outside of these key enabling technologies and sectors the definition includes other businesses that enable or support one of the five growth sectors through a direct commercial relationship but excludes routine business operational activities.

The Business Diagnostic Review can include:

- Strategic Plan Development
- Financial Management System Review
- Marketing Strategy Review

The key components of these reviews are:

Strategic Plan Development:

The company’s management would meet with the advisor appointed by the company and Australian Government to develop the scope of the work to be undertaken by the company in conjunction with a suitably qualified consultant to assist in the preparation of the company’s Strategic Plan.

The Strategic Plan normally will address a number of broad elements including:

- Identification of the businesses vision, mission and values;
- Identifying the future directions for the business;
- Developing strategies to achieve the overall vision, together with detailed Action Plans to achieve the company’s goals;
- Development of a Succession Plan and exit strategy for the company;
- Identification of risks relating to this company and the development of a risk management document;
- Development of a Business Plan for the business.

Items which would normally be considered in the development of these strategic documents include:

- Review of the business premises – are they suitable? What changes need to be made?
- Review of the assets of the business – do any need replacing or is there a need to purchase new emerging technology?
- Is the job costing system working effectively to produce detailed costing information including profit or loss on each job?
- An analysis of customers, identifying their demographics, average sales, potential to sell more to them or to similar people.
- Team review including productivity, attendance, training.
- Reworks, wastage, lean management review.
- Team meetings, how often held, who attends, minutes of meetings?
- Management meetings, who attends, frequency of meetings, what information is submitted?
- Debtors including debtors’ days outstanding, registration on PPS Register, history of bad debts.
- Inventory including review of stock control, stock turn rates being achieved.
- Creditors including creditors’ days outstanding, how do the creditors’ days outstanding compare to the negotiated terms?
- Research, development and innovation – what projects will be undertaken? Who is to monitor these projects – what is the reporting process to senior management that has been implemented?
- Key Performance Indicators need to be established for each aspect of the business with appropriate training being given to the team and line management and to senior management so that effective use is being made of the data being produced by the key performance indicators.
- Prospects for expansion of the business, what type of activity, potential customers, revenue that could be created?
- Board of Directors meetings, how often, who attends?

Financial Management System Review

Businesses need to prepare realistic operational Budgets for each business unit operated by the company together with a Cash Flow Forecast that has been prepared on a realistic basis relative to inventory investment, finished goods, work in progress, debtors, creditors with particular attention to the Terms of Trade Agreement with individual creditors, the company's capital expenditure program, payment of dividends to shareholders, loan repayments, taxation payments. The Budgets would normally be set up on a monthly basis showing details of the projected income together with details of the estimated expenditure to be incurred.

Growing businesses require cash. The review process will consider the financing of the business and will identify potential cash shortfalls so that a determination can be made as to whether the company should be attempting to raise some extra funds by borrowing from a bank – does the company have suitable security that can be offered? Or alternatively exploring other financing opportunities that are available including raising capital as a Crowd Sourced Funding Equity Raising Company.

From the Budgets the Cash Flow Forecast can be prepared with due consideration being given to the company's record on debtors' days outstanding and when creditors' payments have to be made. As part of this process it is important to identify Key Performance Indicators that management can then utilise for comparison of actual performance against the predetermined KPIs.

The company's consultant will be able to analyse the company's actual performance as compared to the Budgets and Cash Flow Forecast.

The real effectiveness of the creation of a Financial Management System is to enable a detailed evaluation to be made of actual performance as compared to the Budget forecasts that were prepared at the beginning of the financial year.

Marketing Strategy Review

As part of the Business Diagnostics Review it is important that there is a detailed evaluation of the Marketing Strategy. This will enable an analysis to be made of the company's current markets as well as new markets that the plan has recommended.

The Marketing Strategy could cover some of the following items:

- A review of markets, marketing activities currently undertaken, research that has been obtained on customers.
- Customer surveys that have been completed or perhaps a new customer survey is undertaken as part of this diagnostic review.
- In most cases marketing material will have to be produced.
- Team training in marketing and sales techniques.
- Social media training to ensure that the company is receiving the best possible return from the investment that has been made in social media.
- Review of the branding strategy that has been implemented within the company.
- Review of the company's website – is the company's image been appropriately conveyed to the marketplace.

These are some of the items that a Business Diagnostic Review supported by a Federal Government grant known as the "Business Growth Grant" could support.

- **Key Performance Indicators**
  Play a very important role in assisting management at all levels from the factory floor through to the CEO/General Manager to gain an insight into the day to day financial /operational performance of a business. Now is a good time to review all of the Key Performance Indicators being utilised within your business to decide:

  - Are they being prepared properly?
  - Does the immediate management personnel understand how this key performance indicator is being calculated and how the KPI could be used to improve the performance of their immediate team?
  - Are senior management in the organisation utilising the key performance indicators being prepared to guide them in implementing strategies for improvements to customer services and the financial performance of the business?

If you would like to discuss with us any of the items included in this overview, please do not hesitate to contact us.

Definition of Large Proprietary Companies Changes

The definition of a "large proprietary company" **has changed effective from 1 July 2019**. The new definition of a large proprietary company is that it is a company which satisfies at least two of the following requirements:

- The Consolidated Revenue for the financial year of the company and any entities it controls is $50 million or more (previously $25 million)
- The value of the Consolidated Gross Assets at the end of the financial year of the company and any entities it controls is $25 million or more (previously $12.5 million)
- The company and any entities it controls have 100 or more employees at the end of the financial year (previously 50 employees)

If your company is a large proprietary company, the company must prepare and lodge a Financial Report and a Directors' Report for each financial year. The Financial Accounts must be audited unless Australian Security Investment Commission (ASIC) has granted release from the requirement to have an audit prepared.

If your company was previously defined as a "large proprietary company" and no longer complies with the definition you do not have to prepare and lodge the Financial Reports and Directors' Report for 2019/2020 onwards but you may continue to prepare these Reports and have an audit prepared if the Directors so resolve.

If you have any question on this topic, please do not hesitate to contact us.