

business essentials®

Advice and ideas to grow your business - presented by Nick Schildberger

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the extras

This Month



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There were very few things that the warring parties in our long drawn-out election could agree on. One which was generally accepted was that, while the Australian economy remained in relatively good shape, it was still vulnerable to the uncertainties prevailing elsewhere.

The slowdown in recent months in our recovery from the GFC has served to underline that point.

So where are we heading? Economist Professor Neville Norman, watching events from a European vantage point at present, offers his latest assessment on this program.

Meanwhile, high insolvency rates among small and medium businesses show that, for many, times are still extremely tough. We asked Michael Fingland, of turnaround company Vantage Performance, for some advice on how to keep the wheels of business turning until they pick up speed again.

On a more upbeat note, we hear how an Adelaide company figured out how to survive and prosper in the face of cheap imports from China, and go on to record growth of 170 percent over the past three years. David Snoad, owner and CEO of Pinz, tells us his secrets.

According to business developer and lawyer, Beverley Honig, 70 percent of the costs involved in business relate to contracts with suppliers and customers. But do we take proper care to ensure our contracts are properly drawn-up and fully acted-on? She has some valuable pointers for us.

And so does expert and author Jane Mara, who takes us inside the world of intuitive intelligence. While logic and analysis clearly have their place in decision-making, she says the most successful entrepreneurs also rely heavily on gut instinct to stay ahead of the competition.

All this and more on this month's program. Enjoy.

Regards

Nick Schildberger
Managing Director

More Information

For more information about the topics discussed on this October 2010 program, please contact the relevant organisations listed below.

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LEARN TO TRUST YOUR INTUITION

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Accountants Who Help You See Further

Cummings Flavel McCormack are accountants who provide accounting, auditing and business advice to business owners. Cummings Flavel McCormack also provides tax consulting services.

Tax Consulting

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David Kent, Michael Jones
and Neil Flavel lead
a group of dedicated
taxation professionals.



CFMC KEY TAX DATES FOR: OCTOBER AND NOVEMBER 2010

- 28 Oct 10** **Quarter 1 (Jul – Sept 2010) Activity statements:**
final date for lodgement and payment.
- Quarter 1 (Jul – Sept 2010) GST instalments:**
final date for payment of forms S & T.
- Quarter 1 (Jul – Sept 2010) PAYG instalments:**
final date for payment of forms R & T.
- 31 Oct 10** **Income Tax:** income tax return due date for all June balancing company and superannuation funds where one or more prior year returns were outstanding as at 30 June 2010.

Do you need to comply with the personal services income tax rules?

If your income is a reward for your personal efforts and skill (not business structure or equipment) then it will be personal services income and special tax rules will apply.

For more visit our website, www.cfmc.com.au

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THE ESSENTIALS

October 2010

Track 2

ECONOMIC UPDATE

Professor Neville Norman, Melbourne University

- Be grateful that you're living in an economy that is still doing better than most of the rest of the world
- Eighteen months ago, the economy was not doing well and expectations were grim
- A year later, there were signs of a good recovery, but the Rudd Government fell off the rails, made a number of policy mistakes and misread the economy
- With the rest of the world still in the doldrums, our recovery has become a drawn-out process
- But at least our growth is positive, if still gradual and not as strong as it should have been
- Some confidence indicators are turning negative, but largely reflect the current political uncertainties
- You can expect to see more businesses fail in coming months

- Be wary about price increases at this stage – pretend you're still in a slump
- Interest rate increases are still likely, if at a more gradual rate
- If you're borrowing, watch the costs of a move from fixed rates to variable and perhaps consider locking rates in for a further period

Track 3

MANAGING THROUGH A DRAWN-OUT RECOVERY

Michael Fingland, Vantage Performance

- In a typical recession, without government stimulus, a lot of companies went to the wall, but the survivors rebounded quickly
- This time, because of government support, more companies survived – still with debt on their books – and they're still fighting for the same customers. The recovery is slower as a result
- In industries other than mining support, the SME sector is struggling to raise capital and regain momentum
- The drawn-out fight for survival has a wearing effect on management teams: they simply become tired of battling crises
- In most businesses seeking help to turn their fortunes around, the management has run out of steam and ideas
- A decision on whether a business can be turned around will depend in part on its point of

difference in the market, and the length of time it's been in distress – the management may not have the energy left to pull it through

- And the state of the relationship with stakeholders, from investors to employees and customers, is crucial
- More than 30 percent of our clients are high-growth companies which don't have the systems or management skills to cope with rapid growth
- They run into cash flow problems, let debtors get out of control and build up too much stock – quick action is needed to save them
- But too many companies leave it too long before seeking outside help. That makes a turnaround more prolonged and more difficult
- Things will get tougher before they get better. Managements need to stress-test their business constantly, running “what-if” scenarios in case more shocks hit

Track 4

DON'T LET YOUR DEBTORS DRAG YOU DOWN

Roger Mendelson, Prushka Fast Debt Recovery

- It's important to start on the right foot to manage your credit arrangements and prevent problems arising later
- Too many businesses don't have a good credit application form which asks the right questions

- They're often not sure of the entity they're dealing with: whether it's a business name, a company, a trust or a partnership
- If the process is not completed properly, they don't have proper trading terms and can't act on a default
- If they're dealing with companies, they often don't get Directors' Guarantees, which are essential
- When the right preparation is lacking, it's harder for debt recovery firms to do their job successfully – and more costly for the client
- Recent changes to the Bankruptcy Act will make it harder to enforce judgments for debts of between \$2,000 and \$5,000, which are the most common
- Debt agreements work to the benefit of small debtors, who can use them to avoid paying their debts so long as they stick to the terms of the agreement
- Regard a customer who doesn't pay their debts as a customer not worth having
- Make sure you have staff who have the authority and the time to manage your credit arrangements with customers and enforce them when necessary
- Always remember that if the money you're owed doesn't come in, your own cashflow – and hence the survival of your business -- is at risk

Track 5

TAKING CHINA ON – AND WINNING

David Snoad, Pinz

- In the late nineties, we found we were competing with Chinese leather and textile products that were selling for less than we paid for the raw materials
- We “China-proofed” the business by finding niche products – outdoor awnings and sails – which were custom-made and relied on low volumes and quick turnaround
- Customers are prepared to pay a higher price for good quality products which they don’t have to hold in large quantities and don’t require a long lead time
- Our rapid growth has come because we changed our management culture to go for growth
- The GFC provided opportunity because competitors who weren’t moving into new technology went out of business, adding to our customer base
- Our workforce – many of them mothers with children at school – appreciate our flexible approach to working hours and job-sharing
- My background at McDonalds taught me how to forecast sales by recording what happened on a daily and even quarter-hourly basis
- Loyalty to our suppliers has helped us get through difficult times because they’ve stuck by us too

- We're protective of our IP now, after a customer used our staff, stock and systems to set up as a competitor
- Work-life balance is important – I work a 40-hour week, and so do my staff

Track 6

MAKING CONTRACTS WORK

Beverley Honig, Honeylight Enterprises

- Up to seventy per cent of a company's costs are related to contracts or contractual arrangements
- Contract management is now regarded as one of the three core competencies in business
- Because businesses are specializing more and more, outsourced relationships are becoming more numerous
- Buyers are becoming more sophisticated and demanding, so performance management is more important
- Good contract management starts with planning what you need and why, before moving onto procurement, managing the contract and review
- Start with the KISM Principle – Keep It Simple and Meaningful, by asking and answering some basic questions
- Procurement is complex, but choosing the right supplier will make managing the contract much simpler

- Negotiation starts well before the contract is drawn up – and it's a matter of give and take
- Then there's people management: knowing who's going to run the contract, and how they'll do it
- Managing overseas contracts successfully requires cultural sensitivity, agreed performance markers and an understanding of expectations on both sides

Track 7

THE COST OF UNDERPAYING YOUR EMPLOYEES **Sean Millard, CCI Lawyers**

- The key issue arising from operation of the Fair Work Act has been negotiation of individual flexibility arrangements under the Modern Award system
- The number of prosecutions has increased now that the Fair Work Ombudsman's office has greater resources
- More prosecutions are being directed at managers and directors, as well as the companies themselves
- When fixing penalties, courts are considering whether an underpayment was accidental or deliberate, and whether the company co-operated in the investigation
- It's now a much more prescriptive system than previously – employers are expected to understand the system or face investigation and possible prosecution

- The area of the workplace rights of employees has now expanded, to cover things like the conduct of performance management processes
- There's plenty of information available – from employer and professional organizations, unions and government bodies. It's important to use it

Track 8

THE FOUR GREAT HUMAN NEEDS

Tony Gattari, Achievers Group

- Smart organizations are realizing that if they want to retain good people, they must supply their human needs in the workplace
- That produces a workforce which is more productive, happier, has more energy and makes more money for the business
- The first human need is security, provided primarily by the pay packet, but also by having a job description, business cards, an induction process, KPIs, regular training and a career path
- The second need is almost the reverse: people need variety. It may be new products and services, or special projects to work on, or visits to conferences
- Significance is next: it may be as simple as a parking space, or a bigger office or an impressive job title

- It's also shown in how you treat people: praise them openly, discipline them privately. Celebrate victories, build their self-esteem
- Fourth comes connection: we must build an environment where we all like each other and have connections outside work
- Focus on the employee's partner: invite them to social functions. You'll be rewarded by their loyalty
- Once those needs are met, think of moving people to the next stage: growth is important to stop us withering on the vine
- And so is legacy: what have we done to make a difference?
- If a business leader can accomplish those things, there's no greater joy

Track 9

SHAREMARKET UPDATE

Elio D'Amato, Lincoln Stock Doctor

- The reporting season has ended on a positive note, with some great results and opportunities to pick up good stocks at a discount
- Among the best results: ARB, Coca-Cola Amatil, Codan, CSL, Domino's Pizza, Equinox, Forge, iiNet, JB Hi-Fi, Kingsgate, Little World Beverages, Panaust, REA Group, Real Estate.com, Resmed, Super Cheap Auto and Wotif

- New star stocks include Amcom Telecommunications, Cochlear, Finbar and Western Areas
- Among those offering great opportunities for investors: Wotif, Cellestis and Mermaid Marine Australia
- Our five stand-out stocks for the month: Monadelphous, Navitas, Invocare, Reckon and Mac Services Group

Track 10

PERSONAL SERVICES INCOME – CONTRACTOR OR EMPLOYEE?

Michael Jones, Cummings Flavel McCormack

- Recent cases in which some taxpayers have tried to claim they were independent contractors suggest people sometimes kid themselves
- The nature of employment has been changing over time, with more performance-based remuneration and less security of employment
- In 2001, new rules were introduced for the taxation of personal services income, bringing it closer to taxation as an employee
- But there are exceptions to those rules: the “Results Test” being a common one and the subject of recent cases
- It’s important that the contract reflects the proper arrangements for a contractor

- Can you delegate the work to someone else? Are you paid a negotiated price to produce a particular result?
- Leave arrangements should not be included – that will look like an employee rather than a contractor
- Risk for something going wrong is normally borne by a contractor, who will have insurance to cover that eventuality
- Another exception is provided by the “80-20 Rule”, when there’s no single client from which you receive 80 percent or more of your income
- But you must also be able to demonstrate that you have actively made offers to reach other clients: by advertising or setting up a website
- If you’re engaging an independent contractor, you should not have to provide a superannuation guarantee if the rules have been followed
- But you may have a payroll tax liability if the employment is for an extended period of time

Track 11

LEARN TO TRUST YOUR INTUITION

Jane Mara, Intuitive Intelligence

- Successful entrepreneurs often use intuition, backing their hunches to make decisions, more than most business people

- Lateral thinking forces the logical mind to use the conscious mind, but – unlike the subconscious - that's limited in its capacity to make fast decisions
- Intuitive intelligence is the capacity to use all your sense in decision-making and idea generation
- We access intuitive intelligence through all the organs of the body as well as the brain
- Research has shown that the human heart perceives an intuition 5 to 7 seconds before the brain
- If you can generate a state of calmness, you'll be better able to "listen to" your intuition and respond to it
- More and more companies want to employ people with entrepreneurial flair, to put them ahead of competitors
- Your health will also benefit from a coherent, orderly state of mind, with lower stress levels
- Self-awareness is the key to separating intuitive intelligence from wishful thinking
- As Steve Jobs said, don't let the noise of others' opinions drown out your inner voice, and have the courage to follow your intuition