

# businessessentials<sup>®</sup>

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

December 2010 | Audio CD



the extras



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With Christmas and the holiday season now almost upon us, we thought we'd take a step back from the cut-and-thrust of daily business life to bring you a success story with an almost a fairytale quality to it. It's about a young boy suffering from eczema, his concerned mother and the family's pet goats. Out of it all, through trial-and-error and persistence, came a highly successful business producing soap and other cosmetics for those with sensitive skins. Leanne Faulkner enjoys her life and her work, and I'm sure you'll enjoy her story.

And of course there's plenty more. We'll hear Professor Neville Norman's review of the economy in 2010, with its implications for all of us in business.

Bob Ada, head of debtor finance at BOQ, has some practical advice about how to keep the cash flowing; and sales guru Tony Gattari tells us how an old car taught him some valuable lessons about getting the business basics right.

Veteran businessman David Haymes paints us a picture of how to build a successful family business, and then how to back away from it – gracefully. And on a related theme, we'll hear the secrets of successfully blending a partnership that encompasses both home and work.

And there's timely advice from workplace relations lawyer Joydeep Hor on how to make sure your end-of-year staff party doesn't end in tears.

Enjoy this CD – and from us all at BE, enjoy a safe and happy Christmas!

Regards

A handwritten signature in black ink that reads "Nick Schildberger". The signature is written in a cursive, flowing style.

**Nick Schildberger**  
Managing Director

## More Information

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

### ECONOMIC UPDATE

**Professor Neville Norman,**  
**Melbourne University**  
neville.norman@unimelb.edu.au

### FROM HOME REMEDY TO SALES SUCCESS

**Leanne Faulkner, Billie Goat Soap**  
T: 02 4389 3455  
www.billiegoatsoap.com.au

### HOW DEBTOR FINANCE CAN HELP CASHFLOW

**Bob Ada, BOQ**  
T: 1300 557 272  
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### FIRST FIX THE LEAKS, THEN ACCELERATE SALES

**Tony Gattari, Achievers Group**  
T: 02 9440 7373  
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### SMALL BUSINESS PROGRESS REPORT

**Tim Reed, MYOB Australia**  
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### RISK-MANAGING THE FESTIVE SEASON

**Joydeep Hor,**  
**People+Culture Strategies**  
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### LESSONS FROM A LIFE IN FAMILY BUSINESS

**David Haymes, Haymes Paint**  
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### ATO NEWS ON TRUST DISTRIBUTIONS TO COMPANIES

**Michael Jones,**  
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### SHAREMARKET UPDATE

**Tim Lincoln, Lincoln Stock Doctor**  
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### SECRETS OF SURVIVING HOME AND BUSINESS PARTNERSHIPS

**Louise Woodbury and William de Ora**  
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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

Tax law is relevant to every major business and investment decision. Understanding the latest developments in tax is difficult.

The Cummings Flavel McCormack tax consulting practice works with clients to evaluate the taxation risks and benefits applicable to their business and investment plans.

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We have significant breadth of experience, having worked with successive governments in tax law development and holding key positions on advisory and education committees with professional tax bodies.

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



*see further*

## CFMC KEY TAX DATES FOR: DECEMBER 2010 AND JANUARY 2011

- 1 Dec 10** **Income Tax:** Income tax payment due date for companies and superannuation funds that were taxable large/medium business clients in the immediate prior year.
- Income Tax:** Income tax payment due date for companies and superannuation funds that were required to lodge by 31 October.
- Income Tax:** Payment of income tax for superannuation funds where one or more prior year returns are outstanding as at 31 October 2009.
- 15 Jan 11** **Income Tax:** due date for lodgement of income tax returns for companies and superannuation funds that were taxable large/medium business clients in the immediate prior year and are not required to lodge earlier.
- 28 Jan 11** **Superannuation:** Last day for superannuation contributions to be made to a superannuation provider for quarter 2 2010/11 (October – 31 December)

 **Q. What do you give someone who already has everything?** 

**A.** A tax audit. (suggested in Nov 1990 by -Michael D'Ascenzo – current Commissioner of Taxation).

**For more visit our website, [www.cfmc.com.au](http://www.cfmc.com.au)**

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# I UNDERSTAND the needs of small business owners.

*After all,  
I am one too.*

My small business is just like yours. It comes with long hours, different management roles, the challenge of keeping staff and customers happy, as well as the odd sleepless night. The only difference is, my business is a BOQ branch.

As a BOQ Owner-Manager, I not only run my local branch, I own it as well. This gives me a greater understanding of what my small business customers go through each day. It also allows me to really get to know my customers and give them the personal service and timely decisions they need to help their business succeed.

Ask yourself, would your bank do this?

*Sean O'Donoghue*  
*Owner-Manager*

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# THE ESSENTIALS

December 2010

## Track 2

### Economic Update

#### Professor Neville Norman, Melbourne University

- As we review 2010, it's clear from my overseas perspective that Australia has been very fortunate
- It's one of only 2 or 3 Western economies to largely avoid the GFC and the one that's been able to afford the greatest number of interest rate increases since
- It's been generally a good picture for business, though some industry sectors have faced problems
- Cash rates started the year at 3.75% and have risen by a full percentage point - not far from my prediction back in January
- Sharemarkets have been erratic, but economic growth to the middle of the year (the latest figures available) has been around 3% and average growth in earnings has reached 6.2%

- Exchange rate movements have reflected the relative strength of the Australian economy and inflation has stayed in check at just under 3%
- Pointers for business: interest rates will rise further; competition will still be intense, despite the strong economy, so it's no time to relax on marketing and pricing; and use a "confidence range" in your forecasting - it will ease the effect of unforeseen events
- I'll look at the outlook for 2011 next month, but overall 2010's been a terrific year

### Track 3

## **From Home Remedy To Sales Success** **Leanne Faulkner, Billie Goat Soap**

- I'd swapped the corporate world for life in the country. My son Liam developed eczema which defied all the traditional treatments
- I discovered on the internet that goat's milk soap could help people with sensitive skins. I had goats so I thought I'd try to make some
- A couple of years' trial-and-error followed before I produced something which did help his eczema and was well-received by family and friends
- Then I sold some at a local show and it was picked up by health stores, mostly through word-of-mouth



- Our core product is still made to the same recipe I developed for Liam, but we've added more products to expand our range
- Big stores initially turned us down, but they stock our soap now and we're Myer's general cosmetics Supplier of the Year!
- I have a very clear exit strategy - a trade sale in perhaps 3 years to allow someone else to take the business to the next stage
- I've learned 3 key lessons along the way - the 3 Ps. You've got to have Passion; you have to roll with the Punches; and you must surround yourself with dedicated, motivated People

## Track 4

### **How Debtor Finance Can Help Cashflow** **Bob Ada, BOQ**

- Business owners often create problems for themselves by not planning properly for the future, especially where growth is concerned
- Debtor finance can help keep the cash flowing. It's like an overdraft, but with the loan secured against the business's debtor book, not property
- We'll provide up to 80 percent of the value of the debtor book, for debtors up to 90 days
- Charges and fees are similar to an overdraft secured against commercial property

- A strength of debtor finance is that the facility can grow as the business expands, while the cost - as a percentage of turnover - reduces
- Business owners who can negotiate discounts with their suppliers for early payment can use the facility to pay those bills, while offsetting their own interest costs
- For a debtor finance facility, we'll look at businesses with turnover of at least \$600,000 and a debtor book of around \$100,000
- We'll favour a business which is well-run and profitable and where there's a good spread of debtors
- My advice is to have a clear business plan, talk to your accountant and business manager and consider all options. But don't ignore debtor finance

## Track 5

### **First Fix The Leaks, Then Accelerate Sales Tony Gattari, Achievers Group**

- In this case study - a small engineering firm - the owner was trying to buy more equipment to expand and hoping to fund it through cash flow
- He was getting money in every 83 days, but paying suppliers every 57 days. His profit was 1 percent, and his cashflow was \$62,000 in the red. He was putting money into the business from his home

- His return on capital employed was 3 percent, when it should have been 18. He believed the answer to all his problems was simply to increase sales by 20 percent
- We showed him that would reduce his profitability from 1.03 percent to 1 percent, and his negative cashflow would be \$110,000 a year. His return on capital employed wouldn't change
- We showed him how to reduce his cost of goods by 4 percent. He had too many staff and too much duplication
- We reduced his overheads by 4 percent, by renegotiating things like insurance and telecommunications costs
- Receivables were reduced from 83 days to 60, and we employed an efficient debt-chaser. Inventory was cut back, as was the size of his warehouse, to reduce overstocking
- His profitability went past 10 percent, cashflow soared to \$360,000 in the black and return on capital employed hit a staggering 40 percent
- He could finance his expansion organically, without having to go to the bank
- The message is: stop the oil leaks before you upgrade the engine and accelerate the car

## Track 6

# Small Business Progress Report

## Tim Reed, MYOB

- Cashflow is - as ever - a major concern for business people, but so is the impact of government, especially with the balance of power now in the hands of minority parties like the Greens, and independents
- A carbon tax is back on the agenda, there's a tax summit proposed for next year - all contributing to a climate of uncertainty for business
- Business would like to see action to reduce red tape and government regulation. There was positive action on OH&S last year, but the NSW Government has reneged on the agreement, creating more uncertainty
- Reporting procedures, like the BAS statement, are still a problem and could be greatly simplified
- The take-up by business of social media is still lagging: our latest survey showed only 35 percent had a website and only about half of those were using media like Facebook and Twitter to make contact with their customers
- Looking ahead to 2011, business owners are reasonably confident about the state of their own activities, but more concerned about the big issues that influence investment - the global economy, exchange rates, government

regulation and what the Reserve Bank and the Big Four will do about interest rates

- Retailers have particular problems: the rising Australian dollar is making overseas online sellers more attractive to consumers seeking a bargain. It's a new level of competition

## Track 7

### **Risk-managing The Festive Season** **Joydeep Hor, People + Culture Strategies**

- Employees who accept that there are rules governing their behaviour while they're at work, sometimes think they don't apply when they're "off-site", at a Christmas party for example
- To avoid trouble, organisations must make sure they have policies and procedures in place and embodied in staff contracts
- Then, by memo or email, it must be made clear that the workplace behaviour rules apply equally to functions which may be held elsewhere
- Recent high-profile cases have shown the risks around harassment and bullying when the rules are not followed
- Where alcohol is involved, employers have a responsibility to ensure that the necessary licences and permits are obtained, and to monitor consumption to ensure it doesn't get out of hand

- Management responsibility doesn't stop when the company stops paying for the drinks
- Having a senior manager as a "designated non-drinker" for the evening will help reinforce management's leadership role and let people know that someone is sober and keeping an eye on things
- If there's a problem, managers must be prepared to step in. It's no longer good enough to wait until there's a complaint before instigating action

## **Track 8**

### **Lessons From A Life In Family Business David Haymes, Haymes Paint**

- My father had died before realising his dream for the business. I'd come back to work in it, but the ownership was diverse and the company was struggling
- I decided to buy it back. But establishing a family business wasn't the main objective: we wanted a business that was successful and would make the staff and the people of Ballarat proud
- An entrepreneur's life is full-on and time gets away from you. It was only when my children were older that I realised it was time to think about my future - and theirs
- The children had grown up with the business, but we sat down with a facilitator to explore

whether they wanted to be part of it and what - if they did - they could bring to the table

- Eventually they took on a variety of roles, and it's worked extremely well
- One of the biggest challenges in family business is getting the structures right, both for direct family members and those who've married into it
- It's vital to have forums which can deal with workplace and operational issues and have a pecking order, and strategic ones at board level, where everyone comes together as equals
- A family constitution is a must, to define and provide for all sorts of eventualities
- We couldn't have done it without Family Business Australia, who provided the help to devise the right structures
- I retired four or five years ago, but it took me three years to stop worrying about the business. Now I love floating around the edges, meeting customers and chairing the board
- Too many people who start businesses can't bear to step aside and let their children take over. That just creates unhappiness and confusion
- My five rules: T for truth - never lie; P for passion - it's essential; M for marketing - you won't succeed without it; R for respect, for customers, suppliers and staff; and L for listening and learning, a lifetime experience

## Track 9

# ATO News On Trust Distributions To Companies

## Michael Jones, Cummings Flavel McCormack

- The ATO has now finalised its views on trust distributions to companies, and there are some important changes to the draft publication
- Two of the changes allow for some self-correction: if unpaid entitlements have been incorrectly described as loans, or if you've made a Division 7A error
- Those corrections can be made until December 31, 2011 From now on, a number of possibilities are available: once the company has been made entitled to the income, the money will have to be paid across (though for the year 2010 payment can be deferred for up to 23 months)
- The payment can be treated as a Division 7A loan, with prescribed principal and interest payments over 7 years
- There are 3 other options, two of which allow for the payments to be treated as interest-only loans over 7 or 10 years, with different interest rates
- The final one treats the payment as a co-investment between the trust and the company, but that requires the Trust to get a separate tax



file number and accounting system for the co-investment. It's unlikely to be used

- The Tax Office says observing these guidelines will give protection from penalties when the law is finally settled, but the best advice is to see your accountant now to see how it affects you.

## **Track 10**

### **Sharemarket Update**

#### **Tim Lincoln, Lincoln Stock Doctor**

- Discipline is crucial to long-term success in the stockmarket, both in stock selection and the management of our portfolios
- Observing the Nine Golden Rules, managing our stocks around valuation and taking an opportunistic approach rather than following the herd mentality will see us through
- Now that the market has rebounded 50 percent from its lows, the pool of opportunity for buying stocks at good valuations is drying up
- As that develops, the smart investor will begin to move to cash, waiting for the inevitable correction which will once again throw up sound companies at prices well below valuation
- Among the good stocks still trading well below valuation: JB Hi-Fi, iiNet, Forge Group and Seek, which will probably become a Star Stock next reporting season

## Track 11

# Secrets To Surviving Home And Business Partnerships

## Louise Woodbury & William de Ora

- William: I started my business 20 years ago, but I was floundering. Louise came in to sort it out, but I resented her because I saw it as interference, and my ego was bruised
- Louise: I thought of it as William's business, but it was in chaos. I set about restoring order, but William felt threatened. In our book we talk about the male silverback gorilla and the queen bee - strong personality types that don't get along. In those days, we got in each other's way, we were complaining and blaming each other.
- We had to acknowledge that we weren't on track for "happy ever after". We had to challenge why we were together at all.
- Partners in business will try to avoid conflict by not raising issues. They then get trapped in a downward spiral
- William: in most cases, there's a pattern of behaviour which has to be recognised and acknowledged - something we didn't do ourselves at first
- Louise: the traditional way of thinking about business is that there's a single leader. But there's something we call fluid leadership, which involves both parties. It can be confusing

for the staff, but it works. It's not about competing for dominance

- We've found that we can exchange the leadership role, using our different characteristics to good effect at different times
- Resentment of your partner's achievements, and anger when you're challenged about your own work can be destructive
- If you're in alignment and remain respectful of each other, it can be a magical experience every day