

businessentials®

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

March 2011 | Audio CD



the extras

This Month



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Success stories – about people, often from unpromising beginnings, who've built business empires through sheer passion and determination – always make inspirational listening, and can offer useful insights that we can all learn from.

We have a great example this month. Dorry Kordahi failed his school certificate and started work in his father's hairdressing business in the Sydney suburbs. He loved basketball, and played professionally for a while, but dreamed of something more lasting. A spell in a family business left him frustrated but full of ideas. Now, at 35, he runs a highly successful merchandising and marketing company and has written a book – Power to Act – to encourage others to seize their opportunities and turn passion into profits.

Towards the other end of the age spectrum, we consider what will happen as thousands of babyboomers reach retiring age and put their businesses up for sale. Michael Fingland of Vantage Performance has some cautionary words of advice.

We meet Emma and Tom, the dynamic partnership behind the highly successful fruit juice partnership of the same name, and explore the modern phenomenon of social media, like Facebook and Twitter, to point out the risks for both employers and employees if they're not used properly.

Steve Simpson of Keystone Management Services tells us about the "unwritten ground rules" that can define the culture of a business, but can also create a gulf between managers and staff.

And, with the terrible devastation wrought by the recent cyclone and floods still fresh in our minds, we turn to psychologist Arthur Papagiannis for advice. He explains how business owners and managers, while coping with their own problems, can help their workforce get through times unlike any they've encountered before.

Regards

Nick Schildberger

Managing Director

For more information about the topics discussed on this March 2011 program, please contact the relevant organisations listed below.

BEWARE THE BUSINESS SALE TSUNAMI

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ECONOMIC UPDATE

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"POWER TO ACT": TURNING PASSION INTO PROFITS

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HOW "UNWRITTEN GROUND RULES" COULD WRECK YOUR BUSINESS

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FORGING A FRUITFUL PARTNERSHIP

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IS YOUR BUSINESS SOCIAL MEDIA SAVVY?

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THE LADDER OF LOYALTY: TURNING PROSPECTS INTO EVANGELISTS

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TAKING CONTROL WHEN CATASTROPHE STRIKES

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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.

We are proud of our ability to untangle the complexities of tax law to produce commercially practical tax advice that the client can understand and act on with confidence.

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: MARCH AND APRIL 2011

21 Mar 11	Activity statements: February 2011 monthly activity statements: Final date for lodgement and payment.
21 Apr 11	Quarter 3 (January - March 2011) activity statements: final date for lodgement and payment for statements containing a monthly GST obligation.
28 Apr 11	Quarter 3 (January - March 2011) activity statements: final date for lodgement and payment. Quarter 3 (January - March 2011) PAYG instalments: final date for payment for forms R and T. Quarter 3 (January - March 2011) GST instalments: final date for payment for forms S and T. Quarter 3 (January - March 2011) Superannuation guarantee contributions: last day for payment to a superfund provider.

CAR FRINGE BENEFITS: STATUTORY FRACTION 2011

Total Annual Kilometres	Statutory Fraction
Less than 15,000km	26%
15,000km to 24,999km	20%
25,000km to 40,000km	11%
More than 40,000km	7%

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I UNDERSTAND the needs of small business owners.

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*Sean O'Donoghue
Owner-Manager*

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THE ESSENTIALS

March 2011

Track 2

Beware The Business Sale Tsunami

Michael Fingland, Vantage Performance

- Businesses will suffer while their owners wait in hope that the next generation will overcome their reluctance and join in. In most cases, they never change their mind
- If they are persuaded to take on the mantle but don't have either the training or commitment, the business will soon start to under-perform
- We're already seeing an increase in the number of baby-boomer businesses up for sale, and that will turn into a tsunami over the next five years
- The increase in supply will put downward pressure on prices, and many businesses will not be "sale-ready" and therefore difficult to sell at all. It will be a buyers' market
- So it's important to start preparing for sale one or two years out. Make sure your systems and controls are robust, and your business plan well laid-out and working
- Growth and earnings need to be consistent, and the business should feel like it's ready for sale
- An advisor or mentor can play a valuable role whether you're handing the business on to family members or preparing it for sale

- In the first case, a mentor can help family members understand what they're taking on and how the new arrangements should be structured
- Most business owners won't have sold a business before. External advice can help them identify the gaps that need fixing before they go to market
- Savvy potential buyers will look beyond a simple P & L approach to find the systems and controls that will help them minimise perceived risk
- Baby-boomers who've run their businesses for years in their own way may not be up with the technology and the modern business systems that buyers will look for
- If your business doesn't stand out from the pack, you're going to find it hard to attract buyers at the price you want in such a competitive market
- And, in the worst case, if you're depending on the sale to finance your retirement plans, you may find yourself with very little to show for all your years of hard work. So thorough preparation is essential

Track 3

Economic Update

Professor Neville Norman, Melbourne University

- Physical events - like snowstorms in the UK and floods in Australia - can hold back consumer spending in ways that economists often don't take into account
- Despite the effects of those physical events, my outlook for 2011 is still broadly the same as in January, though I'm not as bullish as some economists (the ones who were depressed last year) have now become

- Inflation is going to be higher at around three percent, and activity growth softer but still at two-and-a-half to three percent, though there'll be big differences in individual sectors
- Effects of the floods and cyclones are generally not lasting, but there will be an incredible boost to the construction industry and a further demand for skilled labour, which immigration will help to meet
- Exchange rates will continue to be strong, and China will still be a powerful influence on our economy. Unemployment rates and national debt can safely be ignored
- With both positive and negative factors in play, interest rates may not rise much further this year. The time for locking rates in has now passed
- After a year of political upheaval, the Gillard government can be expected to remain in office, but the May Budget may well be a "stinker"
- Because a return to budget surplus is now likely to be delayed by a year or more, the government has time to tighten the belt, with expenditure cuts and tax increases. Expect a very conservative Budget
- But after 6 months in the UK, I'd much rather be running a business here than there!

Track 4

"Power To Act": Turning Passion Into Profits

Dorry Kordahi, DKM Blue

- My life might seem like a TV soap opera to my friends, but for me it's about all the small steps I've taken to get to where I am
- Having failed my HSC, I had no choice but to go into my father's hairdressing business. I had

dreams of running my own business, but didn't know what it would be. I thought I might find a career in basketball, or in modelling

- After a stint overseas playing basketball, I joined a family business and found it pretty tough. I didn't think I got the recognition I deserved, though I learned lessons about managing people, situations and expectations which helped later
- At 25, I headed to Europe again, to clear my head and plan my own business. I was confident I could do it, but examined all the problems and pitfalls I might encounter
- On return, I set up a business in competition with the family concern, which didn't go down too well at first, though we're all friends now
- As I was working alone from my parents' backyard shed, I had to come up with an offering that would separate me from the competition
- I gave clients a management approach, rather than a product approach, offering solutions that would take a marketing weight off their shoulders
- I wasn't competing dollar for dollar, I was competing on ideas. I did everything myself, which helped me understand clients' needs and be able to meet them
- DKM has grown quickly, I've merged with my brother's company and we have mutual respect for the things we each bring to the business
- The main message in my book, "Power to Act", is to encourage people to stop talking about doing things, and do them
- I gained inspiration from Richard Branson's book, "Losing My Virginity", and hope others will gain inspiration from mine

- If I can succeed, with no HSC, university degree or marketing qualification, then there's no reason others can't too

Track 5

How "Unwritten Ground Rules" Could Wreck Your Business

Steve Simpson, Keystone Management Services

- Many businesses have UGRs - unwritten ground rules - which are rarely talked about, but are assumptions which define how staff behave towards customers and managers
- Often they're counter-productive, working against what the management is trying to achieve
- Anonymous surveys asking lead-in prompts like: "Around here, when decisions have to be made..." or "Around here, customers are..." can help create a UGR Stocktake, which is often surprisingly negative
- Leaders in a business often see its culture more positively than do middle managers, who in turn are more positive than non-managers
- Our research shows that most people with negative UGRs don't want it to be that way, but have given up hope of things changing. What's needed is a circuit-breaker, led from the top, to show them that things can change
- Negative UGRs work against performance and productivity, so it's worth putting effort into correcting the situation
- We've found that UGRs are most often either created by leaders in the business, or allowed by

them to exist, so it's important to look at your own behaviour and measure words against actions

- Define the "key cultural attributes" that you want if your business is to succeed, share them with your staff, and develop positive UGRs from them

Track 6

Forging A Fruitful Partnership

Tom Griffith and Emma Welsh, Emma & Tom's

- We'd known each other for a long time while pursuing separate corporate careers, but felt we had a strong basis of experience, friendship and trust on which to build a successful business partnership
- We deliberated long and hard over the business name, choosing one which reflects the fact that we're real people running a real business
- Our marketing has, from the start, been aimed at cafes and delicatessens. Many of the owners are people like us, in small business. The supermarkets handle huge volumes but we don't have the market power of big suppliers, so it would be more risky
- We also save on advertising - cafe and deli owners like our product and recommend it to their customers, who then feel they've discovered it for themselves
- At first, we went door-to-door selling to outlets and sponsored a couple of cycling events, giving away the product as promotion
- The relatively short shelf life of the product (up to a month in refrigeration) we see as a positive. It's fresh and it's mostly sold within a week

- Like all people starting up in business, we faced challenges and made mistakes. We were short of capital, we had difficulties with bottlers and distributors and we sometimes over-produced
- But by dealing with the problems ourselves, and learning as we went along, we're now better business people and do as much as we can ourselves
- We've found that bringing consultants in for extended periods hasn't worked, though having a fresh pair of eyes look at the business from time to time is helpful
- Now we're growing fast, we face new challenges: more staff, more systems, more vehicles. But it's exciting to stay on top of it
- We recognise that, as the business changes, we need to change with it, developing the skills to run a bigger business

Track 7

Is Your Business Social Media Savvy? Joydeep Hor, People + Culture Strategies

- The main risks for employers concerning employee use of social media derive from uncertainty about where the boundary lies between what is the workplace and what isn't
- With employees connected via social media to co-workers, suppliers, customers etc, there's a risk of conduct that could bring the employer into disrepute, or be defamatory of a co-worker, or involve harassment or bullying
- The immediacy and informality of social media serve to increase the risk

- Recent cases have highlighted the risks that high-profile people can run by injudicious tweets to a wide audience.
- Unfair dismissal cases are pointing up the need for employees to be careful about making derogatory comments on social media about their workplace or employers, even in their own time
- And unflattering remarks or images concerning co-workers can raise issues of harassment or bullying, even if they're on an employee's own Facebook page. That can quickly become a problem for employers
- Employers need first to determine how important social media are to their business, by way of contact with clients, customers and suppliers
- They then need to develop a policy which covers employee use both while they're at work, on company computers, and in their own time
- The challenge is to educate employees about the need, whether in working hours or not, to conform to the company's standards of appropriate behaviour at all times
- Some employers have already run into IR difficulties in trying to meet that challenge. Careful explanation is required, and "buy-in" from unions will help
- It's important to explain the "why" of the policy as well as the "what", with presentations, training sessions and good follow-through
- Managers must lead by example through their own behaviour, and also be able to demonstrate that, where breaches of the policy have occurred, appropriate action has been taken

Track 8

The Ladder Of Loyalty: Turning Prospects Into Evangelists

Tony Gattari, Achievers Group

- The Ladder of Loyalty starts with the suspect - anyone who's in your target market, who could conceivably buy from you
- The next level is the prospect - not a customer, but someone who's responded in some way to your advertising or marketing. The greatest cost in running a business is finding prospects
- But too many businesses, having turned a prospect into a customer, go out and repeat the process - and the expense - again and again
- They forget there are four more levels to get to: starting with turning the customer into a client - a repeat buyer
- From there, you want the client to become a member - part of a tribe - perhaps through a loyalty program. It's a profound strategy to create a common identity
- Next, you want the member to become an advocate - someone who, when asked, will recommend your company, product or service
- Then there's the highest level: an evangelist. Someone who can't stop talking about you, who's creating sales for you without any payment
- Evangelists are more important now than ever, because of the ease of communication through media like Facebook. People will believe what they say, when they mightn't believe you

- To climb the ladder from customer to evangelist, you need a great business culture, an awareness that closing a sale is really opening an opportunity
- You must have great people who embrace that culture, and you must reward them
- You need different levels of service for different customers, and you need memorable systems that help you move customers up the ladder

Track 9

Tax Update

Michael Jones, Cummings Flavel McCormack

- Since July 1 2007, superannuation contributions have been subject to limits if they're only to be taxed once. Contributions higher than the limits are subject to Excess Contributions Tax
- If you're within the limit for deductible contributions, the super fund will pay tax at 15 percent. If you exceed the limit, an extra tax of 31-and-a-half percent applies
- The excess contribution will also be regarded as a non-concessional contribution, and if you then also breach the limit in that area, you get a further tax of 46-and-a-half percent. In all, a tax rate of an incredible 93 percent
- The Commissioner of Taxation can exercise discretion where the excess contribution is accidental, but is not well disposed to doing so because the ATO wants people to be fastidious in managing their super schemes
- Approaches to the ATO on this subject have been unsuccessful. Their view is to suggest getting the government to change the law

- On another topic, it's important to remember that if you're hiring a contractor through a business to provide labour, whether physical or intellectual, then you're liable for payroll tax and workcover premiums
- There are half a dozen exemptions, the main ones being if the contractor is hired for 90 days or less, or if the work requires two or more people
- March 31st is the end of the FBT year. Check the number of kilometres you've travelled. By driving more now, you may be eligible for a lower tax bracket
- FBT is levied at 46-and-a-half percent. It may be worth making a contribution to your employer which could bring down the amount of tax you pay
- It may also be worth keeping your leased car for a further year. The valuation of the car for FBT purposes is reduced by a third if you retain it beyond 4 years

Track 10

Sharemarket Update

Elio D'Amato, Lincoln Stock Doctor

- The recent storms, floods and cyclones have taken their toll on the insurance, agriculture and mining industries, though the huge demand for coal will probably help get mining infrastructure up and running again quickly
- Agriculture is a major problem, with food price inflation already a worldwide concern, and now supply from Australian farms taking a major hit
- Woolworths and Wesfarmers are locked in a struggle to undercut each other's farm produce

prices, but it's difficult to see where the savings to fund that will come from

- It's not the time now to bail out of the troubled sectors: look for opportunities instead. Insurance companies and coal stocks are already beginning to rebound after having been sold down when the storms hit
- The company reporting season has thrown up some drama, as always, with a number of Star Stock movements
- GUD just failed to meet our target for growth in earnings per share and Navitas is facing a decline in the numbers of overseas students coming to Australia
- An inclusion: Euroz Limited, a small financial services company based in Perth, providing good returns for the income-seeking investor
- Several companies have produced good results but still disappointed the market. ResMed, supplying sleep apnoea treatments is one
- Other strong performers include JB HiFi, Cochlear and Forge Group, which is repaying investors for the faith they've shown in it
- Retail continues to be a mixed story, with successes like JB and Super Retail, while Myer and David Jones have both taken a hit
- But mining goes from strength to strength, with companies like Horizon Oil producing excellent results

Track 11

Taking Control When Catastrophe Strikes

Arthur Papagiannis, AP Psychology & Consulting Services

- In dealing with a catastrophe, clear and factual communication with your workforce is crucial, and don't be afraid to ask people how they're coping
- Try to empower employees to take control of the situation themselves, while offering suggestions and asking how the business can help them
- Pre-prepared flyers which list support agencies, both internal and external, can help people make clear, rational decisions when they've lost focus
- Being optimistic and normalising their experience is also helpful: don't question their feelings, assure them that it's a normal reaction to the situation
- Providing flexible work conditions, in discussion with individual employees, can help them take charge of their own situation and deal with it
- I follow three key steps in handling disasters in the workplace: preparation, responding and recovery
- In preparation, identify key personnel and select small teams who'll handle a disaster or critical event if it occurs
- For bigger businesses, establish manuals and written protocols; in a small business, a one-page checklist will often be enough
- Develop an IT back-up system and alternative arrangements for communications that can be implemented quickly
- Train key people to deal with the human side and with communication to the local community and other stakeholders as well as staff

- Review your plans once they're made, and test-run them if necessary