

Chartered Accountants

Business **in focus**

Monthly audio program

Lessons from a life in business

May 10

Don Argus,
Former Chairman
BHP Billiton

The extras



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What do you see as the major mistakes made by business leaders? How do you encourage your team members to follow you? Above all, what makes you and your business successful? They were among a range of questions I put to one of Australia's most highly respected business leaders, the recently retired chairman of BHP Billiton, Don Argus. I've known Don Argus for many years. On this CD, he'll tell us the biggest mistake business leaders make: they don't always think through the consequences of their decisions. He says leaders need to have a set of values and principles, then others will follow. He says too that small to medium-sized businesses hold the key to the future of this country. Yes, that comes from a man who until recently headed Australia's biggest company.

Socially responsible purchasing is another important issue for all businesses, big and small, according to Jennifer Williams of Corporate Express. She advises her clients on how to go about it, and passes that advice to us here.

Do you treat client newsletters seriously? Julianne Bell of Financial Writers Australia says that good newsletters are one of the most important tools for any practice and she has helpful hints on how to plan them, then produce them. Another tool for all businesses is an effective cost management strategy. Avron Newstadt of Expense Reduction Analysts tells us how we can develop the best strategy.

I'm sure you'll find plenty to think about this month.

A handwritten signature in black ink that reads "Michael". The signature is fluid and cursive, with a long horizontal stroke extending from the end.

Michael Schildberger
Executive Chairman

Information

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

MAKING CLIENT NEWSLETTERS EASY

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COST MANAGEMENT STRATEGIES

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SHAREMARKET UPDATE

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THE ESSENTIALS

May 2010

Track 1

LESSONS FROM A LIFE IN BUSINESS

Don Argus, former chairman, BHP Billiton

- The principles between big and small business are the same even though the numbers might be different
- Whatever the business size, you've got to be able to unleash the talent of those around you
- If you're going to lead people you must have principles which will encourage people to follow you
- I'm still reserved but I'm passionate about Australia and speak out on issues I care about
- Being tough doesn't resonate with me but I like having "adult conversations" with people. A sense of reason must prevail in such debates
- You need a good listening antenna to assess your weaknesses while you know your strengths

- There are still people I trust with a handshake. If the concept is right and the commitment is there you'll get the outcome you want
- Small business people are the salt of the earth and essential to Australia's future
- Trust your judgment in business but try to understand the consequences of your decisions

Track 2

MAKING CLIENT NEWSLETTERS EASY **Julianne Bell, Financial Writers Australia**

- Hundreds of accountants and financial professionals have a client newsletter for their business, but many don't have a clear understanding of how important it is
- The "humble" client newsletter is the most powerful and cost-effective marketing tool any advice-based business can use
- Always be clear about what you want to achieve from your newsletter. What do you expect it to do for your business?
- Plan each edition well ahead
- Decide how often you want to send out your newsletter and when. Pick a firm distribution date in your calendar for every month or quarter
- Allow at least 10 working days from when you start your research and writing to the distribution as an electronic newsletter. Printed versions will

take longer so allow extra time for design, printing and mailing

- Work out the different tasks required and delegate them among your team. Find a willing Project Manager to keep track of progress
- The most important thing is once you decide to send a regular newsletter, make sure you keep your promise
- You should never copy or even rephrase information which has already been published. You will be in breach of copyright which could cost you thousands of dollars

Track 3

COST MANAGEMENT STRATEGIES

Avron Newstadt CA, Expense Reduction Analysts

- The main objective is to obtain identifiable, measurable and sustainable results. This needs ownership, a project name and key stakeholder support
- The company needs to undertake: spend/supplier matrix analysis, risk analysis and supplier/vendor/market analysis
- The organisation needs to undertake and document a thorough analysis of the selected cost/s looking at : volumes, seasonality, existence

of current contracts, prices charged per unit of product or service supplied

- When was the cost last reviewed/priced/compared with the market?
- There are several ways to achieve an outcome, which will depend on the specifics of the cost category and the stakeholder requirements ranging from: negotiation with the existing supplier, consolidation of suppliers or running a tender
- Companies need an implementation plan presented before contracts are signed
- Ongoing monitoring and measurement must be in place to ensure savings are achieved as expected

Track 4

ECONOMIC UPDATE

Professor Neville Norman, Melbourne University

- The third Rudd Government/Swan Budget is upon us. Watch for: strongly revised economic forecasts, any claw-back in the stimulus packages, pointers to tax reform, and election-driven initiatives
- The Government will hope nobody kept last year's numbers

- The RBA has been ahead of the Government, the imperative being to get rates up early to quell excess aggregate demand
- The rate rise in April has been greeted by some extraordinarily unprofessional comments from some financial commentators, questioning that the rises are not gradual or required. They're wrong and show no sense of context
- Take a small-medium personal non-deductible housing loan of \$500k. Before the GFC hit in July-August 2008, standard variable bank home loan rates were 9.6%. Last year, such rates were at 5.8% Feb-September and have since risen to 7.2%. The GFC saved interest costs of 3.8%, or \$19k, and the rising rates since have taken back \$7k, leaving such borrowers still \$12k a year in interest in front
- For small business borrowers, let's take a \$1m loan at a prime bank rate. For the same periods the rates fell from 11.6% to 8.8%. Before tax, the GFC saved such business borrowers \$28k, and they are still \$15k a year ahead
- Now the real value of heeding BE advice. Based on the bogus forecasts of most economists and even the Rudd Government up to the May budget last year and beyond, banks were offering 5 year fixes at 6.2 – 6.5% during February –June 2009. If you took our advice and the bank offers, you would have saved \$190k in interest on a \$1m loan, if actual rates averaged 11%. That's more

than \$100k saving after tax, depending on your effective business tax rate

- I want to question slightly my own rate forecasts. In June 2009, my RBA cash rate forecast was 5.5% for June 30th 2010, when my colleagues ranged from 0.5% to 3.5%. Having been at 7.25%, the rate got down to 3% and is back to 4.25%. My number looks slightly high, but I'll stick with it for year-end. I cannot support 10% mortgage rate figures as credible for the months ahead, but figures like that and higher are already with us for corporate borrowers

Track 5

BE WARY OF BUNDLED PHONE DEALS **Dr Michael Schaper, ACCC**

- Bundled deals usually include a phone contract and offerings of bonus equipment which is often said to be free
- In fact, two contracts are involved, one of them with a leasing company for the “free” equipment
- The phone contract may end or change, but the equipment lease will continue
- Read the fine print, and ask lots of questions. Don't sign up on the spot

- Seek advice from the ACCC website or Small Business Helpline, the Telecommunications Ombudsman or Consumer Affairs Departments
- If you're still in doubt, check with your accountant or legal adviser. It's better to be wary first than sorry later

Track 6

SOCIALLY RESPONSIBLE PROCUREMENT **Jennifer Williams, Corporate Express**

- Socially responsible procurement is the sustainable and ethical sourcing of products, which enables a sustainable supply chain
- For Corporate Express, there are 3 parts to this: ensuring all suppliers meet a minimum level of environmental and social standards, offering customers environmentally-preferable product alternatives, and ensuring that our own operations promote sustainable practices
- No matter what the size of your company, applying common sense and conducting due diligence will allow anyone to implement socially responsible procurement
- Socially responsible purchasing can be done in a cost-effective way as long as the right approach is implemented

- While environmentally-preferable products may sometimes cost more to manufacture, this does not always have to be the case
- Start simple: think about how things are made, what they are made of and what you do with office supplies and business solutions once you have finished with them

Track 7

TAPPING INTO GOVERNMENT FUNDS

Adrian Spencer, GrantReady

- Approximately \$5billion is given out in grants to businesses by the Federal Government every year. That doesn't include discretionary grants
- Much of it goes to innovation such as R&D
- Many organisations aren't aware the money is there and often find out too late
- Our research shows that five new grants to business open every week and five others close
- It's important to know your eligibility. This includes company structure and knowing what the grant funds. Know your date of incorporation
- Then try to match your business with appropriate grants
- Writing an application is the tricky bit. You need to be clear and consistent and put forward a convincing case

- You're assessed on the merit criteria. Look them up
- Remember that grants don't fund businesses. They fund projects
- Always be clear about what project is and what you want it to achieve
- Remember there will be ongoing audits and reports
- Make a decision about who within your business can put time and focus into the grant process
- GrantReady can assist you through every step with as much or as little support as you want

Track 8

LEGAL TRAPS IN SOCIAL NETWORKING **Nicholas Pullen, TressCox Lawyers**

- The rapid growth of social networking is bringing extra legal problems for small business, especially in the area of defamation
- Think of yourself as a publisher, with the same obligations as someone producing a newspaper
- Make sure you have good filter systems in place to prevent dangerous material getting onto your Facebook or Twitter postings
- Check the sites every 24 hours so you can remove potentially damaging entries

- A number of cases have already come to court - it's a growing area of litigation
- The social media sites have legal obligations of their own about not accepting offensive material, but don't rely on that to protect you
- If you're in doubt, get good advice, and quickly remove anything that's likely to lead to legal action against you

Track 9

END-OF-YEAR TAX PLANNING

**Michael Jones CA, Cummings Flavel
McCormack**

- Aim to get your tax affairs in order well before June 30. Here's a checklist:
- Investment income will be taxed when you receive it
- Business income will be taxed on either a cash or accrual basis, depending on the nature of your business
- Deductions will apply to payments you have incurred or are committed to, not when you actually make the payment
- Pre-payment to bring deductions into the current year is much more limited than it used to be
- Look at options like revaluing your stock, reviewing your depreciation rates, checking the

tax rules on foreign exchange and making sure you've written off and recorded bad debts before June 30

- Check your capital gains position: the taxing point for capital gains is the date of entering the agreement to sell
- Have you taken unrealised losses into account?
- Make sure you have made correct interest and principal repayments of shareholder loans before June 30. The recent amnesty is over
- Taxation of trusts may be changed by ATO rulings this month. Watch for them, and ask us for advice if you need it

Track 10

SHAREMARKET UPDATE

Elio D'Amato, Lincoln Stock Doctor

- The recent resurgence has been very encouraging for investors
- Our strong domestic activity is one of the drivers of the resurgence. We have a strong resources sector, and education is booming which flows on to other areas like property
- What's holding us back? International uncertainty creates some pessimism
- I have four interesting stocks: iiNet, Tox Free Solutions, Horizon Oil and Codan Ltd

- Starstocks IN: TPG Telecom, Forge Group Ltd, Little World Beverages, Equinox Minerals
- Disappointing Starstocks which retain our confidence: Ramelius Resources, Credit Corp, Celestis, GUD Holdings, Kingsgate
- Don't be afraid if there is a mild correction. Valuations are creeping up to their real level