

Chartered Accountants

# Business **in focus**

Monthly audio program

## Why partnerships succeed – or fail

June 10

Greg Nathan

**The extras**



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**Executive Chairman**  
Michael Schildberger

This is a very special edition of Business in Focus and I'd like to tell you why. The interviews we bring you this month are of great value, of course. You'll hear our experts dissect the implications of the recent Federal Budget – so important as we head towards an election. You'll hear fresh insights about partnerships, including a highly successful enterprise which has grown to \$35 million in just 7 years. And we look at career management lessons from the Global Financial Crisis. We also probe cash flow management and how it can help firms gain a competitive edge, and some very positive thoughts on positive psychology in the workplace.

But this edition is special from my own personal perspective as leadership of this business moves from father to son. The succession process started last year when my father, Michael Schildberger, appointed me Managing Director of Business Essentials while he assumed the role of Executive Chairman. Now another big step has arrived as my father faces serious health battles and is no longer able to host the CD series. It's his wish that I fulfil the hosting in his place, and that's something I'm immensely proud to do. I'm lucky to have had such a skilled presenter as a teacher! As I accept this additional role, I'll be working hard to retain the great loyalty you've shown my father for such a long time. Our production team remains the same and we're dedicated to maintaining the same high quality of information which, we know, will benefit your organisation.

Please enjoy this CD – and a new full time voice to the series!

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Managing Director



**Managing Director**  
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## **CASH FLOW MANAGEMENT TO GAIN A COMPETITIVE ADVANTAGE**

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## **Track 1**

### **CAREER LESSONS FROM THE GFC**

#### **Peter Black, Peter Black Coaching**

- ~ People retrenched during the GFC went through the full spectrum of emotions – both at the time of being advised and through the transition process
- ~ Personal networks, good resumes and good interviewing skills were important factors leading to greater success
- ~ Some employers had a knee jerk reaction with a cost cutting mentality and recruitment freezes with less of an eye on the long term
- ~ Innovative employee strategies such as part time and extra unpaid leave were introduced
- ~ Employees now need to build financial independence, accomplishments, networks and skills
- ~ Employees should actively manage their own career – they should consider themselves a one person business that needs a strategy, research and development etc
- ~ Employers now need active performance management on an ongoing basis
- ~ Employers should think long term, develop creative strategies about the employment value proposition and communicate with care, honesty and a long term business focus

## Track 2

# **CASH FLOW MANAGEMENT TO GAIN A COMPETITIVE ADVANTAGE**

## **John King, AJK Consulting**

- ~ By managing Free Cash Flow and Capital Efficiency, a business is better able to take advantage of opportunities
- ~ Free Cash Flow provides the funds while Capital Efficiency determines how much cash investment is needed for growth
- ~ Free Cash Flow is the discretionary cash flow which is available to management from normal operations (after debt servicing and taxes)
- ~ Sustainable Free Cash Flow is the long term cash flow. Actual Free Cash Flow is the short term number, which includes major irregular items
- ~ Profit is the most important driver of Free Cash Flow after adding back non-cash items. The investment required to maintain the business, and debt servicing also determine Free Cash Flow
- ~ Self-Funded Growth is the growth which a business can fund from its Free Cash Flow, without requiring funds from lenders or shareholders.
- ~ A cash flow report which details the Free Cash Flow and investment required for growth can be easily designed to use information in the existing systems

## **Track 3**

### **THE ECONOMY**

#### **Professor Neville Norman, Melbourne University**

- ~ The Rudd Government now admits it misread the scene a year ago and botched its projections, especially for tax revenue
- ~ It's praising itself for producing a happier economic outlook this time
- ~ It's partly right – it underestimated the beneficial demand impact of its own stimulus packages
- ~ But the main reason it now predicts a return to surplus three years earlier is that it, and most economists, were excessively gloomy last time
- ~ Now it's banking on the resources boom continuing unchecked and Europe escaping a double-dip recession
- ~ For small business, rising interest rates, inflation risks and demand pressures from wages and suppliers can be expected, though some tax relief will come

## **Track 4**

### **TAX**

#### **Michael Jones, Cummings Flavel McCormack**

- ~ The Budget is not the Rudd Government's major forum for announcing and implementing tax changes, but there are some measures worth noting
- ~ On superannuation, there's clarity about the tax treatment of the ownership of property purchased by self-managed super funds – the fund's trustee will be regarded as the owner from the start
- ~ From July 1, 2011, the Commissioner of Taxation will have the power to re-allocate concessional and non-concessional super contributions which exceed the capped limits

- ~ There'll be legislation to simplify the tax treatment of earn-out arrangements when a business is sold
- ~ From July 1, 2012, employees will be able to claim a standard \$500 deduction to cover work-related expenses. It will increase a year later to \$1000
- ~ Look out for increased ATO activity on monitoring GST compliance – they've been given additional funds for that purpose

## **Track 5**

### **WHY PARTNERSHIPS SUCCEED – OR FAIL**

#### **Greg Nathan, Franchise Relationships Institute**

- ~ There are similarities between marriage and a business partnership – though it may be easier these days to end a marriage
- ~ During the honeymoon period, everything looks rosy, but reality hits when partners discover each other's bad habits, or resent being told what to do
- ~ Then, hopefully, comes realisation that both are in the relationship because it's commercially beneficial to them
- ~ Partnerships will fail if expectations aren't met, or if one party feels they're not respected and trusted
- ~ Frustrations and intolerance will also increase if one party feels the other lacks integrity or competence, or simply doesn't care
- ~ A clearly set-out contract can help define areas where problems may rise, and should be re-visited when problems occur
- ~ But the “psychological contract”, embodying concepts of fair play, trust and mutual respect can be just as important
- ~ Calling in the lawyers is an inefficient way of solving problems in a partnership - the money could be spent more productively on building the business

## **Track 6**

# **TECHNOLOGY SOLUTIONS SPARK MAJOR GROWTH**

## **Lior Rauchberger, Nuvo Solutions Group**

- ~ In the early stages we had to market ourselves without a track record to support us; now the business is growing organically, marketing is less necessary
- ~ Our strength was in providing a “turnkey solution”: one company responsible for all the cabling and installation work in a house or commercial building
- ~ This model was attractive to designers, architects and engineers and we pushed our competitive advantage aggressively
- ~ Now other firms have followed our example, so we have to keep adding new solutions to stay in front
- ~ We were able to survive the GFC because we’d already moved to concentrate on areas like gambling, health and education which could weather the storm
- ~ To win big contracts, we keep our pitch simple, concentrating on a few key points
- ~ But delivery is crucial: we’ve assembled a team of highly-skilled technical people to make sure the job’s done well at all levels
- ~ Finding A-grade people wasn’t easy at first, but now we’re seen as an exciting place to work
- ~ Technology keeps advancing: it’s now possible to control all the systems in a home or office from portable devices like the iPhone
- ~ Rapid growth can be hard to control: I know now that we should have made key management recruiting decisions earlier

- ~ Choosing the right business partner, with complementary skills, is essential: without a good working relationship the business will probably fail

## **Track 7**

### **POSITIVE PSYCHOLOGY IN THE WORKPLACE**

**Professor Peter Dingle, Murdoch University**

- ~ Positive psychology offers scope for enhancing satisfaction, motivation and productivity in the workplace
- ~ It improves workplace resilience and just as importantly staff morale
- ~ Don't wait for a problem to arise. Get in first with positive psychology in early training for employees
- ~ People embracing positive psychology concentrate on their strengths and become more productive
- ~ Encourage them to work on short term goals so they feel much better about themselves and their work
- ~ We can help employees empower themselves if we look for the positives from a mistake
- ~ Too many employers focus on what staff can't do. Concentrate on what they can do

## **Track 8**

### **INDUSTRIAL RELATIONS IN AN ELECTION YEAR**

**Joydeep Hor, Harmers Workplace Lawyers**

- ~ WorkChoices' centralisation of the industrial relations system under Federal control has been maintained by the Rudd Government
- ~ The major change in the Fair Work Act has been to re-establish collective bargaining and the award system and strengthen the safety net, at the expense of individualism

- ~ Some recent developments and judgements have challenged the simplicity of the new system, with employers often still unsure about flexible working arrangements and the award system
- ~ A recent agreement between McDonalds and its employees, supported by the union, was rejected by the Fair Work Tribunal
- ~ Employers who believed that the new system encouraged them to reach collective agreements with the unions will understandably be puzzled by such developments, and the government may be too
- ~ A coalition government might re-introduce some form of individual contracts, but with stronger safeguards than under WorkChoices
- ~ A re-elected Labor Government would probably come under pressure from the ACTU to do more to support them against employers who they claim have ignored unions and dealt unfairly with their employees
- ~ Employers need to comply with the law as it exists at any time, but ensuring you maintain a good relationship with your workforce can make any legislation less of a threat

## **Track 9**

### **SHAREMARKET UPDATE**

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

- ~ Volatility has always been a feature of the sharemarket – experienced investors will see it as an opportunity, not a threat
- ~ But investing requires desire, discipline and the time and tools to carry it through successfully
- ~ Don't be distracted by macro-economic factors – look at stocks from the bottom up
- ~ Strong, well-organised companies will survive external shock-waves and still prosper

- ~ Interest rate rises don't help the investing environment by increasing the cost of debt, but overall we're still in a low interest rate environment
- ~ Stocks of the month: CSL, iiNet, Ten Network, Forge Group, Tox Free Solutions and Westpac

## **Track 10**

### **THE TOUGHEST TASKS IN SMALL BUSINESS**

#### **Tim Reed, MYOB Australia**

- ~ The greatest challenge today is knowing which government legislation and compliance changes are relevant to your business. Such is the complexity of modern business life
- ~ Small businesses chasing debts owed by larger customers often feel intimidated and fear they'll lose the business if they're too demanding
- ~ But they shouldn't feel intimidated. A big company is unlikely to change suppliers if they're satisfied with the service they're receiving, just because someone wants to be paid on time
- ~ Poor office organisation and a reluctance to take on the task of debt-chasing also contribute to late payment problems in small business
- ~ Another major challenge is knowing what changes to make in order to develop – this mainly affects “young” businesses and those in an active growth phase
- ~ Good information is the key to making changes: if your internal information doesn't provide what you need, talk to your bookkeeper and accountant about better systems
- ~ For market information, talk to as many people as you can outside the business
- ~ Medium sized businesses have a particular problem with cash flow, often because they're trying to expand, and because banks have tightened their lending requirements

- ~ Business Activity Statements remain a challenge for new and small businesses – it's time the government simplified the paperwork
- ~ Our latest survey shows that in some areas – trade, construction, transport, retail – business confidence has slipped from where it was at the end of last year