

Don't let debtors drag your clients down

Roger Mendelson



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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 Snoch, 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.

Do you analyse how profitable your clients are to your practice? Business consultant Ric Payne of Principa tells us that 50% of clients don't add to accounting practices' bottom lines.

Louise Biti of Strategy Steps has advice on avoiding an excess contributions tax.

And Richard Day of Life & Business Leadership spells out how to "fight clean" in business.

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

Regards,

Nick Schildberger
Managing Director



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Media Production



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NUMBER ONE IN NUMBERS

Managing Director

Nick Schildberger

Advertising/Sponsorship

Nick Schildberger
nschildberger@be.com.au

Production Manager

Heather Dawson

Chief Editor

John Hounslow

Producer

Bob Kearsley

Studio Manager

Peter Letts

Publisher

Business Essentials Pty Ltd
ABN 98 006 144 449
405 Riversdale Road,
Hawthorn East VIC 3123

Phone 03 9882 8333

Fax 03 9882 8017

Web www.be.com.au

Information

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

ECONOMIC UPDATE

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

ARE ALL YOUR CLIENTS PROFITABLE TO SERVICE?

Ric Payne, Principa
T: 07 3257 7900
www.principa.net

MANAGING THROUGH A DRAWN-OUT RECOVERY

Michael Fingland,
Vantage Performance
T: 07 3229 5750
www.vantageperformance.com.au

DON'T LET DEBTORS DRAG YOUR CLIENTS DOWN

Roger Mendelson,
Prushka Fast Debt Recovery
T: 03 9874 5000
www.prushka.com.au

AVOIDING AN EXCESS CONTRIBUTIONS TAX

Louise Biti, Strategy Steps
T: 0419 207 164
www.strategysteps.com.au

PERSONAL SERVICES INCOME – CONTRACTOR OR EMPLOYEE?

Michael Jones CA,
Cummings Flavel McCormack
T: 03 9252 0800
enquiries@cfmc.com.au
www.cfmc.com.au

MAKING CONTRACTS WORK

Beverley Honig, Honeylight Enterprises
T: 03 9613 9945
www.honeylight.com.au

TAKING ON CHINA – AND WINNING

David Snoad, Pinz
T: 08 8244 7888
www.pinz.com.au

SHAREMARKET UPDATE

Elio D'Amato,
Lincoln Stock Doctor
T: 1300 676 332 or 03 9854 9444
www.lincolnindicators.com.au

"FIGHTING CLEAN" IN BUSINESS

Richard Day,
Life & Business Leadership Institute
T: 0418 177 868
www.richardday.com.au



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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

ARE ALL YOUR CLIENTS PROFITABLE TO SERVICE?

Ric Payne, Principa

- Time and billing systems in general use masquerade as practice management systems. Even those with the potential to provide useful management information are not generally used for that purpose
- A costing system for a service firm should be able to provide management with information relating to the profitability of different customers and different products or services
- It should also be able to be tied back to the firm's budgeting system and I would expect it to be able to be used in pricing decisions and for determining whether to accept or reject engagements etc.

- No matter what pricing method you decide to adopt you would be wise to know your costs. I have come across very few people in professional service firms who actually know their costs or show any real interest in them
- Your firm's P&L will obviously tell you whether the aggregate of your revenues exceeds the aggregate of your expenses but it tells you practically nothing else of any significance
- The vast majority of professional service firms are harboring unprofitable customers without even knowing it
- It makes sense to implement one or a combination of the following strategies: (1) increase the price of the service, (2) re-allocate lower cost resources to the work process, (3) reduce the cost of resources used through negotiation with suppliers, (4) seek to improve productivity of the work process, and/or (5) cease to service that client and redeploy the resources to more profitable work

Track 4

MANAGING THROUGH A DRAWN-OUT RECOVERY

Michael Finland, 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 5

DON'T LET DEBTORS DRAG YOUR CLIENTS 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 6

AVOIDING AN EXCESS CONTRIBUTIONS TAX

Louise Biti, Strategy Steps

- The amount that can be contributed to superannuation each year is capped. The cap amount depends on the type of contribution and the age of the person. If a person contributes more than the cap, an excess contribution will be determined and penalty tax applies

- The main mistakes include not understanding the rules and what is counted towards each cap. People forget to look at non-concessional contributions made in previous years and how this affects the bring-forward rule
- Non-concessional contributions are limited to \$150,000 in a financial year. But if a person was under age 65 at 1 July he/she can contribute up to three times this limit over a three year period
- Trustees need to accurately report contributions. This may include allocations from reserves in many situations
- Contributions count against the cap when allocated to the member's account. Contribution reserves can be an effective strategy to decide whether contributions made in June are to be allocated to the member in June or July and so can help to manage the assessment over two financial years

Track 7

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 8

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 9

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 10

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 11

“FIGHTING CLEAN” IN BUSINESS

Richard Day,

Life & Business Leadership Institute

- Commit to saying what you want to say in a respectful tone
- Never leave anything unsaid at the table
- Understand what your desired outcome is before you begin the conversation
- Ensure that the conversation remains respectful at all times
- Practice the “NICE” acronym:
 - N = Nothing
 - I = In Me
 - C = Cares
 - E = Enough (to tell you the truth!)

- Become aware of the power of the “encode” phase in communication as this is where all the power lies