



# Challenges of rapid growth

Chris O'Brien, Hungry Giant

Chartered Accountants Business in Focus  
Monthly audio program

November, 2010

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This month, making business simpler! Wouldn't that be nice? And it can be, if we listen to the advice of Ian Dover of the Simpler Business Institute. Ian's speaking on the topic at the Institute's Business Forum in Queensland in November and you'll hear a taste of what to expect here.

Also at the Forum, you'll receive advice on the important issue of continuous forecasting and strategy planning. Christopher Brown of WHK Horwath is presenting on this topic and he gives us some essential messages from his presentation on this CD.

Also on this CD, we follow the success of a young entrepreneur who's putting a whole new slant on the waste recycling business. Chris O'Brien tells us about the challenges of rapid growth as he develops his Hungry Giant into an industry leader.

January 1st next year marks the introduction of the important new consumer law that spans the whole country instead of individual states. There are important implications for small business and Dr Michael Schaper, Deputy Chair of the ACCC, spells them out for us.

We have our regular update on the economy from Professor Neville Norman, and Elio D'Amato of Lincoln Stock Doctor offers his thoughts on the state of the sharemarket, including the hype surrounding the forthcoming float of QR National.

And super. It's an important issue for everyone, and we examine two aspects of it this month: the alarming number of business people who don't have enough; and how self-managed super funds are being regarded in the light of the recent Cooper Review.

There's plenty to think about on this month's program. Enjoy!

Regards,

**Nick Schildberger**  
Managing Director



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## Information

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

### **MAKING BUSINESS SIMPLER – A REVOLUTION IN A COMPLEX WORLD**

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For details about the Institute of Chartered Accountants' Queensland Business Forum in November, call 1300 137 322.

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# THE ESSENTIALS

November 2010

## Track 2

### **MAKING BUSINESS SIMPLER**

#### **– A REVOLUTION IN A COMPLEX WORLD**

**Ian Dover, Simpler Business Institute**

- Businesses get overcomplicated because of product proliferation, expansion of IT systems, increasing management layers and growth of compliance with regulation
- The effects are to add extra costs which soak up profits and sap morale within the workforce
- Business simplification aims to restore profits and morale by cutting out the extra layers of cost
- Chartered accountants are adopting the principles to make their internal processes more efficient, and to pass the techniques on to their clients
- There are several simple steps to follow: focus on the key elements of the business and review them regularly; stick to one-page reporting; simplify monthly reports to produce them immediately after month's end
- Look for the “red flags” of over-complication: listen to your staff, who will pick up the warning signs, and watch out for slippage in profitability

- Remember the 80-20 rule: work on the few key things that have the greatest impact
- Get your people to bring forward solutions, not problems, by giving them a simple plan to work to
- Emphasise customer value: what benefits the customer benefits the business
- Work hard to remove the major blockages in your business processes
- Don't automate anything before you've simplified it first, otherwise you'll waste time and money

### **Track 3**

## **ECONOMIC UPDATE**

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

- There's a growing consensus among economists and analysts that the Australian economy is now back to "normal" levels – with several indicators showing a strong resurgence from the days of the GFC
- But not everything's normal – exchange rates aren't, which is bad news for exporters who don't have forward cover
- The Rudd Government's extended stimulus packages, which are still running, are creating "fiscal push" and adding to the risks of inflation
- And the third way in which things are not normal is that we're not in step with other world economies, which we would normally be as we came out of a downturn



- A lot of businesses are still in difficulty, especially in tourism. We're really experiencing stagflation – a combination of contraction in some areas and inflationary pressures in others
- The Government is not dealing with this: it will cause problems in 2011
- A useful way to determine whether the country, or a business, is in recession is to measure “count data” – volumes of sales, numbers of clients – not just dollar data
- I don't buy the technical definition of recession as two quarters of negative growth – all the real indicators showed that Australia WAS in recession early in 2009, though it recovered quickly
- Similarly, the definition would suggest that Britain and the US are now out of recession, when they are still well below their pre-slump levels of economic activity

#### **Track 4**

## **CONTINUOUS FORECASTING & STRATEGY PLANNING**

### **Christopher Brown, WHK Horwath**

- Continuous forecasting and continuous strategic review are two separate processes to monitor a business's progress. Both should happen on at least a monthly basis
- In business nothing stands still, and without constant testing of forecasts and plans it's impossible to know how you're travelling

- The key benefits are being able to adapt quickly to market movement, take advantage of new opportunities, avoid undesirable outcomes and make sensible investment decisions on, say, plant and equipment
- The two processes are related because forecasts are the financial extension of the strategic plan. Changes in one will be reflected in the other
- Doing one without the other may lead to an on-budget outcome, but the business will suffer from a lack of direction
- A review of forecasts should be undertaken mid-month, with a further one – and a review of the strategic plan as soon as possible after month's end
- Businesses can undertake these regular reviews “in-house”, but it's important to bring in key advisers on a quarterly basis to monitor progress and hold management accountable

## **Track 5**

### **BE READY FOR THE NEW CONSUMER LAW Dr Michael Schaper, ACCC**

- From January 1 we'll have one national consumer law and one national product safety regime, with the rights of consumers and the obligations of business standardised across the country
- Enforcement of breaches will also be clarified, and given extra strength

- There are currently 17 separate national, state and territory consumer laws, with provisions in other trading and business Acts which also apply
- Bringing all that together in one law will make it easier for businesses to comply and produce a level playing field across the whole country
- Regulators like the ACCC will get extra powers to enable them to deal with breaches in a more proportionate and balanced way
- Businesses will need to pay attention to three main areas: unfair contracts, consumer guarantees and best practice reforms
- The new law will be administered jointly by the ACCC and the state Consumer Protection and Fair Trade departments
- Action under criminal law and substantial fines under civil law will be available for major breaches
- There's also a range of powers for the ACCC, including public warning notices and infringement notices, to enable matters to be dealt with quickly without court action
- Help is available at [www.consumerlaw.gov.au](http://www.consumerlaw.gov.au) and [www.accc.gov.au/smallbusiness](http://www.accc.gov.au/smallbusiness)

## Track 6

# CHALLENGES OF RAPID GROWTH

## Chris O'Brien, Hungry Giant

- In two years, we've developed from a single-product company into one that's supplying total waste solutions for industry
- The waste industry is dominated by multinationals, and there's little innovation – we've found a niche market that's crying out to be serviced
- Every month in the last half-year, we've grown by 18 percent, more than doubling our business in that time
- The hardest thing is finding good staff who are passionate about the environment and want to be part of a dynamic enterprise
- We've now got to nurture the growth and make sure our new clients are being looked after
- I still love being out there pitching for business, but it's important that I oversee strategy and refining our products to meet the market
- Because we focus on continuing customer service, we get a lot of word-of-mouth referrals
- Most waste companies charge their customers on volume of waste collected. We isolate the waste that can be recycled and compact it separately at the point of collection
- That reduces transportation costs, increases recycling and creates a product that can be onsold

- We're aiming to build a plastics recycling plant, and raise venture capital to expand into other states and overseas. But it's one step at a time
- It's important to manage the basics of the business on a daily basis – cashflow, debt levels etc – but determination to succeed will get you through if you know your product and your market

## **Track 7**

### **DO YOUR CLIENTS HAVE ENOUGH SUPER?**

#### **Peter O'Toole, Portfolio & Wealth Management**

- Recent research shows that only 25 percent of business owners are satisfied with their retirement planning arrangements, and only one in three intends to invest more in super after retiring
- That reflects a lack of awareness of the advantages, through Capital Gains Tax concessions and other measures, of investing in super as people consider exiting their business
- There are complex rules, but for many small businesses most of the capital gain resulting from sale of the business can be invested in super or be tax-free
- There are also tax benefits from holding life insurance and death or disablement policies within a super fund

- People who simply rely on the proceeds of selling their business to provide for their retirement are overlooking the considerable tax advantages of super
- It's important to invest in super early on: don't leave it until you're close to retirement or you'll sacrifice thousands of dollars in tax benefits
- At least 2 years before you plan to sell the business, consult with both a financial adviser and your accountant about how to maximize the small business concessions available

## **Track 8**

### **A FRESH APPROACH TO SMSFs**

**Michael Jones CA, Cummings Flavel  
McCormack**

- Self-managed super funds are limited to four members, and each one must be a trustee or director of a corporate trustee
- The normal rules about prudential regulation don't apply to SMSFs, because the members are the trustees, but there is a complex set of rules to ensure that trustees do the right thing
- The Cooper Panel has approved SMSFs, but with some clear messages: focus on investment strategies and keep things simple
- There's also a change to the way penalties are applied to trustees for getting things wrong

- Previously, the only penalty the ATO could apply was to revoke the complying status of the fund, which had very dramatic tax implications
- The Cooper Panel has recommended a sliding scale of penalties, so more penalties will be imposed, but many of lesser severity
- The focus of penalties will move away from trustees to their advisers
- The panel also wanted works of art to be excluded from super fund investment, but the government rejected that
- However new rules governing storage of artworks mean you won't be able to hang them on your walls before you retire. And insuring them will be costly
- The panel has given interim approval but reserved its ultimate judgment on the question of borrowing by SMSFs, saying it will look at it again in 2 years

## **Track 9**

### **SHAREMARKET UPDATE**

#### **Elio D'Amato, Lincoln Stock Doctor**

- We're not enthused by the QR National float. We think it's over priced and not offering value
- The company has a high level of debt and that's expected to balloon by the end of 2012. Cashflow is not forecast to cover capital expenditure next year, let alone a dividend

- The market's experiencing a risk rally, with the appetite for risk returning, almost to the point of overheating. It's getting harder to find real value
- The US is still an uncertain factor, with "quantitative easing" – printing more money – looked to as a means of relieving the pain
- The telecommunications sector hasn't kept pace with the market rally. We like TPG Telecom which offers real value
- Among others, Wotif.com and Invocare both provide good opportunities for investors to buy in while their share prices are relatively weak

## **Track 10**

# **MANAGING MENTAL HEALTH ISSUES AT WORK**

## **Rhonda Andrews, Barrington Centre**

- Mental health covers a wide range of problems: anxiety, mood changes, hyperactivity, extended sleep disturbance, depression, leading to delusions and a loss of touch with reality
- It's a difficult area for business owners because the signs can often be very subtle
- Look for signs like decreasing concentration, loss of focus, fluctuations in output, uncharacteristic outbursts
- All companies should have their own employee wellbeing guidelines to conform with OH&S laws



- Individual cases must be handled with sensitivity – direct contact is the best way to open discussions and offer help
- We urge managers to look at the support structures people have both at work and at home, and encourage people to seek professional help
- If someone is showing extreme signs of not coping, there's support available from hospitals, crisis support teams, HR and psychologists
- Educating the workforce about problems that can arise is essential, as is having employee support systems and training managers to identify the warning signs and deal with them
- It can all start at recruitment, by identifying how resilient people are, and how they're likely to cope with workplace pressures