

Putting every experience to work

Warren Wilmot,
7-Eleven Stores



Chartered Accountants Business in Focus
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What's the main thing that makes a business owner or manager stand out from the pack? Talk to Warren Wilmot, CEO of convenience store chain 7-Eleven, who's overseeing a massive expansion of the group following a major acquisition, and he'll tell you it has a lot to do with learning from experience. He should know. Raised in the bush, he had a go at anything that came along – and every turn has helped him in his role now as head of one of Australia's largest private companies. In this program, Warren Wilmot explains why experience matters, and passes on his five personal tips for success in business.

As we put the holiday season behind us and get down to business, we hear from John McIlroy of Multiport, who looks to the future for SMSFs, the changes that lie ahead, and how accountants can accommodate those changes - and make a profit in the process!

And on the topic of SMSFs, tax expert Michael Jones of Cummings Flavel McCormack reminds us about an alternative tax effective way to invest in property in a self-managed fund. It's valuable advice for clients who'd like to proceed but who need to source additional funding.

Also on this CD, Douglas Hubbard, author of *How to Measure Anything: Finding the Value of Intangibles in Business*, tells us that everything that matters in business can be measured. You just need to understand how – and that can take a different mindset. He explains more from his offices in the US as a precursor to his presentation at the Institute's Business Valuations and Forensic Accounting Conference in Sydney this March.

Our regular economist, Professor Neville Norman of Melbourne University, weighs up the prospects for the Australian economy – including the business implications of the disastrous Queensland floods. And we examine "Futures Thinking" with Robert Burke, of Mount Eliza Executive Education at Melbourne Business School, about how to prepare our businesses, and those of our clients, so we can ride the bumps when they come.

All this and much more in this February edition, with plenty to think about as we head into a busy 2011.

Enjoy the program!

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BUILDING A BETTER SMSF BUSINESS

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Multiport will be sponsoring the Institute's
Public Practitioners Conferences
and Business Forums in 2011

HOW TO MEASURE ANYTHING: FINDING THE VALUE OF INTANGIBLES IN BUSINESS

Douglas Hubbard,
Hubbard Decision Research
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Douglas is the author of How to Measure
Anything: Finding the Value of Intangibles
in Business amongst other publications
and will be presenting at the Institute's
Business Valuations and Forensic
Accounting Conference in Sydney on
9 – 11 March 2011.
For details call 1300 137 322.

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WHEN THE BANK'S A SMALL BUSINESS TOO

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THE ESSENTIALS

February 2011

Track 2

Economic Update

Professor Neville Norman, Melbourne University

- Some shock developments already as we settle down to business in 2011 - particularly the devastating Queensland floods
- Putting the year in context, my assumption that we wouldn't need another Federal election is being borne out, and that's a good thing
- On the world scene: China is surging ahead; the plight of the debt nations may be exaggerated, but business and consumer sentiment are being dragged down; and most of the world is still in weak economic activity
- Looking at Australia from outside, it looks like a very good example of a survivor nation, and that's our reputation
- The Queensland floods will cause a reduction in economic activity. There will be some inflationary effects because of the damage to food supply and infrastructure, and insurance premiums will also rise, though re-insurance will temper that
- The effect on tourism may not be great because the Gold Coast and the Cairns area have so far escaped the worst of the damage
- Looking at economic variables, I expect our growth rate of just under 3 percent to continue

- Our exchange rate has been volatile against the US dollar, and I'd be wary of any confident forecasts for 2011
- I still believe there'll be more interest rate rises in 2011, with lending rates for small business heading towards 11 or 12 percent and mortgages around 9 or 10
- Stockmarket activity in 2010 was disappointing, but I believe we'll see share price increases in 2011 with profitability holding up well
- Overall, despite the devastation in Queensland, a very good economic outlook for business in 2011

Track 3

Building A Better SMSF Business

John McIlroy, Multiport

- There are 5 major influences in the SMSF space in the coming years that will impact on accountants and the service they offer clients:
 - The market continues to grow by about 2,000 funds per month. There are now 428,000 funds with \$390 Billion invested
 - Government changes emanating from the Cooper Review with mean additional education requirements for SMSF advisors, and auditors will need to be registered with ASIC and meet ongoing competency standards
 - The government review on the future of financial advice will likely remove accountants' exemptions on providing SMSF advice to clients
 - The tax office is getting tough on compliance
 - Clients are become more demanding of their service providers

- 50% of practices have less than 30 self-managed super funds. Practices need to assess whether they want to fully participate in this space given the additional education and other compliance processes that will be required costing time and money
- There's plenty of room for consolidation
- Practices could become more specialised, or look to partner with a licensed advisor, or team up with a SMSF provider such as Multiport
- The first question is: Are we making any money from our SMSF work?
- If the practice is concerned about jeopardising the client relationship, it should look to outsourcing the day-to-day administration of its SMSF work but retain the lodgement of tax returns. The practice could possibly team up with a financial advisor on a referral basis, or create a joint venture
- For practices with few SMSFs, the work doesn't generate high revenue or profits - consider outsourcing or partnering to find a good solution
- Multiport sits down with a practice to see what it wants to do with its SMSF work
- We could discuss limited licensing arrangements
- We can provide branded practice solutions
- Our education programs are available for those who wish to upskill to meet the new compliance requirements
- Or for those who wish to stop doing the work, we can discuss the purchase of a firm's self-managed super book
- So: Are you making money from self-managed super? Are you prepared to invest in time, money and resources to meet the new compliance measures, are your clients getting the service they want from you?

Track 4

How To Measure Anything: Finding The Value Of Intangibles In Business

Douglas Hubbard, Hubbard Decision Research

- Many business people facing big decisions will rely on intuition because they're afraid of losing control if they follow a mathematical model, but there are reasons to be sceptical about intuition too
- Decades of research now show that we react to random external events which have nothing to do with the decision we're trying to make
- My approach is to build decision models to evaluate the effect of available information on the desired outcome. If there is no likely effect, the information can be discarded
- The aim is to reduce the level of uncertainty by putting ranges and probabilities on the uncertainties surrounding the decision
- It's possible to learn the skill of calibration - successfully assessing the probabilities of any possible outcome
- You can measure your own level of skill by compiling a journal of predictions, together with your estimate of the odds of them coming true. Review your success rate
- Building a decision model is not much more complicated than preparing a cost/benefit analysis, but it will enable you to measure the variables in your decision-making process
- Then you're in a position to compute the value of additional information and its likely effect on your decision

- You'll need to learn a little about some statistical theory, but it's not as daunting as you might imagine. Software tools can help
- If something has observable consequences, it can be observed and then measured

Track 5

Future-proofing Your Business

Robert Burke, Mount Eliza Business Education

- The job of a leader is to provide three things: direction, protection (especially from external threats), and order and stability
- All three involve looking to the future
- Change may be needed, which often causes anxiety. "Futures thinking" helps navigate the anxiety caused by change, making the process more productive
- Futures thinking helps you clarify your vision
- The 4 quadrants to futures thinking: internal today, external today, internal tomorrow, external tomorrow
- Creating something better often means destroying what you already have
- Take little steps and let others buy into the process
- Leadership can be dangerous, but it's riskier not to take risks
- Innovation is more than bright new ideas, it's the implementation of those ideas, and that can take courage
- The "ideal" business: meets unmet ideas, finds out what people want, finds out how to add real value. It both enables and ennobles people - so they feel good about what they do
- It's essential that businesses continue to learn

Track 6

Putting Every Experience To Work

Warren Wilmot, 7-Eleven Stores

- Learning from every experience is important, both for business success and personal development, no matter what you're doing or where you're doing it
- Self-evaluation, by reflecting on why you're doing the job, what you achieved today and how it benefitted both the business and your career development, is invaluable
- Every experience I've had, from picking potatoes to working in restaurants, has taught me things I've been able to put to good use later
- Managing quick-service restaurants as a young man, in particular, brought great lessons in organisational skills, showing me how to treat people and to influence the fundamentals of a business
- I never set out to run one of Australia's biggest private companies - I fell into retail as I had into restaurants - but I've enjoyed every step of the way, and still do
- 7-Eleven's "Energise Everyone" campaign is a marketing tool, which has helped us to implement continuous improvement to meet changing customer needs and refresh our stores
- The increasing pace of change in retail means it has to be an unending process of investment. Balancing regular expenditure on modernisation with return is the challenge today
- For me, the biggest challenge of being a CEO - apart from keeping shareholders happy - was supervising people with technical skills I didn't have, which meant learning to ask the right questions and recruit the right people

- Some time ago, I developed 5 tips for success, and I think they're all still valid
- The first is to be happy with what you're doing. If you love your job, it shows and can lead to other possibilities
- Second, bring your team with you on the journey. It's no good striding out strongly if no-one's following
- Third, keep your shareholders happy. In a private company with only a few shareholders, you'll find out very quickly if they're grumpy about something
- Fourth, get the strategy right, so that the functional specialists in the business can develop the tactics and implement them
- And fifth, take action as soon as you can, even if you're not 100 percent sure. If you wait until the plan's perfect, you'll probably never get it done

Track 7

Measuring Staff Attitudes About Work

Laura Birley, People Dynamics

- We need to know what makes our staff tick
- During the GFC, employees tended to stay put but as we move beyond the GFC, they are now starting to look at their options
- Retaining the right staff is a key issue for employers - but don't be afraid to lose those who aren't right for your business
- It's very expensive to lose staff - it can cost up to 400% of an individual's package
- Direct costs include hiring and training a new staff member; then there are the hidden costs on morale and productivity and the cost of knowledge that walks out the door with the departing employee

- The greater the engagement level of staff, the greater their discretionary performance, which affects their relationship with customers, and turnover
- Find out if their hearts and minds are on the job or if they're just keeping their seats warm
- There are different ways of measuring staff engagement - eg the Hewitt and Associates Best Employers Survey or the Seek satisfaction and motivation survey. But for small businesses, one of the best ways is simply to ask employees what they think
- Don't think everyone is motivated by money - it's often 4th or 5th on the priority list. Appreciation, recognition, career development and being involved in decision-making are also very important
- If you want to check what the market is paying, look at seek.com or My Career which offer free salary benchmarking tools. Or contact an agency like mine
- There are free surveying tools available online eg Survey Monkey
- Ask your staff what they think, good questions will produce good answers
- Ideally the survey should be anonymous though this is difficult in very small businesses
- Share the results with staff, be authentic and truthful
- Make sure you do something with the results of the survey - otherwise it's a pointless exercise
- Rewards are important too
- Look at what staff are telling you and think how you can incorporate it into your business.

Track 8

Protecting Your IP And Brand

Paul Brennan, Brennans Solicitors

- Of the five areas of IP law - copyright, trademarks, patents, trade secrets and designs - small businesses should focus first on copyright. It's easy and cheap
- Be warned, a problem with copyright is that if you do anything good, people will want to steal it from you
- It's therefore a good idea to use the © icon, plus your name and date - make it clear to the outside world that you own it
- To protect your company name and brand, you need to take out a trademark - that means going through the registration process
- Beware of doing it yourself, it's easy to make mistakes
- Trademark registrations apply country-by-country and it's harder these days to protect yourself globally
- You can act very quickly if someone has stolen your trade secrets, eg your client list. A court injunction can be organised within a couple of days
- Businesses love to fight over names so be careful about ownership
- Plagiarism is also a common cause for dispute
- "Shared content" can also be grounds for a dispute. If you receive input from others to your idea or design and it becomes successful, those who believe they've contributed may come after you for a share of the proceeds
- Sometimes you can't avoid litigation to protect your brand or creative idea. But think carefully as it can be very expensive to have your day in court
- Often you won't even get your day in court. Matters will be decided at mediation - after thousands of dollars have been spent

Track 9

Funding Property In Self-managed Super

Michael Jones, Cummings Flavel McCormack

- Investment in property by a self-managed super fund is attractive because of the lower tax rates applied, whether the fund is in accumulation or pension mode
- Often the obstacle is that there's not enough money in the fund to finance a property purchase
- Contributions to the fund are limited if you're seeking a tax deduction for them, though members of the fund can contribute up to \$150,000 a year if they're not seeking a deduction
- But if you borrow the money to contribute to the fund, you won't be able to claim a tax deduction on the borrowing
- There's also the Limited Recourse borrowing opportunity, but that comes with strict rules and the banks are very cautious
- One of the limitations under Limited Recourse is that an SMSF can't borrow to improve a property, only to acquire it
- An alternative is to have an arrangement whereby the super fund and a related entity - a family trust, for instance - set up a unit trust and jointly buy the property
- It provides greater flexibility, though the family trust couldn't use the property being purchased as security for its borrowing
- The family trust will receive a tax deduction for interest paid on its borrowing, and the super fund can use its earnings from the property investment to progressively buy units from the family trust, eventually owning the property outright

- If the super fund is in pension mode by the time it owns the property and wishes to sell it, it will be in a tax-free environment
- But there are restrictions: the unit trust can not borrow, and that includes holding unpaid entitlements
- No charge can exist over the holdings of the unit trust, and - if it's residential property - it can't be leased to any related entity of the unit trust
- The unit trust cannot invest in any other entity, like a shareholding or investment in a managed fund
- The unit trust also cannot conduct any business, and all transactions must be at arm's length

Track 10

Sharemarket Update

Elio D'Amato, Lincoln Stock Doctor

- The New Year means a new reporting season
- We believe it will be predictable and ho hum
- This creates opportunities for investors, with surprises on the upside and downside
- In the lead-up to the reporting season, research your companies - then, once the reports have been announced, evaluate the results to assess which stocks should be in your portfolio
- Ask yourself; was there growth in earnings per share? Read the directors' comments, look at the outlook for the company and sector, what are the commentators saying?
- Then, evaluate the stocks on your waiting list to buy: if the company is financially healthy, growing, profitable, with good management at the helm, you are halfway there
- We believe the unloved sectors will surprise on the upside this reporting season, such as retail and

telecommunications. Stocks to mention: JB Hi-Fi and David Jones, iiNet, TPG, Macquarie Telecom, Amcom. Also worth mentioning: CSL, GUD, Western Areas, and Woolworths.

- On the downside, beware stocks with over-inflated expectations, including the materials and energy sectors
- The Queensland floods will impact on some companies operating in that State

Track 11

When The Bank's A Small Business Too

Mike Meynell, BOQ

- Owning the bank I manage makes a huge difference - every customer is an opportunity for business referral, so I go out of my way to make sure every customer experience is a good one
- I'm in a unique position in understanding my small business customers - I'm in small business myself
- My banking and finance experience over many years with a big bank has helped me manage my small business, while my small business experience helps me empathise with customers
- Like all small business operators, I'm very proactive in finding new business
- We still need to assess the viability of the businesses we deal with - our credit assessment tools and resources assist us - but we also have a good understanding of the local area and conditions
- I support the local community because these are the people who keep me in business. They become customers and friends
- Mackay is an innovative place and I keep an open mind about supporting new ideas

- I like to think I'll push the case for any of my customers if they have a sound proposition
- We look for a detailed business plan, experience in the field, capacity to repay the loan, prior repayment history, and security
- The current debate around banking competition can only be positive for banks like mine, especially BOQ - the levels of service offered by owner-managers is hard to match
- We're rarely the cheapest but service is very important - many people come to us after the frustrations of working with the bigger banks. I suggest customers look around in 2011