

Beware the business sale tsunami

Michael Fingland,
Vantage Performance



Chartered Accountants Business in Focus

Monthly audio program

March, 2011

charteredaccountants.com.au/training



**Chartered
Accountants**

NUMBER ONE IN NUMBERS



Can you imagine a working regime without billable hours and the inevitable time-sheets that go with them? Many people in professional accountancy firms can't. After all, it's how things have always been done. But why so? asks Ron Baker of the VeraSage Institute in the United States, who's made it a life-long mission to persuade professional firms that they'd be a lot better off without them. Ron Baker's written a new book on the topic and presents his radical views on this CD – with plenty of food for thought.

Another important topic this month: what will happen as thousands of baby-boomers reach retirement age and put their businesses up for sale? Michael Fingland of Vantage Performance has some cautionary words of advice as he predicts a glut on the market - a veritable tsunami, he calls it - as the next generation chooses not to enter the family business and succession plans crumble.

With a different take on "how things are always done", you'll be interested in our interview this month with Steve Simpson, of Keystone Management Services, on his "UGR" concept - the "unwritten ground-rules" that govern how employees feel about the company they work for. Watch out, Steve says, as he reveals a big gap between the negative views of employees and the rose-tinted view of life at managerial level.

You'll also hear some valuable legal watchouts on the use of social media in the workplace; and for inspiration, we turn to Emma & Tom and their fruitful partnership in a fruit juice company of the same name.

Plus, two important tax topics this month, both of which will be presentations at the Institute's Tax Conference on the 6th to 7th April in Melbourne. We discuss the streaming of trust distributions. And we move from the Bamford case to Clark, which raises important perspectives on the continuity of the Trust Estate.

I trust you'll enjoy this month's mix of interviews,

Nick Schildberger
Managing Director



Business Essentials
Media Production



Chartered Accountants

NUMBER ONE IN NUMBERS

Managing Director

Nick Schildberger

Advertising/Sponsorship

Nick Schildberger
nschildberger@be.com.au

Production Manager

Heather Dawson

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 March 2011 program, please contact the relevant organisations listed below.

THE FIRM OF THE FUTURE: A RADICAL BUSINESS MODEL FOR PROFESSIONAL FIRMS

Ron Baker, VeraSage Institute
www.verasage.com

ECONOMIC UPDATE

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

Beware the Business Sale Tsunami

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

STREAMING OF TRUST DISTRIBUTIONS

Alexis Kokkinos,
Pitcher Partners
alexis.kokkinos@pitcher.com.au
www.pitcher.com.au
Alexis will be speaking at the Institute's Tax Conference in Melbourne on 6-7 April. For further information please contact the Institute on 1300 137 322

CAN YOU SAFELY AMEND TRUST INSTRUMENTS POST BAMFORD?

Damien Bourke, Ernst & Young
damien.bourke@au.ey.com
www.ey.com/au
Damien will be speaking at the Institute's Tax Conference in Melbourne on 6-7 April. For further information please contact the Institute on 1300 137 322

ARE YOU AND YOUR CLIENTS SOCIAL MEDIA SAVVY?

Joydeep Hor,
People+Culture Strategies
T: 02 8094 3100
www.peopleculture.com.au

HOW "UNWRITTEN GROUND RULES" COULD WRECK YOUR BUSINESS

Steve Simpson,
Keystone Management Services
T: 07 5530 1465
www.ugrs.net
www.steve-simpson.com

TAX UPDATE

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

SHAREMARKET UPDATE

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

FORGING A FRUITFUL PARTNERSHIP

Tom Griffith and Emma Welsh,
Emma & Tom's
T: 1800 112 889
www.emmaandtom.com



Training and Development – at your fingertips

Keep abreast of the latest development in business and tax in your car, at your desk, or even on the bus!

Your annual subscription will consist of monthly audio updates either on hot topics in business or the latest tax news.

You can choose to have your subscription delivered each month on CD or online. The online version has an optional MP3 download capability enabling you to keep up-to-date via your iPod®, compatible mobile phone, PDA or any other MP3 device.

Business in Focus/ Tax in Focus Subscription



Subscription Form

Personal details

I would like to subscribe to Chartered Accountants Business in Focus and/or Tax in Focus:

Family name	First name					
Company name	Position					
Address						
City	Country	Postcode				
Telephone	Fax					
Email	Member No.					
Age group	18 – 25 <input type="checkbox"/>	26 – 35 <input type="checkbox"/>	36 – 45 <input type="checkbox"/>	46 – 55 <input type="checkbox"/>	56 – 65 <input type="checkbox"/>	>65 <input type="checkbox"/>
Type of business	Number of employees					

Subscription Pricing

Product

- Business in Focus – Online
- Business in Focus – CD–Rom
- Tax in Focus – Online
- Tax in Focus – CD–Rom
- Business in Focus + Tax in Focus – Online
- Business in Focus + Tax in Focus – CD–Rom

Payment options

Please find enclosed cheque made payable to Business

Essentials Pty Ltd for \$ _____

OR I wish to pay by

- Amex
- Mastercard
- Visa

Cardholder's name _____

Card number _____

Expiry ____ | ____

Signature _____

- To unsubscribe from further communication relating to Training & Development products tick here.

The Institute of Chartered Accountants in Australia respects the privacy of individuals and acknowledges that the information you provide on this form is protected by the Privacy Amendment (Private Sector Act) 2000. The information collected by the Institute is used for the purpose of processing your registration and providing you information (via email and/or mail) on upcoming events, specific products and services provided by or associated with the Institute.

To access a full copy of our policy visit: charteredaccountants.com.au/privacypolicy.

Australian Prices

Members	Non-Member	Members	Non-Member
<input type="checkbox"/> \$375	<input type="checkbox"/> \$475	<input type="checkbox"/> \$340	<input type="checkbox"/> \$430
<input type="checkbox"/> \$445	<input type="checkbox"/> \$545	<input type="checkbox"/> N/A	<input type="checkbox"/> N/A
<input type="checkbox"/> \$375	<input type="checkbox"/> \$475	<input type="checkbox"/> \$340	<input type="checkbox"/> \$430
<input type="checkbox"/> \$445	<input type="checkbox"/> \$545	<input type="checkbox"/> N/A	<input type="checkbox"/> N/A
<input type="checkbox"/> \$635	<input type="checkbox"/> \$835	<input type="checkbox"/> \$577	<input type="checkbox"/> \$759
<input type="checkbox"/> \$795	<input type="checkbox"/> \$995	<input type="checkbox"/> N/A	<input type="checkbox"/> N/A

Overseas Prices (Exclusive of GST)

Please send your order details to:

Free Post

Send this form, accompanied by a cheque to:

Business Essentials Pty Ltd

Reply Paid 579

Hawthorn East, VIC, 3123

Australia

Free Fax

1800 656 351

Free Call

1800 039 098

Please Note: Upon payment this notice becomes a tax invoice. Please retain a copy for your records.

Business Essentials Pty Ltd ABN 98 006 144 449
405 Riversdale Rd Hawthorn East VIC 3123 Australia

The Institute of Chartered Accountants in Australia. Incorporated in Australia
Members' Liability Limited. ABN 50 084 642 571. 0709-22.



In-house Training that really measures up

For tailored In-house Training that provides your business or practice with a competitive edge – turn to the experts at the Institute of Chartered Accountants in Australia. We offer customised training in three main areas – technical, general business and people skills.

Visit charteredaccountants.com.au/inhouse
or call 1300 137 322 to find out more.



**Chartered
Accountants**

NUMBER ONE IN NUMBERS

THE ESSENTIALS

March 2011

Track 2

The Firm Of The Future: A Radical Business Model For Professional Firms

Ron Baker, VeraSage Institute

- The death of the billable hour and the time-sheet in professional services firms may not yet be in reach, but it is within sight
- Customers buy value and results from their accountants or other service providers, not their time. The current hundred-year-old business model is seriously flawed
- It's built around revenue, but having revenue merely for the sake of growth is the ideology of the cancer cell, not of a viable, profitable business
- The way we measure the efficiency of chartered accountants in our firms are also out-of-date. We need metrics that focus on outputs and results, not inputs and activities
- My model starts with profitability, not revenue. It's about getting better business, not more business
- It's also about the profitability of the client, over a lifetime relationship with the service provider
- Instead of leveraging time and people, we want to reach the point where we're leveraging intellectual capital, knowledge that can be converted into profit

- We also focus on effectiveness, not efficiency. I wouldn't want an efficient heart surgeon, I'd want an effective one
- And we want firms to quote prices upfront, not hourly rates, because that's what their customers understand and want. It's an economic law we avoid at our peril

Track 3

Economic Update

Professor Neville Norman, Melbourne University

- Physical events - like snowstorms in the UK and floods in Australia - can hold back consumer spending in ways that economists often don't take into account
- Despite the effects of those physical events, my outlook for 2011 is still broadly the same as in January, though I'm not as bullish as some economists (the ones who were depressed last year) have now become
- Inflation is going to be higher at around three percent, and activity growth softer but still at two-and-a-half to three percent, though there'll be big differences in individual sectors
- Effects of the floods and cyclones are generally not lasting, but there will be an incredible boost to the construction industry and a further demand for skilled labour, which immigration will help to meet
- Exchange rates will continue to be strong, and China will still be a powerful influence on our economy. Unemployment rates and national debt can safely be ignored

- With both positive and negative factors in play, interest rates may not rise much further this year. The time for locking rates in has now passed
- After a year of political upheaval, the Gillard government can be expected to remain in office, but the May Budget may well be a "stinker"
- Because a return to budget surplus is now likely to be delayed by a year or more, the government has time to tighten the belt, with expenditure cuts and tax increases. Expect a very conservative Budget
- But after 6 months in the UK, I'd much rather be running a business here than there!

Track 4

Beware The Business Sale Tsunami

Michael Fingland, Vantage Performance

- Businesses will suffer while their owners wait in hope that the next generation will overcome their reluctance and join in. In most cases, they never change their mind
- If they are persuaded to take on the mantle but don't have either the training or commitment, the business will soon start to under-perform
- We're already seeing an increase in the number of baby-boomer businesses up for sale, and that will turn into a tsunami over the next five years
- The increase in supply will put downward pressure on prices, and many businesses will not be "sale-ready" and therefore difficult to sell at all. It will be a buyers' market
- So it's important to start preparing for sale one or two years out. Make sure your systems and controls are robust, and your business plan well laid-out and working

- Growth and earnings need to be consistent, and the business should feel like it's ready for sale
- An advisor or mentor can play a valuable role whether you're handing the business on to family members or preparing it for sale
- In the first case, a mentor can help family members understand what they're taking on and how the new arrangements should be structured
- Most business owners won't have sold a business before. External advice can help them identify the gaps that need fixing before they go to market
- Savvy potential buyers will look beyond a simple P & L approach to find the systems and controls that will help them minimise perceived risk
- Baby-boomers who've run their businesses for years in their own way may not be up with the technology and the modern business systems that buyers will look for
- If your business doesn't stand out from the pack, you're going to find it hard to attract buyers at the price you want in such a competitive market
- And, in the worst case, if you're depending on the sale to finance your retirement plans, you may find yourself with very little to show for all your years of hard work. So thorough preparation is essential

Track 5

Streaming Of Trust Distributions

Alexis Kokkinos, Pitcher Partners Advisors Pty Ltd

- There have been a number of significant developments concerning trust distributions over the past 6 to 12 months, one of the biggest an

announcement in December of a government review

- It follows uncertainty over the taxation of trusts that has arisen out of some recent cases - in particular, Bamford, Thomas and the Colonial decision
- Two issues have arisen: what is the definition of income from a trust for distribution purposes, and whether it's possible to stream different classes of income from a trust
- The ATO has flagged that it is looking at publishing draft rulings on both issues by June 30 this year. Any changes in the ATO's current approach will have implications for the tax paid by trust beneficiaries on the distributions they receive
- The Bamford decision, in which the court supported the taxpayers, provided a degree of flexibility about the definition of income. The ATO may want to set boundaries
- The decisions in Thomas and Colonial offered differing views on how some categories of income, like imputation credits, should be treated for tax purposes. The ATO will want to clarify that
- In the wake of Bamford, the ATO is developing a view that would rule out streaming of trust income, which would create some equity - as well as taxation - issues
- These new views, and whatever results from the Assistant Treasurer's review, could have a significant impact on trust distributions for this financial year, so taxpayers will need to keep themselves informed

Track 6

Can You Safely Amend Trust Instruments Post Bamford?

Damien Bourke, Ernst & Young

- Because of differing opinions on the Full Bench of the Federal Court, and an application by the Commissioner of Taxation for an appeal, the long-running Clark case will now go to the High Court
- It's also produced an important evidentiary distinction, putting paid to the ATO notion that you must be able to produce every last document detailing a transaction in order to prove a case
- The case revolved around arguments as to whether a trust had been wound up, or replaced by another trust arrangement which ensured continuity
- Trustees who are contemplating making changes to Trust Deeds to reflect changes in the property underlying the trust, or membership of it, should exercise care about what they can do, and whether changes are possible
- Because the ATO rejected a number of offers from Mr Clark to settle the case, and the court ruling produced a lower outcome than the offers, the Commissioner has been ordered to pay his costs in full

Track 7

Are You And Your Clients Social Media Savvy?

Joydeep Hor, People + Culture Strategies

- The main risks for employers concerning employee use of social media derive from uncertainty about where the boundary lies between what is the workplace and what isn't
- With employees connected via social media to co-workers, suppliers, customers etc, there's a risk of conduct that could bring the employer into disrepute, or be defamatory of a co-worker, or involve harassment or bullying
- The immediacy and informality of social media serve to increase the risk
- Recent cases have highlighted the risks that high-profile people can run by injudicious tweets to a wide audience.
- Unfair dismissal cases are pointing up the need for employees to be careful about making derogatory comments on social media about their workplace or employers, even in their own time
- And unflattering remarks or images concerning co-workers can raise issues of harassment or bullying, even if they're on an employee's own Facebook page. That can quickly become a problem for employers
- Employers need first to determine how important social media are to their business, by way of contact with clients, customers and suppliers
- They then need to develop a policy which covers employee use both while they're at work, on company computers, and in their own time

- The challenge is to educate employees about the need, whether in working hours or not, to conform to the company's standards of appropriate behaviour at all times
- Some employers have already run into IR difficulties in trying to meet that challenge. Careful explanation is required, and "buy-in" from unions will help
- It's important to explain the "why" of the policy as well as the "what", with presentations, training sessions and good follow-through
- Managers must lead by example through their own behaviour, and also be able to demonstrate that, where breaches of the policy have occurred, appropriate action has been taken

Track 8

How "Unwritten Ground Rules" Could Wreck Your Business

Steve Simpson, Keystone Management Services

- Many businesses have UGRs - unwritten ground rules - which are rarely talked about, but are assumptions which define how staff behave towards customers and managers
- Often they're counter-productive, working against what the management is trying to achieve
- Anonymous surveys asking lead-in prompts like: "Around here, when decisions have to be made..." or "Around here, customers are..." can help create a UGR Stocktake, which is often surprisingly negative

- Leaders in a business often see its culture more positively than do middle managers, who in turn are more positive than non-managers
- Our research shows that most people with negative UGRs don't want it to be that way, but have given up hope of things changing. What's needed is a circuit-breaker, led from the top, to show them that things can change
- Negative UGRs work against performance and productivity, so it's worth putting effort into correcting the situation
- We've found that UGRs are most often either created by leaders in the business, or allowed by them to exist, so it's important to look at your own behaviour and measure words against actions
- Define the "key cultural attributes" that you want if your business is to succeed, share them with your staff, and develop positive UGRs from them

Track 9

Tax Update

Michael Jones, Cummings Flavel McCormack

- Since July 1 2007, superannuation contributions have been subject to limits if they're only to be taxed once. Contributions higher than the limits are subject to Excess Contributions Tax
- If you're within the limit for deductible contributions, the super fund will pay tax at 15 percent. If you exceed the limit, an extra tax of 31-and-a-half percent applies
- The excess contribution will also be regarded as a non-concessional contribution, and if you then also breach the limit in that area, you get a further tax of

46-and-a-half percent. In all, a tax rate of an incredible 93 percent

- The Commissioner of Taxation can exercise discretion where the excess contribution is accidental, but is not well disposed to doing so because the ATO wants people to be fastidious in managing their super schemes
- Approaches to the ATO on this subject have been unsuccessful. Their view is to suggest getting the government to change the law
- On another topic, it's important to remember that if you're hiring a contractor through a business to provide labour, whether physical or intellectual, then you're liable for payroll tax and workcover premiums
- There are half a dozen exemptions, the main ones being if the contractor is hired for 90 days or less, or if the work requires two or more people
- March 31st is the end of the FBT year. Check the number of kilometres you've travelled. By driving more now, you may be eligible for a lower tax bracket
- FBT is levied at 46-and-a-half percent. It may be worth making a contribution to your employer which could bring down the amount of tax you pay
- It may also be worth keeping your leased car for a further year. The valuation of the car for FBT purposes is reduced by a third if you retain it beyond 4 years

Track 10

Sharemarket Update

Elio D'Amato, Lincoln Stock Doctor

- The recent storms, floods and cyclones have taken their toll on the insurance, agriculture and mining industries, though the huge demand for coal will probably help get mining infrastructure up and running again quickly
- Agriculture is a major problem, with food price inflation already a worldwide concern, and now supply from Australian farms taking a major hit
- Woolworths and Wesfarmers are locked in a struggle to undercut each other's farm produce prices, but it's difficult to see where the savings to fund that will come from
- It's not the time now to bail out of the troubled sectors: look for opportunities instead. Insurance companies and coal stocks are already beginning to rebound after having been sold down when the storms hit
- The company reporting season has thrown up some drama, as always, with a number of Star Stock movements
- GUD just failed to meet our target for growth in earnings per share and Navitas is facing a decline in the numbers of overseas students coming to Australia
- An inclusion: Euroz Limited, a small financial services company based in Perth, providing good returns for the income-seeking investor
- Several companies have produced good results but still disappointed the market. ResMed, supplying sleep apnoea treatments is one

- Other strong performers include JB HiFi, Cochlear and Forge Group, which is repaying investors for the faith they've shown in it
- Retail continues to be a mixed story, with successes like JB and Super Retail, while Myer and David Jones have both taken a hit
- But mining goes from strength to strength, with companies like Horizon Oil producing excellent results

Track 11

Forging A Fruitful Partnership

Tom Griffith and Emma Welsh, Emma & Tom's

- We'd known each other for a long time while pursuing separate corporate careers, but felt we had a strong basis of experience, friendship and trust on which to build a successful business partnership
- We deliberated long and hard over the business name, choosing one which reflects the fact that we're real people running a real business
- Our marketing has, from the start, been aimed at cafes and delicatessens. Many of the owners are people like us, in small business. The supermarkets handle huge volumes but we don't have the market power of big suppliers, so it would be more risky
- We also save on advertising - cafe and deli owners like our product and recommend it to their customers, who then feel they've discovered it for themselves
- At first, we went door-to-door selling to outlets and sponsored a couple of cycling events, giving away the product as promotion

- The relatively short shelf life of the product (up to a month in refrigeration) we see as a positive. It's fresh and it's mostly sold within a week
- Like all people starting up in business, we faced challenges and made mistakes. We were short of capital, we had difficulties with bottlers and distributors and we sometimes over-produced
- But by dealing with the problems ourselves, and learning as we went along, we're now better business people and do as much as we can ourselves
- We've found that bringing consultants in for extended periods hasn't worked, though having a fresh pair of eyes look at the business from time to time is helpful
- Now we're growing fast, we face new challenges: more staff, more systems, more vehicles. But it's exciting to stay on top of it
- We recognise that, as the business changes, we need to change with it, developing the skills to run a bigger business