

BusinessPlus+ Newsletter



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Issue – February 2015

2016 Will Be A Challenge

At the end of 2015, many people were asking: where is the Australian economy going?

Around the country, some areas and some businesses are performing better than others.

- There has been sluggish growth and no recession.
- There was no official cash rate increase during the year – at the end of the year, the Reserve Bank's cash rate was 2%.
- The downturn in oil and some resource prices put a dent in some segments of the economy.
- The government is copping some criticism at present for not being more proactive in addressing taxation reform.
- Exchange rates will continue to fluctuate and AUD vs USD is expected at around 72cents.
- There have been plenty of political comments on superannuation. A number of economic experts believe that there will be no changes in the government's treatment of superannuation during 2016.

Economic forecasts made by a number of economists suggest that 2016 performance will be as follows:

	2016 Forecast	2015 Actual
Rate of economic growth	2.3%	2.2%
Rate of inflation	2.4%	2.2%
Budget deficit at the end of December	\$55B	\$45B
Cash rate maximum during the year	2.25%	-

For small businesses, 2016 will bring some challenges:

- There are very low interest rates.
- There's likely to be a continuation of low petrol prices.
- At this stage, it would appear that the Australian government will be stable and the Turnbull government will probably be re-elected later this year.
- As always the ongoing working capital investments will be very important for small business operators, relating to debtors, stock and work in progress.
- It's pleasing to see record numbers of Chinese tourists coming to Australia, as they will significantly add to the economy.
- It is predicted that, in the current Lunar Year period, over 225,000 Chinese citizens will visit Australia. Many small business operators should be able to benefit from this influx of cashed-up customers who are only here for a very short time and, according to various reports, are intent on shopping and sampling food products whilst in Australia.

The Federal government's Innovation Package should be legislated over the next few months, to ensure commencement from 1st July 2016 of the new capital raising initiative that the government has announced for crowd funding investments, investments that investors will obtain a 20% tax rebate on their investments and Capital Gains Tax free status for up to 10 years (as long as the investment is held for a minimum of 3 years). It will certainly be an interesting year for businesses that have developed new technology, products or services, that wish to attempt to raise capital.

If you have any questions relative to planning your business' performance for 2016, please don't hesitate to contact us.

Cashflow Management – Vital

The beginning of the year is a good time to revisit the cashflow controls that you've introduced within your business.

Debtors

You need to ensure that the administration for the opening of accounts for new customers in your business is being closely supervised, to ensure that you're not just attracting someone else's problem customers.

It's a good idea to establish the credit worthiness of each customer. You can subscribe to services that Dun & Bradstreet provides, which will assist you with getting credit worthiness information on your potential and new customers. You need to determine the Terms of Trade and make sure these are communicated to your new customer.

It's a good idea to be very conscious of the impact of the Personal Property Securities Register (PPSR). To do this, you need to ensure that you have Terms of Trade Agreements and Retention of Title Agreements that have been drafted by a solicitor after 31st January 2012. Send these documents to your new customer, requesting them to sign and return the documents to you before any sales are made. The decision then needs to be made within your business on whether you're going to proceed with a registration of the new customer on the PPSR.

Another key aspect of cashflow management is to ensure that the debtors are invoiced promptly and that the invoices are being dispatched to your customers as soon as they're prepared. This time of the year is a good idea to review how easy you've made it for your customers to pay you. Can customers pay you by electronic banking or credit card? Are you still relying on cash and cheques? Most businesses have found it's a good idea to offer a number of payment options to customers, to ensure that you get paid promptly.

With a new customer, it's always a good idea to consider whether you're going to ask for an upfront deposit.

Are you receiving details of your debtors' days outstanding each month? Are you reviewing your debtors' days analysis and issuing prompt follow-up action against any debtor who's not paying you in accordance with your Terms of Trade?

Inventory

- How much money do you have tied up in your stock (inventory system)?
- What's your stock turn rate? Could it be improved?
- How much investment in stock did you budget for?
- What do you need to do to reduce your investment in stock?
- Are you building up old, out of fashion and damaged stock? If so, should you be giving consideration to holding "sales" to liquidate those items in stock as soon as possible so you return cash to your business?

Cashflow management is vital for business success. Some of the ways you might be able to improve your cashflow performance is to negotiate longer payment terms with your suppliers.

If you would like some assistance in a review of your cashflow position, please don't hesitate to contact us.

Leadership

One of the biggest challenges for business management is the development of appropriate leadership strategies for a business.

Various studies have indicated that the most important element in improving productivity is leadership. Well-led organisations are 12% more productive and up to 3 times more profitable. Higher performance is created through quality and inclusiveness of leadership, as well as innovation. Leaders have the greatest impact on productivity and profitability at all levels.

Participation and involvement in key decision-making processes makes employees feel valued.

In March 2010, the late Don Argus, former chairman of BHP Billiton and CEO and the National Australia Bank (NAB), said:

"The successful leaders of today must understand their power rests with the people for whom she/he is responsible. To tap that power, the leaders must abandon the old baggage of dominance, control and self-centredness."

In 2015, there is no doubt that leaders need to be decisive and firm and they must also develop the people skills that enable them to create the environment, irrespective of management level, in which their team members work willingly together to support the mission and achieve common goals. The best outcomes and long-term successes come from leaders working with and through others. Old ideas of achievements simply through command and control by a dominant hierarchy have lost their effectiveness and relevance.

The challenge for leaders is to review your own leadership, the strengths and abilities of your managers and encourage all of your team to participate in leadership development activities.

If you would like to view a presentation on developing SME leaders, presented by The Leadership Academy, [click here](#).

Insurance For SMEs

Small/medium enterprises need a properly constructed insurance portfolio. To enable this to be done, you will need to identify business risks that apply to your business.

Insurance brokers are a very important member of the “insurance system” for small businesses to utilise. The insurance broker represents you as the small business operator. You need to tell your broker everything about your business so that they clearly understand the risks that apply to your business. The insurance broker will give you advice – you need to remember that insurance companies are not required to give you advice.

The main insurance policies for small/medium enterprises identified by insurance brokers include:

- Public Liability
- Professional Indemnity
- Product Liability
- Workers’ Compensation

Most small businesses have public liability covers of around \$20M.

Product liability is very important for businesses producing products.

Professional indemnity is important for anyone who is supplying professional services (eg lawyers, doctors, engineers, accountants) and shouldn’t be confused with public liability.

If you have businesses operating in different states, you need to take out separate Workers’ Compensation policies in each of those states.

When reviewing your insurance policies, look very closely at the exclusions and make sure you’re happy with the items excluded.

When signing up for an insurance cover, you have a duty of disclosure, which includes:

- details of any insurance that has been declined or cancelled
- information as to whether the applicant has ever been declared bankrupt
- information on whether any claims have been made by the applicant in the past
- details of any exceptional circumstances relative to the risks which may affect the insurer’s decision as to whether to offer the insurance cover to the applicant

The more information you give, the more likelihood of “less perceived risk”, which will lower the insurance premium.

The premium is determined on things such as:

- the nature of your business
- the location of your business
- size of your business
- claims history
- types of cover your business requires
- sums for which your business is insuring

Why would you use insurance brokers? Insurance brokers save time and money and provide peace of mind from dealing with professionals acting for your business, so that you get the right insurance at the right price. Insurance brokers provide expert knowledge and advice and they provide a great service.

You should be including your insurance costs in your budget. Remember that you can pay most insurance premiums monthly.

Another important service that insurance brokers can bring is an “Industry Risk Review” for your type of industry. This will assist you in planning the risk management plan for your business.

Insurance is something that every business needs. It could be quite costly; however you need to ask a question: *can your business afford to wear a loss because you were under-insured or have no insurance at all?* Insurance brokers work for the business and their role is to make sure you get an adequate insurance cover.

Responsibilities/Liabilities Of Directors – Part 2

Work in Progress

Directors should ensure that a work in progress report is submitted at monthly meetings so that there can be an effective overview of items contained within work in progress:

- Are progress claims being lodged regularly?
- Are jobs being finished in a timely manner?
- Is a summary of the results of each job being prepared for analysis by management and submitted to directors?

If there’s a problem with the job, some management personnel might be inclined to leave the job in work in progress until some future date when they might be hopeful of a highly profitable job being finalised, to “conceal” the results of the poor job. Directors should be on the lookout for this because, from poor jobs, there should be analysis to understand what went wrong, to ensure that similar a problem doesn’t occur again.

Responsibilities/Liabilities Of Directors – Part 2 (cont'd)

Financing Arrangement

The key function of the directors is to ensure the company has implemented appropriate financing arrangements and that ongoing discussions are being held with the company's financiers.

If you have any questions on any aspect of the responsibilities and liabilities of directors, as part of the overall corporate governance situation in your company, please don't hesitate to contact us.

Government Grants For SMEs

Business Growth Grants – Available for Hundreds of Different Types of Businesses

The Business Growth Grant, part of the Entrepreneurs' Program, is targeted at the Australian government's "priority industries", which include:

- Advanced Manufacturing
- Food and Agribusiness
- Medical Technologies and Pharmaceuticals
- Mining Equipment, Technology and Services
- Oil, Gas and Energy Resources
- Enabling technology and service industries that support one or more of the priority industries listed, including:
 - Freight and Logistics
 - Infrastructure Related Construction
 - Information and Communication Technology
 - Professional Services – Scientific

Some people believe that this is a very narrow group of businesses because only 9 major sectors are mentioned. These 9 sectors actually relate to over 550 different types of business activities. Virtually every "trade business" could be included within this definition, as long as the business is undertaking new types of activities and meets the turnover requirements.

The other major requirements of this grant include:

- Applicants must be companies
- Minimum turnover:
 - For companies operating in locations other than Northern Australia – \$1.5M
 - For companies operating in Northern Australia (defined as any location North of the Tropic of Capricorn) and remote locations – \$750,000

Grants available are up to \$20,000 on a 50% basis, meaning that the total project can involve \$40,000 with the client's contribution.

The type of work that can be undertaken under the Business Growth Grant basically includes virtually anything that might be able to improve the business' performance. When an application is made, the business will probably receive a visit from an Entrepreneurs' Program Business Growth Grant case manager, who will undertake a free review of the business, to determine the eligibility and the types of services that the business could implement to improve the overall business activities.

If you would like to have a discussion with us relative to an application being submitted for a Business Growth Grant, please don't hesitate to contact the accountant in our organisation with whom you normally have dealings.

An Important Message

While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.

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