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Getting On With Business

There are certainly a lot of uncertainties at present including:

- The upcoming Federal Election.
- Interest rates - even though the Australian Reserve Bank held interest rates steady in August, for the second month, there is still an expectation that interest rates will rise later in the year.
- Europe - what effect could the ongoing uncertainties of some banks and governments have on economic activities in Australia?
- USA - unemployment remains high and there is a question mark over business activities.
- China - is the rate of growth sustainable?

Some commentators have predicted further international problems. How do you factor all of this into getting on with business in Australia? Leadership is very important. Business leaders should be articulating plans and strategies that clearly communicate the aims and aspirations of the business to all team members.

Planning is equally important. Emphasis should also be given to planning an "implementation strategy" of the plan itself. This means it is a good idea to include the whole team in the planning process, because these are the people who are more likely to accurately answer key questions that need to be asked as part of a planning process:



- Do we have enough equipment to fulfil the plan?
- Do we have the right people?
- Have the people been appropriately trained?
- Is the plan realistic? Can it be funded or do we need to raise capital or make an application to the bank for additional funding?

Communication is very important as part of the planning process. Management should ensure that all team members understand, not only what is being planned, but more importantly, why. This highlights the necessity for great communication.

- What is the goal? How are we going to progress towards the goal?
- Why are we doing this?

This type of information will help maintain an organisation's alignment, in that all of team members will know what the vision is and, more importantly, have had input to determining what their role is in implementing the vision.

It is no use sitting back waiting to see how events, over which you have very little control, are going to unfold. e.g. Federal Election, Europe, USA, China etc. What most businesses need to be doing now is involving all of their team in the planning process. Having the entire team getting on with business.

Are You Buying A Business?

If you are contemplating buying a business, there are numerous matters to be considered.

Some items you need to receive from the Vendor:

- copies of financial accounts for the last 3 years
- schedule of sales, on a monthly basis, for the last 3 years
- reasons for any large credit notes processed after 30th June
- trading terms for the business
- recent Debtors' Aged Analysis
- customers' list
- suppliers' list
- methodology for valuing stock
- a copy of the business' lease agreement. Check:
 - option period;
 - reinstatement conditions (painting, new carpets etc);
 - business uses permitted;
- can the lease be assigned?
- If you are taking over employees, obtain a schedule of employees' entitlements. A new owner may decide not to recognise the period of service performed by employees for their previous employer, when calculating their length of service, to determine dismissal entitlements. However, the new employer must inform employees of this in writing before the new period of service commences, otherwise their previous service must still be included in any calculation (Fair Work Australia).
- Is there a systems' manual for the business? Is it current?
- Details of patents, trademarks, trade secrets and intellectual property systems.



There are some other issues relative to buying a business that you should be aware of:

- Never sign a contract until you have had legal and accounting advice.
- Make sure you are buying the business in the appropriate entity.
- Keep full records of everything that is said or given to you by the vendor or vendor's representative.
- Do your own due diligence and check all the information supplied to you.
- Is the location satisfactory for your business?

Meetings - Waste Of Time Or Productive?

We have all been to meetings that were undoubtedly a waste of time. Hopefully you have attended some meetings that were very productive. Businesses need team members to communicate and therefore planning for meetings is very important so all meetings are considered to be productive. What are the ingredients for productive meetings?

- Appointment of a chairperson.
 - Agenda - circulated prior to the meeting by the chair.
 - Minutes of the previous meetings - circulated prior to the meeting by the chair.
 - Action plan from the previous meeting identifying who is to do what and by when and, more importantly, as to whether the task has been successfully completed.
 - Start the meeting on time, irrespective of who is not present.
 - Keep the meeting to the lowest possible number of people.
 - Everyone present should have a clear reason for being there.
 - Everyone present should have a role to play in the meeting.
 - People attending should have prepared a brief report on the matters they are responsible for, for submission at the meeting. (This includes the follow up and implementation of work allocated to them as part of the action plan from the previous meeting).
 - Meeting should be concentrating on the future and solving the problems as they are identified.
 - Someone should be allocated the responsibility of writing the minutes and action plan.
 - The action plan should identify the particular tasks that have been identified at the present meeting, indicating who the tasks have been allocated to, and the expected completion date.
- The meeting should finish on time.



Key Performance Indicators - Can Help Your Business Succeed

Most successful business people use Key Performance Indicators (KPIs) to help them analyse their business' performance on a regular basis.

It is a good idea for your business to determine, from budgets and previous financial results, the Key Performance Indicators that relate to your business and then have the Key Performance Indicators calculated daily, weekly, monthly, quarterly and annually as required, so that the actual Key Performance Indicators can be compared back to budget estimates to give management an indication as to whether the business is currently performing satisfactorily.



Some Key Performance Indicators that would apply to most businesses include:

- Gross Profit Percentage
- Labour to Turnover Percentage
- Key Expenses such as rent-to-sales, expressed as a %
- Conversion Rate (actual sales to prospects)
- Average Sale
- Average Sale per Customer
- Sales per square metre
- Productive Time %
- Yield % (for a processing business)
- Write Off/On % (professional firms)
- Debtors' Days Outstanding
- Stock on Hand – number of days sales
- Stock Turnaround
- Creditors' Days Outstanding
- Shrinkage Percentage (retail stores)
- Net Profit on Sales %
- Individual Department Sales to Total Sales

All of these help management to understand the financial "health" of the business. It is a good idea to establish Key Performance Indicators that have a direct bearing on the performance of your business and for management to closely examine these on a regular basis. We can assist in the design of a Key Performance Indicator System for your business.

Business Plans - Questions To Consider Part 23

Imports

- Do you import products or services from overseas?
- Have you visited suppliers overseas?
- In what currency do you purchase imports?
- Do you take forward exchange cover to cushion the effect of currency movement?
- Are you registered under the deferred GST scheme?
- Have you enquired about any tariffs that might be charged on the imported products?
- Have you enquired from Industry Capability Network whether there are equivalent products manufactured in Australia?
- Are you importing items that you then include in another product that you are manufacturing and exporting within 12 months?
- If so, have you registered for the Tradex Scheme? (The Tradex scheme allows importers of products, to be exported within 12 months, to avoid paying import duties and GST on the imported product)



There are over 50 questionnaires relating to the preparation of a business plan..... in the next issue we will consider Human Resources.

What's It Mean?

Accounting Period - Any period of time used to measure accounting performance e.g. 1 month, 3 months, 1 year

Capitalisation Rate - in valuing ongoing businesses that have been operating for some years, the future maintainable profit is expressed at a capitalisation rate.

The capitalisation rate is the rate of return that a prudent, arm-length investor would require from an investment in this type of business after the allowance of reasonable management salaries.

The capitalisation rate normally reflects a mark up on prevailing interest rates to reflect the risk of the business, lack of negotiability of shares, economic conditions, restrictions on entry into the business, size of the share parcel (of the company) and general business risks. e.g. if a business had an after tax profit of \$110,000 (it was considered that reasonable management salaries had been paid) and the capitalisation rate that had been agreed upon was 20%, the business valuation would be:-

$$\frac{\$110,000}{20} \times \frac{100}{1} = \$550,000$$



Export Market Development Grant

If you are an exporter and you have spent money developing the export markets, then you are probably eligible to apply for an Export Market Development Grant. Grant applications can be lodged anytime up to 30 November 2010. Austrade will not accept late applications. The Export Marketing Development Grant Scheme provides financial incentives, in the form of taxable grants based on eligible expenditure, to promote the export of products and services to markets outside Australia, excluding New Zealand. The grant focuses on direct promotional activities and does not assist the general establishment of a business or product development.

Eligible expenditure includes expenses under the following general headings:

- overseas representation;
- marketing consultants;
- overseas market visits;
- communication costs;
- freight of free samples;
- trade fairs, seminars, in-store promotions;
- promotional material; and
- bringing overseas buyers to Australia.

There are some limits to the various main expenditure categories.

Companies with turnovers up to \$50M (this is total income, not solely exporting income) can apply for the Export Market Development Grant. The minimum expenditure that can be claimed is \$10,000. The minimum grant is \$5,000 up to a potential maximum grant of \$200,000. If you would like assistance in preparing an Export Market Development Grant application, please contact us.



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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