BusinessPlus+ Newsletter

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Annualised Salary Payment Arrangements Commence 1 March 2020

The Fair Work Commission recently made a decision that will change annualised salary provisions under 22 modern awards commencing from 1 March 2020. If an applicable award covers your employee(s), your obligations for paying employee salaries are going to change.

Under the Fair Work Act, Employers have always been obligated to pay salaried employees under all Awards at least *the same gross amount that they would have received under their respective awards (including overtime, allowances and travel). Most entitlements should already be accounted for, but as salaried employees do not typically record their time and attendance, it has been almost impossible for employers to calculate any entitlements.*

With the recent changes to the annualised salary provisions, you need to start tracking full-time employee hours, even if they're salaried. It means employers can be penalised under the award act, even if their employees are salaried.
The majority of Australian businesses have staff employed under at least 1 of these awards, putting thousands of business owners at risk.

Action Steps for Australian Employers

If your payroll and HR support haven't already alerted you to what's going on, you should meet with them and discuss the next steps. **As a general guide, we recommend businesses do the following:**

- Ensure all full-time employees who fall under one of the relevant awards track and submit all hours worked each week, either in writing or electronically.
- Have in place written documentation which records which provisions of the award are intended to be included within the annual salary.
- Where an employee works hours, which exceed those 'outer limits' in a pay period/roster cycle, pay the employee for those hours worked (at the relevant overtime or penalty rate) within the relevant pay cycle.
- Run a report at least once per year comparing employees' salaries with the employees' full entitlements under the Award for all the hours they have worked in the relevant period.
- Run reports each time an employee is terminated to ensure they have been paid the minimum amount under the Award for the hours they have worked since 1 March 2020, or since the last annual report.
- Immediately top up an employee's salary for any underpayments identified in comparison with their Modern Award entitlements.

You can also go to the Fair Work Ombudsman's website for further information and details of the 22 Modern Awards that are affected by these changes at www.fairwork.gov.au/pay/minimum-wages/salary-payments.

Business Transformation – Customer Focused

One hot business topic right now is **transformation – and it's usually linked in some way to business disruption.** On any given day, another organisation is appointing a new transformation leader, plotting a new strategy for organic growth, and talking about increasing profitability. On the surface, it makes sense. Successful businesses should consistently focus on revenue growth and margin improvement...right? But where is the best place to start?

While transformation is a business imperative, there is also a lot of frustration around the actual success of the process leading to sustainable business improvements. Transformation seems to be understood at the top, but not well communicated throughout the organisation. Transformation initiatives can become a mass of disjointed projects that churn a business and consume resources. In the end, only a few, focused projects will make a real impact. What is everyone else working on to cause so much churn? **It's simple — too much effort is spent on analysis and finding the perfect answer while not enough time is spent on exploring creative and innovative approaches to drive more profit.**

Transformation is intended to make radical organisational change, yet rarely addresses change management at the greatest inflection point of profit — <u>how the collective business teams execute on customer relationships</u>. Any transformation initiative that fails to address how businesses interact with their customers <u>will not</u> succeed.

One mainstay project for all transformation initiatives should be ***pricing improvement* -** and why not? Many organisations rely on improved pricing to deliver hundreds of millions of dollars a year in additional revenue and profit. What's the first quick win in every pricing initiative- simple, a "price up." We try to put fancy words around it – cost of living increase, tariff impacts, we haven't had a price change in a while, etc. – but in the end, these words miss the point. Price ups are all about you and making more money versus creating value for your customers and aligning your organisation to deliver that value. ***The essential component you need is a singular focus on defining, defending and communicating <u>value throughout the organisation and to your customers</u>. If you think "price up" projects are transformational, they are not. Instead, they are a terrible way to treat your customers and often do more damage than good.***

You need to start your business transformation with an understanding of where you're making money and where you're not. **A product/customer portfolio analysis is a great first step to assess your true profitability within different customer and product segments. Then, plan to do the following:**

- ***Ask "freeloader" customers to move from under-priced custom products to more standard products or tell them to expect a higher price. <u>Always offer an alternative</u>;***
- ***<u>Standardise your product portfolio</u> and your customer-facing activities wherever possible;***
- ***<u>Change the way that you communicate value to customers</u> and stop the harmful practices that erode profits – knee-jerk discounting and needless customisation of solutions.***

Business Pricing Power – Part One

Business owners have viewed **pricing power** as one of the best predictors of a company's long-term financial success. Warren Buffett's famous quote from 2010 captures the sentiment.

"The single most important decision in evaluating a business is pricing power. If you've got the power to raise prices without losing business to a competitor, you've got a very good business. And if you must have a prayer session before raising the price by 10 percent, then you've got a terrible business."

However, the simplicity of this statement doesn't reveal the complexity of pricing power; how to know when you have it, how to build it, and how to use it effectively. Let's have a look at some key questions to get started on your way to true pricing power.

Do You Have Pricing Power?

For most in competitive markets, if the price is too high, it will result in the failure to achieve desired sales volumes when customers either find a suitable alternative or choose not to purchase at all. However, there are many instances in which a suitable alternative or even a competitor doesn't exist. If you think your product is a commodity, do you see an opportunity to build pricing power?

<u>Key Question</u>: "*Is your product or service commonly sold at a discount"?*
If the answer is 'yes', you either lack pricing power, have the wrong offering structure, or both.

Can You Build Pricing Power?

Pricing power isn't just about raising prices; it's about matching the value you deliver to the price customers pay for your products or services.

You can build pricing power when you create a situation in which customers believe/know they receive more value from your product or service than the price they pay. However, what happens when customer needs and expectations change? How long will your pricing power last? The flow of information and the speed of innovation intensify competition and continually change the playing field.

Key Question: "***How well do you know your customers, and can you segment them into groups that have similar value needs"?***

The increased availability of information not only empowers customers to learn more about their options, but also empowers companies to learn more about their customers. You may, in fact, have pricing power in certain cohorts of your customer base that you haven't identified or do not understand.

Long-Term Vs Short Term Pricing Power

There is an interesting article: ***Pricing Power: Delighting Customers vs. Mortgaging Your Moat***. In the article, a distinction is drawn between companies who use pricing power to delight their customers versus those who use it to exploit their customers. This distinction, between two different uses of pricing power, is very important and more subtle than you may think.

Let's look at the following scenario:

A raw materials supplier has the advantageous position of excess inventory in a time of market-wide shortages.

- **Option A**: The supplier who "delights" customers will use pricing power to create a tiered offering based on delivery lead times and allow their customers to choose the price they are willing to pay based on the speed at which they wish to receive their goods;
- **Option B**: The supplier who "exploits" customers will raise the price for the supplied item across the board, giving customers no choice but to pay the higher price;

Is there a right option? Consider the alignment of your commercial strategy to your corporate goals and identify the critical opportunities to drive both short and long-term profit growth.

Part 2 of this article will be included in the March edition of BusinessPlus+.

5 Innovation Lessons from Silicon Valley Companies

Innovation Is Not a Separate Team

Rather than separate out the innovation function, innovation was just business-as-usual for the organisations in Silicon Valley. **In fact, they didn't even call it 'innovation', instead their whole organisation was set up and structured for growth and an innovation mindset permeated across the entire business.**

This is a huge shift away from what we typically see in Australia, where organisations tend to bolt-on innovation as a separate function. The risk with this, however, is that innovation can become compartmentalised and limited to certain areas of the business.

The challenge, therefore, is to think about ways you can encourage an innovation mindset across your entire organisation, rather than limited to certain areas or functions.

Hungry Leaders Drive Growth

One way to drive an organisation-wide innovation mindset is to start with the leadership team, who play a critical role in setting the scene for growth; this is where the leaders of the businesses all had a huge hunger for growth. **They continually reinforced their organisational purpose and strategic priorities and got involved and hands-on with innovation. Many of these leaders had started as entrepreneurs themselves so they intuitively role-modelled the innovation behaviours they wanted to see in others. And this sent a very clear signal to the rest of the organisation that innovation and growth were a priority.**

Think about the messages that your leadership team is sending out about innovation and growth. Are they consistent? Do they send a clear message that these aspects are a priority?

Vision-Led and Values-Driven

All the organisations **had a <u>clear and compelling vision</u>**. **The vision was brought to life through customer and employee stories and used to spark passion amongst employees and keep them focused. The vision was kept top-of-mind through <u>constant reinforcement by the leadership team</u> and employees recalled the vision almost like a mantra. Their vision was also supported by a clear set of values, which had been carefully crafted to create a culture which supported growth and innovation.**

The take-out is that your <u>vision and values can play a key role in setting the scene</u> for growth and innovation*. So, think about your organisational* ***<u>vision and values</u>****; are they just tokenistic or* ***are they purposeful and truly lived and breathed to support your growth ambitions?***

Systematise Getting Close to the Customer

We all know that customer-centricity is the key to growth, but these organisations had managed to take this a step further. **Not only were they huge <u>advocates of customer-closeness</u>, they had also managed to systematise the way they sought customer feedback so that it became a habitual way of working. They all had fast customer feedback loops that fed straight into product development and innovation processes. Employees were trained and primed to capture customer feedback** and they made feedback mechanisms simple and frictionless.

Think about how often you are connecting with your customers. Is it a regular thing? And how could you systematise your customer feedback loops to ensure feedback is as timely as possible?

Don’t Fall in Love with Ideas

Getting too attached to your ideas is one way to blow out timelines and launch ideas that don’t deliver value. It can also lead to the ‘sunk cost fallacy’, where the more you invest in an idea the more the idea needs to be right. **The antidote to this is to <u>fall in love with the customer problem that you’re solving</u> rather than the idea.** And these organisations were masters at this. Pivoting and killing their ideas was common practice.
They weren't afraid to frequently change course <u>based on early customer feedback and experimentation</u>. Killing ideas was part of their culture; it wasn’t viewed as failure, nor was it seen as personal, it’s just how things were done.

Reflect on whether you get too attached to your ideas and whether this might be hindering the quality. Are you open to changing course? Is a fear of failure standing in the way of being more disruptive?

An Opportunity for Small Businesses and Medium-Sized Enterprises

Many small business operators and medium-sized enterprise directors are looking for opportunities to equip themselves with an understanding of the new capital raising opportunities that are available for private companies.

It is expected that throughout this decade the ability to be able to raise capital direct from the public will be a significant contributor to business success. Over the next decade we should see a material shift in business ownership as the next generation make their way into leadership and ownership roles. These new owners will embrace technology and be far more connected to their customers than most businesspeople have been in the past.

There is significant innovation in the Australian SME market, however these businesses often run into brick walls because access to traditional capital is limited and therefore, growth stagnates.

Crowd Sourced Funding Equity Raising and Early Stage Innovation Companies flip the old capital market model on its head by centralising the investment opportunity into one or two platforms and defining clear outcomes for the business. These changes, which originated from the Federal government’s innovation statement in December 2015, brings more speed and energy into the capital raising process as the investment opportunity can now be marketed and advertised, especially with digital and social channels in ways that were not envisaged when Section 708 of the Corporations Act was introduced 35 years ago.

There is also a new breed of investors now operating in Australia, numbering in excess of 38,000, who have already invested into Crowd Sourced Funding Equity Raising. Unfortunately, there is no database available of the number of companies and the amount of capital that has been raised utilising Early Stage Innovation Companies, but a few of the Crowd Sourced Funding Intermediaries, who also assist companies to raise capital as an Early Stage Innovation Company have indicated that a significant amount of capital is being raised for those companies that are eligible to describe themselves as an “Early Stage Innovation Company.” This has created opportunities for these investors to make investments into a wide range of businesses operating in Australia – something that, in the past, has been reserved primarily for sophisticated and wholesale investors.

We look forward to growing with you on this journey. If you would like to discuss the benefit of utilising Crowd Sourced Funding Equity Raising or Early Stage Innovation Company Capital Raising for your business, please don't hesitate to contact us.

Research and Development - Registration

There are several deadline dates for research and development purposes occurring over the next few months. These are as follows:

- Registration of a company's research and development activities for which the company wishes to claim the R&D Offset must be lodged with AusIndustry within 10 months of the end of the financial year, which for a company with R&D expenditure in the financial year ended 30 June 2019, is the 30 April 2020.
- If your company has incurred R&D expenditure overseas in the current financial year (2019/20) for which the company wishes to claim an R&D Offset, then the company must submit an "Overseas' Finding" summarising the overseas' expenditure to the Australian Taxation Office prior to 30 June 2020.
- A company can submit a summary of a proposed research and development project to the Australian Taxation Office to gain approval that the expenditure will qualify for the R&D Offset so that the company has some certainty that the expenditure will qualify for the R&D offset. The "Advance Finding" must be submitted to the Australian Taxation Office before the end of the income year in which the activity was conducted.

If you have any questions on research and development deadlines, please do not hesitate to contact Anna Casamento at CBSW for a discussion.

Interested in Raising Capital Using Section 708 of the Corporations Act?

In the December edition of Business Plus+ we started the discussion on the use of Section 708 of the Corporations Act which was introduced to the legislation 35 years ago. Some Intermediaries are very keen for the company to raise as much capital as possible from the Section 708 capital raising prior to moving onto the Crowd Sourced Funding Equity Raising component**. The key thing to remember is that for capital raising to be conducted under Section 708 there must be a "personal offer".**

This means that someone who knows the directors or senior managers or as a customer, supplier or employee is likely to be an investor under Section 708. When these people make an investment, they're virtually offering a "testimonial" on the directors and senior managers that the Crowd Sourced Funding Intermediaries can include in the marketing material that they're going to use relative to the Crowd Sourced Funding Equity Raising process.

There are a series of documents that are required to be able to successfully raise capital utilising Section 708 of the Corporations Act, including:

- Business Plan
- Shareholder's Agreement
- Budgets and Cashflow Forecasts and Projected Balance Sheets
- Valuation of the Company
- Determination of the Share Price
- Information Memorandum
- Subscription Agreement
- Application for Shares
- Information Video

We can assist business directors in the preparation of some of these reports (or refer you to appropriate experts) and in mentoring the directors on the presentation of the information sessions. These are normally used to inform people who fall under the definition of being eligible to be invited to subscribe to shares under Section 708 of the Corporations Act.

Strategies for 2020

In the November, December and January editions of Business Plus+ we discussed the concept of businesses developing strategies and then deciding how those strategies would be implemented and executed. Now is an ideal time to start the implementation of the strategies that you have thought about, particularly under the key headings of:

- **People**
- **Leaders**
- **Identifying Strategies**
- **Executing Strategies**
- **Financing the business** from capital raising, grants, ongoing support from your financial institution

If you would like to have a discussion with us on the identification of strategies and the implementation of those strategies in your business, please contact us.

Business Costs Review

Cost control is a detailed process of collecting, analysing, summarising and evaluating various alternative courses of actions. The goal is to advise management of the most appropriate action, based on the cost, efficiency and capabilities within the business. **This can include:**

- Investigating procedures to detect variances of actual cost from budgeted cost.
- Diagnostic procedures to ascertain causes of variances.
- Directive procedures to affect the re-alignment between actual and budgeted costs.

Costing also includes a review of new products and services and looking at various components that go with making a product.

- What do they individually cost?
- What is the effect of the cost of the final product by making various changes, adding something to it, or removing something?

The overall exercise is to determine what the final cost of the product or process will be: can that product or process then be effectively marketed so your business earns a profit? Another field of cost management is in project management, where costs are allocated against the original estimates for a building project or a major construction site.

If you are having difficulties in controlling costs within your organisation, please contact us for a business costs review discussion.

Disaster Grants

If you have suffered business interruptions, property damage, or any other matter which has affected your business operations from the recent bushfires, floods, cyclones that have occurred in Australia there are grants that are available from the Australian, State and Territory governments to supply funds to assist small businesses and farmers through these difficult times. Some of the grants that are available are as follows:

- Australian Government – Disaster Recovery Allowance
- Australian Government – Disaster Recovery Payment

Each State and/or Territory have their own grants and loans schemes for primary producers and small businesses. If you need any assistance in the preparation of grant application forms, please contact us.

Providing you professional direction