

BusinessPlus+ Newsletter



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Issue – March 2020

Topical Business Issues – A Snapshot

Business Preparations for COVID-19:

Please refer to the [*attached checklist article and supporting worksheets*](#) for reviewing the business implications and contingency planning associated with the C-19 virus pandemic. We have also linked the [*latest McKinsey C-19 briefing note*](#) dated 16 March 2020, that includes an excellent business action schedule.

Directors – Extension of Business Tax Risks:

Extended risks will now directly apply to directors of operating businesses personally, in specific circumstances, **effective from 1 April 2020**, in relation to net GST and some other business taxes. **Adoption of on-going internal risk management review strategies will now be more crucial than ever for directors.** *Please contact your CBSW tax advisor for more information if required.*

Wages, Superannuation & Contractor Arrangements:

With the extent of **underpayment of employee** wage entitlement cases that have now been publicly disclosed, together with the on-going risks associated with **any contractor arrangements** that may be in place and **now annualised salary arrangements being legislated effective from 1 March 2020**, review action is important. These matters all highlight the merits of completing an independent review of payroll and supporting employment and contractor agreement documentation. *We can direct you to qualified organisations that undertake such wage & employment reviews.* Additionally, opportunities are now available to employers where required, for any arrears of superannuation payments to be tax effectively actioned under the Super Guarantee Amnesty legislation. **This opportunity ceases on 7 September 2020.**

Business Strategic Planning:

The process of having an effective planning process in place for businesses has never been more important. The process should commence by undertake a review of the current business position through a **“SOAR” approach, as shown on the attached diagram**, that aligns to the overall **Business Purpose Model – see the linked documents here.**

Business Transformation:

One of the core things that should arise from an effective strategic planning process being embraced by the business owners, will be the evolution of the current business model to ensure that a sustainable business is created. *Some useful reference diagrams on this subject are attached for your reference.*

[Enhancing the Customer Experience:](#)

To differentiate yourself from your competitors, now is the time to invest in boosting the **elements of value for your customers** – [see the linked diagrams that provides more information on this topic.](#)

[Strong Leadership:](#)

The need for confident and decisive leadership has never been greater than right now. [Please refer to the information at this link](#) that provides some summary guidance on what strong and effective leaders need to focus on today to support a high level of organisational health.

Leadership in the face of the current Economic Storm

With everything that is currently going on in the world directly or indirectly because of COVID-19, strong leadership has never been more important. Putting things in the context of what can and cannot be controlled is pivotable for businesses and an organisation's people - to provide a calming influence - so appropriate leadership behaviour and decisiveness in these troubling times is vital.

In "[The Daily Stoic](#)", a book by Ryan Holiday & Stephen Hanselmen, one day's entry is about the idea that "**Calm is Contagious**".

Here are the author's words from that book:

"There is a maxim that Navy SEALs pass from officer to officer, person to person. In the midst of chaos, even in the fog of war, their battle-tested advice is this: 'Calm is Contagious.' Especially when that calm is coming from the man or woman in charge. If the (the team) begin to lose their wits, if the group is unsure of what to do next, it's the leader's job to do one thing: instil calm - not by force but by example."

The three tones we can use more often as leaders are:

1. **To remove the fear and replace it with confidence, tell your people, 'you've got this'**, and if you are on the front line with them, about to face down a challenge then 'we've got this';
2. **To remove the confusion and replace it with certainty, use phrases like 'one step at a time', 'trust the process', 'stay the course'**, and let people know what the next best action is. Turns out any action will often do, as the culture is more powerful than the strategy.

Management consultant Peter Drucker famously said, 'Culture eats strategy for breakfast', and referenced research performed at the London Business School of Economics by Dr John West who showed the heavy impact that culture had, as opposed to a business focused simply on strategy;

3. **To mobilise us all in pursuit of a better future, use words like 'onwards' and 'next'**. The job of a leader is to help manage the overload of stressful times. Focus on what we need to do now, what we need to do next, and then. **Now, Next, and Then** – **these three time-horizons are very useful in times of stress.** Leaders triage the priorities for the people so that we can act in the presence of fear; that's the definition of courageous leadership.

Essential elements of Business Transformation

Too many companies take on complex transformation projects and lose sight of the single most important player in their value-chain, the customer. **Focusing on the customer is the key to success, and to truly reach customers, companies need to go back to the basics and focus on three critical elements:**

A well-defined Vision based on Tangible Opportunity

Companies need to understand why their customers choose them. Identifying and then quantifying this value in a commercial transformation reminds customers why they do business with one company over another. Having a vision with quantifiable value also becomes the foundation from which salespeople can have meaningful conversations with customers. Because most customers buy from salespeople they trust, a transformation can be an opportunity—not a risk—for everyone involved, and that's when customers and salespeople get excited.

Trust that the Vision is Achievable

If people, especially the salespeople, don't believe the vision is achievable—even if it is—companies need to find out why and begin a trust-building campaign from within.

Here are some ideas to help build trust: -

- **Do what you say you're going to do:** Yes, easier said than done, but how many times have you promised something and not followed through? If you are going to give people resources, do it. A broken promise will always give people pause;
- **Make the vision real with simple data:** Complicated data that no one understands is a big turn-off and makes employees wonder if what they are doing has any bearing on company success. Keep it simple and track the progress often and religiously. This means holding people accountable, especially senior executives;
- **Reward the people who perform and exhibit the behaviour changes you desire;**
- **Root out the nay-sayers:** This is especially important when a new leader takes over. Be patient at first, but over time, you've got to recognize that nay-sayers are a cancer in a changing organisation; they hold the organisation back, make more work for leadership, and undermine a good leader's efforts. Sure, give them a chance to change, but if they don't, they need to be removed from the picture;

Focus on Customer Experience

It is important for companies to learn what it's like to be a consumer of their products and services. I'm not talking about doing reams of market research. Often companies waste big dollars on market research when understanding customers through personal interaction is straight-forward and more cost effective. Instead, the company should send internal teams—salespeople and even executives—out into the field to speak directly with their customers and listen, as opposed to sell.

Only two fundamental questions are necessary to start the conversation:

- **What's it like to do business with us? (probe for reasons good and bad)**
- **Why do you continue to do business with us?**

Teams should then have conversations with customers that don't buy from them to find out why. These conversations should not double as sales calls, but instead should try to get to the heart of why certain customers are not buying from them. **These three elements form the foundation of continuous growth and improvement.** They are like the three legs of the proverbial stool. Without one, the stool won't stand, and likely neither will a company's transformation. **But with all three, the stool becomes a solid step for reaching higher and achieving bigger goals.**

Business Pricing Power – Part 2

Following from last month's Part 1 article on this important topic, we continue to discuss how you should approach pricing in your business on a disciplined and structured basis.

Key Question: *"Why do your customers do business with you?"*

Customers always ask for a discount and most will continue asking. **"Delighted customers" are those who have a choice and continue to choose you, time after time, despite holding your price.**

The most important question to ask is *"do I really have pricing power?"* Pricing power is one of those things that is very easy to identify in retrospect, but significantly more difficult to proactively create. Why? Because ***you must continually scan the market, competitors, and customers to understand how your products and services provide impactful value and how it changes over time. Only then, will you be able to define an offering structure in which customers feel they are receiving greater value than the price they pay.***

Some Pricing Questions

Pricing is an intricate and interdependent competency that impacts all levels of an organisation and the market it serves (including customers and competitors). At any given time, a business must ask itself and address several questions:

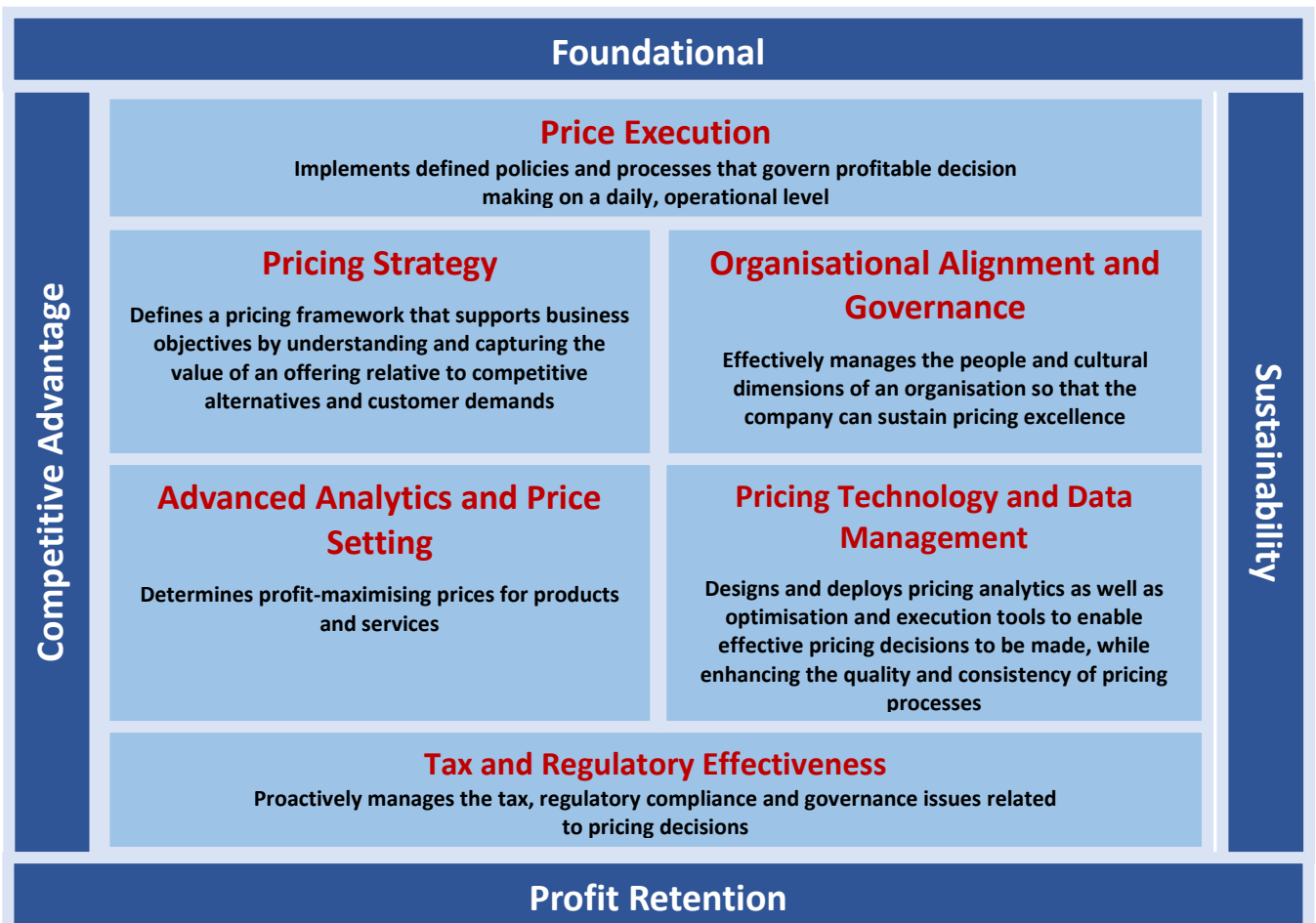
- **How can price be used as a competitive advantage, and how can we achieve results as quickly as possible?**

- *How do we position a price with our customers, and how do we differentiate our offering?*
- *What should our value propositions be for each customer segment?*
- *How does our product portfolio match the needs of our customers?*
- *What do we have to do to meet the promises made by our executives and our sales force, while still delivering the required margin?*
- *Can we use price to influence demand (and can we build that into our production and supply chain thinking)?*
- *What should our price be?*
- *Once we have the right price in place, how do we execute it effectively, and what will be the likely customer and competitor responses?*

The Six Core Competencies of Pricing

To meet the pricing challenge, companies cannot rely on any single internal or external perspective. Rather, all views must be combined in a way to maximise each of their strengths and to minimise each of their weaknesses.

The following **six organisational competencies** are needed to achieve this – [see the diagram below](#):



Next Action Steps

Dig deeper into your unique customer base to better understand the value they perceive/receive from your products and services using the six competencies noted above as the basis for your review. This will provide the best insights into what is the best way forward to getting strategic “pricing power” implemented into your business.

Benchmarking your Business to shape strategic direction

Whichever industry you compete in, the fundamentals of business are the same. You need to sell something people want to buy, attract and retain customers, generate a positive cash flow and make long-term profits. **Benchmarking can play a part in shaping those fundamentals – comparing your products with those of your competitors, understanding the difference, and then using that information to deliver best practice to get a competitive advantage.**

Benchmarking in Sport

For their 2000 America's Cup campaign, Team New Zealand had limited resources compared to many of their well-financed international competitors. ***To make sure every resource was utilised as efficiently as possible, they created the benchmark; 'Will it make the boat go faster?'. Once this idea was established, all strategic decisions and expenditure were simply evaluated against this one criterion.***

Should the team put resources into sail development? Yes – because it fitted the benchmark.

The benchmark enabled Team New Zealand to stay focused across all roles in the organisation and ultimately helped ensure they were successful in achieving their goal of winning the America's Cup; even against much larger and better-financed teams. It's a concept all businesses can benefit from.

Making Benchmarking Innovative

Benchmarking, and competitive benchmarking, which is most common in retail, is most effective when you use it to refine and improve not just one, but every element of your business to create the gold-standard or best-in-class product or service.

For example, where the business benchmark goal is to provide a better customer experience, to create more loyal customers – customers who would stay with you regardless of any price differential. So, the business focuses on customer loyalty and creating an exceptional customer service experience to gain an edge. Loyal customers are more concerned about quality and service and stay with a brand for longer and are more likely to recommend your business by word of mouth.

Establishing such a benchmark can enable you to set a firm strategic direction and embed it into the DNA of your business. All management decisions made are based and tested on this singular goal, thus ensuring the future path and success of your business over the long-term.

What's your Company's Benchmark?

These questions will help you identify and formulate your company's key strategic benchmark: -

- *What is your company's reason for being (its core purpose)?*
- *Who is your target market and what problem or pain-point (need) are you solving for them – the customer (and how could you do this extraordinarily better)?*
- *What does your business success look like if you seriously address the answers to the first two questions?*

Australian Government's Coronavirus Stimulus Package for SMEs

The Prime Minister has announced a stimulus plan to curb the economic impact of the coronavirus and keep "Australians in jobs and businesses in business".

Targeted at SMEs:

- Businesses with turnovers up to \$50 million will receive **a tax free cashflow boost** worth up to \$25,000, designed to help pay wages.

To ensure integrity, businesses which pay the Australian Taxation Office income tax on their employee's salary and wages either quarterly or monthly, will receive a payment equal to 50% of the amount withheld, up to a maximum of \$25,000 over the six-month period ending on 30 June 2020.

The money will be available as a credit on the BAS/IAS's for the March and June quarters 2020 and any excess will be refunded to the business.

Eligible businesses that pay salary and wages but are not required to withhold tax will receive a minimum payment of \$2,000.

- The government is providing assistance to businesses with less than 20 full-time employees to keep apprentices employed at 1 March 2020 in work by paying up to 50% of their salaries with a maximum of \$7,000 each quarter in wage assistance for each apprentice so small businesses can retain existing apprentices and trainees, or re-employ apprentices and trainees who lose their positions from a small business because of the coronavirus downturn.

Where a business can't afford to hold onto an apprentice, the subsidy will be available to a new employer.

Initiatives Targeted at Businesses with Turnovers up to \$500 Million:

- **New instant eligible asset write-off:**
The government will expand the instant asset write off scheme from 12 March 2020 until 30 June 2020 for businesses with turnovers up to \$500 million, which will be able to instantly write-off assets valued at up to \$150,000.
- **Accelerated Depreciation Incentive:** There will also be a 50% accelerated depreciation deduction over and above what these businesses can already deduct in the first year and this will be available for eligible capital expenditure incurred to 30 June 2021.

There are potentially some subtle underlying planning opportunities that may arise for selective businesses, that can be discussed with your CBSW tax advisors in relation to these new measures.

Cashflow Forecasts, Profit Budgets and Projected Balance Sheets – “3 Way Forecasts”

There is certainly a lot of uncertainty at present in the Australian economy.

Interest rates are at a record low because the Reserve Bank is very concerned about the state of the Australian economy. Unemployment is slowly rising - and there is a significant increase in casual and part-time work being performed in Australia.

Debtors' payments have only improved by 0.4 of a day since the revelation in 2016 that Australia had the dubious title of the “longest debtors' days outstanding in the world”. At that time Kate Carnell, the Australian government's Small Business Ombudsman, said that late payments are the “*silent killer of small business*”. The debtors' days' outstanding figure that Ms Carnell was commenting on was 56.4 days.

It was reported on 6 March 2020 that research by market analysts East and Partners had indicated that the SME waiting period for payment in Australia **was currently 56 days**. This highlights the real problem that businesses have in managing their debtors to try to ensure that invoices are prepared accurately, they are emailed to their customers promptly and that prompt follow-up action is implemented to have discussions with any customer who is outside the business' stipulated payment terms.

A Budget will show the expected income and expenditure for the business and the emerging profit. You can then calculate various “what if” scenarios to factor in potential changed circumstances e.g. lower or higher interest rates; fuel costs or currency conversion rates.

Budgeting lets you diagnose problems in advance. If the Budget you prepare doesn't provide you with an adequate profit, then you can decide on appropriate action to take to try to achieve your desired profit, rather than waiting for the events to unfold.

When the Budget is completed it is then the time to prepare a Cashflow Forecast. The Cashflow Forecast will reflect the figures contained within the Budget with appropriate timing differences for debtors' payments, creditors' payments, investment in stock as well as taxation commitments, loan repayments, dividends or drawings and capital expenditure.

The Budgeting and Cashflow Forecast process will benefit from the preparation of Projected Balance Sheets at the end of each financial year as part of the Budget/Cashflow Forecasts scenario. The preparation of the Projected Balance Sheets will enable accurate Projected Source and Application of Funds reports to be prepared which will assist management to understand what is happening to the cash generated within the business.

Most businesses in Australia are now caught in a cycle that could become quite vicious if appropriate planning is not undertaken now!

If you would like to discuss with us the preparation of a Budget/Cashflow Forecasts and Projected Balance Sheets for the period through to 30 June 2020 and to 30 June 2021, which you can present to your bank, please contact us for a consultation. These projections can be made on a high-level basis initially if required, keeping costs down.

Banks/Lenders Negotiations in Difficult Times

In tough economic times, banks normally revert to the “Rule Book” in dealing with borrowers.

What this means for SMEs is if you wish to continue to access products from banks, including loans, bank overdraft, leases and debtors' financing etc., it will be necessary for you to ensure that you have complied with you bank's reporting requirements and the various ratios and other financial calculations that your bank may have imposed as part of the loan or facility agreement with your business – the Loan Covenants.

It's a good idea to keep your bank informed of the progress your business is achieving and ensure that your financial records are up to date, so that you can quickly supply financial accounts and other business information reports to the bank when required.

Debtor Management

Ensure regular follow-up processes are in place for customers/clients when payment is not received on the due date. If the customer/client has a query, it is important that their concerns are resolved as soon as possible, so that payment is made by the customer/client to improve the business' cashflow.

Debtors needs to be monitored on at least a weekly basis, with the reporting of debtors' aged analysis being sent to senior management for review and recovery action steps implemented.

The debtors' review meeting should be held monthly and lists prepared of customers to be followed up by specific staff to encourage customers to make their payments or to resolve any issue that they may have.

In the “difficult times” that are now emerging, cashflow will be a major issue for many businesses. The suppliers of products/services need to be diligent to ensure communication systems & processes with the customer/client are documented. Additionally, ensure everything has been sent to the customer/client that they require, to eliminate any legitimate reason the customer/client may have, to not to make payment of a tax invoice by the due date.

Research and Development Registration – Company's

If your company has spent more than \$20,000 on research and development activities during the 2018/19 financial year and you wish to be able to claim the Research and Development Tax Rebate, **the company must register with AusIndustry prior to 30 April 2020.**

If you would like our assistance on the preparation of the registration form, please contact Anna Casamento at CBSW, who can assist you.

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