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| **Issue 252** | |

# **Thinking About Purchasing A Business?**

If you are contemplating starting a new business in this current environment, you need to ensure that you have done your homework first:

* Research the business in the market you will be trying to serve.
* Have a close look at the competitors to the type of business that you will be operating.
* Prepare a Strengths Weaknesses Opportunities and Threats Analysis (SWOT) Analysis on the competitors – can you complete with them?
* What has been the recent history of new businesses starting to compete with similar competitors that you will be competing with? Have you determined strategies to overcome the problems that some of these other businesses encountered?
* Have you had discussions with potential suppliers to your business? It is very important that you receive confirmation in writing from the supplier relating to the terms and conditions that they will sell products to you. Not confirming arrangements with suppliers was a major problem identified by a MYOB report on problems encountered by new small business operators about fourteen months ago. It is dangerous to assume that every supplier will offer you thirty day payment terms – that is why it is prudent to confirm your discussions with the supplier in writing.
* Are you going to be offering credit to customers in your business? Another key observation by MYOB in their report about problems encountered by new business operators was an assumption made by the business operator that every credit customer would pay on a thirty day basis – unfortunately this does not occur – Australia has one of the highest **Debtors’ Days Outstanding** in the world.
* Have you thought about all of the aspects of commencing a business?
* Does this business suit your lifestyle? Does it suit your family’s lifestyle?
* Many small businesses trade on weekends and at nights – have you taken this into account?
* All businesses need a Business Plan and this is a high priority for someone starting a business. We can assist you in the preparation of the Business Plan.
* When the Business Plan is finalised, we would then be able to prepare the Predictive Accounting Reports which are the Budget, Cash Flow Forecast and Projected Balance Sheet for the business. As part of this process **“key drivers”** will be analysed. These include **“Debtors’ Days Outstanding”** so that you can ensure that a realistic figure for Debtors’ Days Outstanding is established. The problem that MYOB identified was that some businesses had assumed everyone would play regularly on the thirty day basis where as the average Debtors’ Days Outstanding Australia is closer to 58 days. This difference can make a significant variation in a business’ Cash Flow Forecast.
* Particular attention also needs to be provided to the timetable for payments to the Australian Taxation Office relating to GST, tax deducted from team members’ salaries, superannuation payments for team members. We can give you an overview of the due dates for these payments to the Australian Taxation Office.
* Before signing any Contracts it is a good idea to visualise how you are going to differentiate your business from others already operating. You can do this by visiting the site of the business and watching traffic flows and observing what happens at various times of the day. Is the location going to be a safe – friendly location for your customers to visit and for your team members to work at?
* You also need to be conversant with the traffic rules and parking regulations that apply near the location that you are contemplating.
* There are many challenges running a small business. Unfortunately. the failure rate increased significantly in the last twelve months. We strongly suggest that you have an in-depth discussion with us before you sign any Contracts so that we can review your planning documentation and coordinate the preparation of the Business Plan and Predictive Accounting Reports for you to review so that you have a full appreciation of the costs that will be incurred in the business and the gross profit that will need to be generated to cover the costs and to earn a reasonable profit for you.

We look forward to having discussions with you relating to your business venture.

# **Are You Planning To Sell Your Business?**

From the moment you acquire or commence a business you should assume that one day you will want to sell or merge your business with another business. To enable the best possible return, you should always keep the business in a “saleable state”. If you decide to sell your business today and want to list it for sale in 6-weeks' time, most probably, you'll not be giving yourself enough time to maximise the potential return. Ideally, the best way to sell the business is over a 2 - 3 year period. This period will allow enough time to fine tune the financial results and ensure that appropriate systems and records have been put in place to enhance the value of the key intangible asset in the business – goodwill.

Goodwill is an intangible asset. This means that its value is in the **“eyes of the beholder”**. Whilst your personality, skills and marketing ability have been important in the establishment of the business, when someone looks to buy your business, they ask:

* Can the business function without the present owner?
* If the present owner was not there, will a lot of the customers go elsewhere?
* If the present owner is not there, will the experienced loyal staff remain with the business?
* If the present owner is no longer involved, will the suppliers continue to supply products and services at the current negotiated rates?

Purchasers will probably ask about the **“business systems”** that have been implemented. **“Systems”** mean that the business can continue to operate without the direct involvement of the owner.

If you are contemplating preparing your business for sale, we suggest that you prepare a detailed summary of the Organisation Chart together with details of the tasks allocated to each individual team member, so that the delegation system within the business can be demonstrated to a potential purchaser.

It is a good idea to undertake a **“preparation for potential sale review”**. This could include:

* Are there repairs and maintenance that should be undertaken within the building/plant and equipment?
* Is the business' website up-to-date with interesting articles included?
* Is your social media strategy working efficiently?
* Has a team member been delegated the responsibility of being involved in the management of social media for your business?
* Has your business renewed or updated agreements with suppliers so that your business is receiving products on the best possible terms?
* Is the system for the control of research and development being reviewed and is it functioning efficiently?
* Who is responsible for monitoring the development of intellectual property within the business – has the intellectual property been documented and if appropriate is consideration being given to applying for a patent to protect that intellectual property?
* If you are going to sell the business, will the sale price include all of the intellectual property that has been developed and is currently being used in the business?
* Have you implemented a cyber security system?
* Do you have a detailed customer list?

All of these items make a contribution to the overall evaluation of the business for the determination of the value of goodwill.

There are literally thousands of businesses available for sale in Australia at present as a consequence of “baby boomers” exploring the opportunity to sell their businesses and to retire. There doesn’t appear to be as many enthusiastic buyers as what there are sellers.

If you would like to have a discussion with us about how we can assist you to prepare your business for sale, please do not hesitate to contact us.

# **Business Entities – Sole Trader**

When you commence in business you have to make a decision about the type of business entity you intend to use.

The simplest business entity is to operate the business as a sole trader.

A sole trader can trade under his/her own name or can register a Business Name. Business Name registration does not create a separate legal entity. Registration under a Business Name has no legal implications other than allowing a person to trade under that name.

If you intend to run your business as more than a hobby i.e. running a business or other enterprise you should apply for an Australian Business Number (ABN).

An ABN is a unique 11 digit number that identifies your business to the government and community.



You can use an ABN to:

* Identify your business to others when ordering and invoicing.
* Avoid Pay As You Go (PAYG) tax on payments you get.
* Claim goods and services tax (GST) credits.
* Claim energy grants credits.
* Get an Australian domain name.

Registering for an ABN through the Australian government’s business registration service is free.

If you apply for an ABN and you are not entitled to an ABN, your application may be refused. The reason for refusal will be explained to you by the Australian Taxation Office.

To register for an ABN you will need to be able to:

* Identify your business structure – in this case sole trader.
* Supply proof of your identity.
* Supply details of your business activities.

The sole trader is liable to include all of the business income in their personal income tax return. All assets owned by the sole trader, both personal and business, are potentially available to pay lenders/creditors of the sole trader’s business because the business has no separate legal status.

It is important that business operators have a clear understanding of the duties and responsibilities of the business entity that you will be operating under. We invite you to have a discussion with the accountant in our organisation who you are doing with.

# **Lifetime Value of a Customer**

Businesses need to ensure that there is ongoing education of the team on the **“lifetime value of a customer”**.

Customers should represent **“repeat business”**. Repeat business equals profit. Businesses need to install appropriate systems, so every customer becomes a valued lifetime customer.

Many businesses find that, with good service, a customer will stay with them the seven to ten years. If you assume that the lifetime value of a customer is seven years on average, to determine the **“lifetime value of the customer”** you would multiply the average sale by the number of times you expect to see the customer each year and then multiplied the projected annual sales by the number of years expectancy for **“lifetime value”**. This will give you an idea of what the customer’s potential worth is to your business and give you an indication of the ongoing investment that your business might make with the customer.



For example, if an average sale to a customer was $100 and you anticipated visits from that customer once a month, this would mean that the annual sales were expected to be $1,200 and, if the life expectancy is seven years, the lifetime value of the customer is estimated at $8,400. This is a significantly higher figure than what a salesperson might have considered in the first instance, when they might have looked at sales of $100 or perhaps the forecast annual sales of $1,200.

One of the most effective ways of marketing your business is to increase the number of visits your long-term customers make to your business. This will add to the lifetime value of your customer.

To develop lifetime value of customers, you should consider the implementation of a referral system, where current customers are encouraged to refer new people to your business, with an appropriate incentive being given to the referees. This could be a **“lucky weekly price”** or a discount on a product in your business.

How do you develop lifetime customers?

* improve your referral system
* create outstanding service to all customers to encourage them to become lifetime customers
* create a database of customers and offer them outstanding service
* keep improving your level of service
* offer special events and promotions to your customers
* continually keep in touch with your customers via newsletters, social media, events
* go the extra mile!
* get your customers to say **“WOW”**!

If you have any questions relating to the implementation of systems relating to customers please do not hesitate to discuss your questions with us.

# **Directors’ Role In A Small/Medium Size Business – Part 1**

**Legislation**

Directors have many legal issues they need to consider in the performance of their duties. The legislation that Directors will probably have some involvement with includes:

* *Corporations Act*, which includes the legislation for the creation of Crowd Sourced Funding Equity Raising, Directors’ duties and responsibilities, operation of companies.
* *Taxation Act* including:
  + all taxation legislation including Research and Development
  + and the legislation relating to Early Stage Innovation Companies
* Fair Work Australia legislation.
* Workplace Health and Safety Laws.
* Environmental Laws.
* State and Territory Government Laws.
* Ensuring that any product sourced overseas has been purchased from legitimate businesses.

Directors’ duties can be quite complex and it is important that any person who was appointed a Director as an understanding of the duties and responsibilities. If you would like to discuss any of these issues please contact the accountant within our firm that you normally deal with.

# **Corporate Governance and Risks – Part 1**

Corporate governance applies to all businesses, not just companies; therefore it applies to charities, churches, sporting, cultural organisations as well as corporations and businesses.

Some of the key risks that Directors, Management or Committee Members need to be ensuring that strategies have been developed for include:

* **Quality Assurance** - is the product or services being produced in an identical way each time that a customer has contact with the business? Quality assurance is integral to risk management. It is a process that never stops.
* **Occupational Health & Safety** - every business or organisation has a **"duty of care"** to a range of stakeholders including taem members, customers, suppliers, contractors and members of the public visiting the business or organisation's premises or when team members visit other businesses and organisations' premises. Directors, Committee Members and Management must do everything that is reasonably practical to protect the health and safety of others at the workplace. This is a very significant risk and the persons responsible should ensure that appropriate systems have been in place and that those systems are communicated to all team members and that appropriate ongoing training is being held.
* **Compliance** - relates to the laws of the land and could cover issues such as:
* income tax
* workplace health & safety
* money laundering
* WorkCover
* privacy legislation
* fair trading
* environmental legislation

The business' management should prepare detailed lists of the legislation which directly or indirectly affects the business or organisation and they should then ensure that appropriate strategies have been introduced to ensure that the business or organisation complies with those laws and regulations.

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| **ATTENTION ACCOUNTANTS, BOOKKEEPERS, BUSINESS ADVISORS**  Additional information on the articles contained within this issue of **Business Plus+** are available. These papers are highlighted to our subscribers as a “reference library” resource for them.  [**Paper 003-010 – Sole Trader**](https://www.essbiztools.com.au/joomlatools-files/docman-files/003%20-%20Business%20Entities/Paper%20003-010%20-%20Sole%20Trader.doc)[**Paper 036-010 – When is the Best Time to Sell?**](https://www.essbiztools.com.au/joomlatools-files/docman-files/036%20-%20Selling%20A%20Business/Paper%20036-010%20-%20Check%20List%20For%20The%20Sale%20Of%20A%20Business.doc)  [**Paper 018-001 – Customer Service**](https://www.essbiztools.com.au/joomlatools-files/docman-files/018%20-%20Customers/Paper%20018-001%20-%20Customer%20Service.doc)[**Paper 029-024 – Corporate Governance Risks**](https://www.essbiztools.com.au/joomlatools-files/docman-files/029%20-%20Risk%20Management/Paper%20029-024%20-%20Corporate%20Governance%20Risks.doc)  [**Paper 013-005 – Director’s Checklist**](https://www.essbiztools.com.au/joomlatools-files/docman-files/013%20-%20Corporate%20Governance/Paper%20013-005%20-%20Directors%20Checklist.doc) | |
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