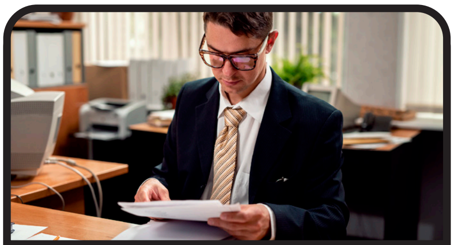
SPRING 2024

BUSINESS & PROFIT MATTERS

Strategies for managing your business



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ACCOUNTANTS & ADVISERS

When Should A Business Be Valued?

Valuing your business is crucial for understanding its worth and making informed decisions. But when is the right time to do it?

Here are key moments when a business valuation is essential:

1. **Selling or Merging:** A valuation is critical if you plan to sell or merge your business. It helps determine a fair price and provides potential buyers or partners with a clear picture of the company's worth.
2. **Attracting Investors:** Investors will want to know the value of your business before committing capital. A solid valuation can boost their confidence and improve your chances of securing investment.
3. **Preparing for Exit or Succession:** Whether you're retiring or passing the business on to a family member, a valuation ensures a smooth transition by setting expectations for all parties involved.
4. **Regular Financial Check-Ups:** Even without a sale or investor on the horizon, regularly valuing your business helps track growth and highlights potential areas for improvement.
5. **Securing Loans or Financing:** Lenders may require a valuation to assess the business's financial health before offering loans. It can also strengthen your position during negotiations for better terms.
6. **Ensuring Future Tax Concessions:** If you intend to sell your business, you want to ensure you pay little or no tax on that sale. Regularly valuing your business may be required, as some of those tests to do so are a 'whole of time test', not just when you sell it. Depending on the value of your business, restructuring may be required.

Valuing your business at key milestones ensures you're well-prepared for the future and helps with strategic planning and growth.

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Business Coaches: Are They Any Good for Small Businesses?

Running a small business often means juggling many hats—owner, accountant, marketer, and everything in between.

Amid these roles, it's easy to feel overwhelmed. That's where business coaches come in. But are they worth it for small businesses?

WHAT DOES A BUSINESS COACH DO?

A business coach is a mentor who helps you identify goals, overcome challenges, and develop strategies to grow your business. They provide an outside perspective, expertise, and accountability. Many small business owners are good at their craft but may need more business skills to scale, streamline processes, or navigate new opportunities. A coach can step in with tailored advice.

THE PROS OF HIRING A BUSINESS COACH

1. **Objective Guidance:** Coaches offer unbiased insights and can see areas for improvement that you might miss, simply because you're too close to the business.
2. **Accountability:** It's easy to get caught up in the day-to-day grind. A coach helps keep you on track, pushing you toward your long-term goals and meeting deadlines.
3. **Skill Development:** Coaches often have expertise in various fields, such as marketing, finance, or leadership, which can help you develop essential business skills.

Looking for further advice on your small business? Why not consult with a trusted business adviser?

THE CONS TO CONSIDER

1. **Cost:** A good business coach isn't cheap, and for small businesses with tight budgets, the cost might be a deterrent.
2. **Finding the Right Fit:** Not all coaches will be the right match for your needs. It can take time and effort to find someone who truly understands your business and industry.

ARE THEY WORTH IT?

A business coach can be a valuable investment for small business owners looking to sharpen their focus, increase efficiency, and reach new heights. However, it's crucial to weigh the costs and find a coach aligning with your business vision.

How Does A Business Valuation Work?

Understanding how a business valuation works is essential for anyone looking to buy, sell, or simply understand the value of their business.

A business valuation is a comprehensive process determining a company's economic value, providing a clear picture of its worth.

Various factors can influence this valuation, some of which can enhance the value of the business, while others may reduce it.

THE BASICS OF BUSINESS VALUATION

At its core, a business valuation involves assessing the financial health, assets, liabilities, and potential for a company's future earnings. Several methods can be used to perform this valuation, including:

- **Asset-Based Approach:** This method calculates the net asset value of the business by subtracting liabilities from the total assets. It's often used for companies with substantial tangible assets, like manufacturing firms.
- **Income-Based Approach:** This approach focuses on the company's ability to generate future earnings. It involves discounting the expected future cash flows to their present value, making it suitable for businesses with stable incomes.
- **Market-Based Approach:** This approach compares the business to similar companies that have recently been sold. It's handy for determining the value of businesses in well-established markets.

FACTORS THAT COULD INCREASE A VALUATION

Several elements can drive up the value of a business, making it more attractive to buyers or investors:

1. **Strong Financial Performance:** A consistent track record of profitability and positive cash flow can significantly boost a company's valuation. Buyers and investors look for businesses that are financially stable and capable of generating a steady income.
2. **Market Position:** A strong market position, whether through a loyal customer base, a unique product or service, or a solid brand reputation, can enhance a business's value. Companies that are market leaders or have a competitive edge tend to command higher valuations.
3. **Growth Potential:** Businesses with clear growth prospects, such as expanding into new markets, launching new products, or increasing market share, are often valued more highly. Investors are willing to pay a premium for companies that demonstrate the potential for future expansion.
4. **Strong Management Team:** A competent and experienced management team can add significant value to a business. Buyers and investors value leadership that can steer the company through challenges and capitalise on opportunities.
5. **Intellectual Property:** Patents, trademarks, and proprietary technology can be major assets, increasing a company's valuation. Intellectual property can provide a competitive advantage, making the business more valuable.

FACTORS THAT COULD DECREASE A VALUATION

On the flip side, certain factors can detract from a business's value:

1. **Poor Financial Performance:** Inconsistent earnings, high levels of debt, or negative cash flow can lower a company's valuation. Financial instability raises red flags for potential buyers and investors, who may see it as a riskier investment.
2. **Market Saturation:** If the business operates in a highly competitive or saturated market with little room for growth, its valuation may be lower. A lack of differentiation from competitors can also negatively impact the perceived value.
3. **Legal or Regulatory Issues:** Ongoing legal disputes, regulatory fines, or compliance issues can significantly decrease a business's valuation. These problems can pose substantial risks and liabilities, making the business less attractive to buyers.
4. **Weak Management Team:** A lack of strong leadership or high turnover in key management positions can reduce a business's value. Stability and effective management are critical for sustaining and growing a business, and their absence can be a major concern.
5. **Outdated Technology or Assets:** Businesses relying on outdated technology or equipment may be valued lower due to the anticipated costs of upgrades. In industries where technology evolves rapidly, staying current is crucial for maintaining value.

A business valuation is vital for helping owners, buyers, and investors understand a company's worth.

A valuation provides a comprehensive picture of its value by assessing various aspects of the business, from financial performance to market position. While strong financials, market position, and growth potential can boost a business's valuation, factors like poor performance, legal issues, and outdated technology can have the opposite effect.

Understanding these factors allows business owners to proactively enhance their company's value and ensure it is well-positioned for future success.

Cash Flow Under Pressure? Let’s Do A Business Health Check

Running a business often means juggling multiple responsibilities, and one of the most critical tasks is managing cash flow.

Cash flow pressures can sneak up on even the most successful businesses, and how you handle them can determine your company’s long-term viability.

Here’s how to manage these pressures effectively, ensuring your business remains financially healthy.

UNDERSTAND YOUR CASH FLOW

The first step in managing cash-flow pressures is clearly understanding your cash flow.

This means knowing how much money is coming in and going out on a regular basis. Regularly reviewing your cash flow statements will help you identify patterns and anticipate potential shortfalls.

It’s crucial to differentiate between your revenue and actual cash available since expenses can often outpace incoming payments.

TIGHTEN UP YOUR INVOICING PROCESS

Late payments from clients can be a significant source of cash-flow pressure. To mitigate this, ensure your invoicing process is as efficient as possible. Send invoices promptly, and consider shortening your payment terms if necessary.

For example, instead of the traditional 30 days, you might request payment within 14 days.

Additionally, offering small discounts for early payments can incentivise clients to pay sooner, which helps keep cash flowing into your business.

MAINTAIN A CASH RESERVE

Just as individuals benefit from an emergency fund, businesses should also maintain a cash reserve.

This reserve can act as a buffer during lean times, allowing you to cover unexpected expenses or bridge temporary gaps between outflows and inflows.

While it may take time to build this reserve, even setting aside a small percentage of your profits can make a significant difference in your ability to weather financial storms.

REVIEW AND CUT UNNECESSARY EXPENSES

When cash flow is tight, it’s essential to scrutinise your expenses. Look for areas where you can cut costs without compromising your operations.

This might mean renegotiating with suppliers, finding more cost-effective ways to market your business, or even temporarily reducing non-essential spending.

Regularly reviewing your expenses helps ensure that every dollar spent is contributing to your business’s growth and stability.

COMMUNICATE WITH CREDITORS AND SUPPLIERS

If you’re facing cash-flow challenges, don’t hesitate to communicate with your creditors and suppliers.

Many businesses have been in the same position and may be willing to negotiate payment terms that are more manageable for you. This might involve extending payment deadlines or setting up a payment plan.

Proactively addressing the issue shows that you are responsible and committed to meeting your obligations.

Managing cash flow is an ongoing challenge for every business, but you can navigate these pressures effectively with careful planning and proactive strategies.

By understanding your cash flow, tightening up your invoicing, maintaining a cash reserve, reviewing expenses, and communicating openly with creditors, you’ll be better equipped to keep your business financially healthy, even during tough times.

Is The Right To Disconnect A Legal Right To Ignore?

While it may seem standard to avoid taking personal calls, messages, or emails during work hours and set a similar boundary after work, this is only sometimes the case for many employees whose work responsibilities continue off the clock.

On Monday, August 26th, 2024, the Right to Disconnect was introduced into legislation. It allows employees of non-small business employers to refuse to engage in work-related communication outside their standard working hours, except in certain situations where it may be deemed unreasonable.

This right will apply to small businesses and their employees starting August 26th, 2025.

Understanding and respecting this right is critical to maintaining a healthy work environment for small business employers.

Communication outside of work hours should be managed with clear guidelines to balance business needs and employee well-being, whether through calls, emails, or messages.

ESTABLISHING CLEAR EXPECTATIONS

To avoid confusion, employers should discuss out-of-hours contact expectations with their employees.

This conversation should cover when employees are expected to be available, the preferred communication channels, and the conditions under which after-hours contact is necessary.

For instance, a technical role might require availability when a critical system issue arises, but this should be communicated and agreed upon.

CONSIDERING REASONABLENESS

When determining if an employee's refusal to engage after hours is unreasonable, several factors should be considered:

- the nature of the contact,
- how disruptive it is, and
- whether the employee is compensated for their availability.

The employee's role, responsibilities, and personal circumstances, such as caregiving duties, should also be considered.

FORMALISING AND REVIEWING ARRANGEMENTS

It's beneficial to formalise out-of-hours contact arrangements in writing and ensure they are reviewed regularly, particularly when an employee's work hours or responsibilities change. This formalisation helps both parties understand their obligations and reduces the likelihood of misunderstandings.

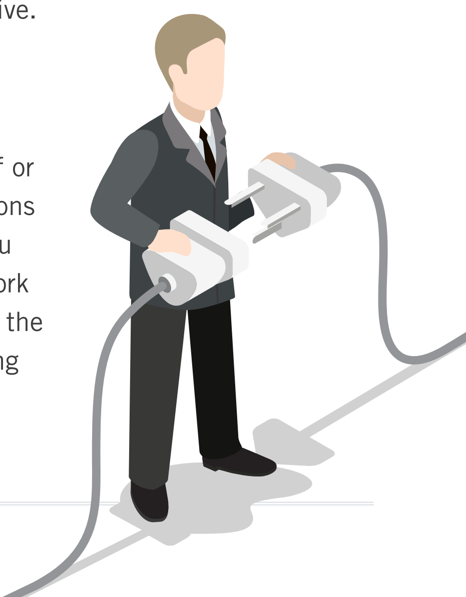
SUPPORTING YOUR TEAM

Training for managers and employees on effective communication and handling after-hours contact can further support the right to disconnect. Reviewing internal policies and updating job descriptions to reflect these expectations can also help ensure clarity.

As a small business employer, it's important to understand and respect this right. Foster open discussions with your team about after-hours contact. Establish clear expectations and communication channels to ensure everyone is on the same page ahead of the application to small businesses in 2025.

While some roles may require occasional after-hours availability, such as in emergencies, these instances should be clearly defined. It's also crucial to regularly review and adjust these arrangements as needed, ensuring they remain fair and effective.

If you're unsure where to start, begin with opening a dialogue with your HR staff or employees about expectations around communication. You contribute to a healthier work environment by prioritising the right to disconnect, boosting employee satisfaction and productivity.



Strategic Planning Tips for Business Growth In The New Year

As the end of the calendar year approaches, it's the perfect time to reflect on your business's progress and set the stage for growth. Strategic planning is essential to ensure your business thrives in the coming year.

Whether you aim to expand your customer base, increase revenue, or streamline operations, here are some key tips to help you get started.

BUDGETING FOR THE YEAR AHEAD

A well-structured budget is the foundation of your business's financial health. Start off by reviewing your current financial statements to understand where your money is going. Look for areas where you can cut costs without compromising quality or efficiency.

Consider forecasting your revenue for the year ahead, considering any anticipated market changes or business developments. This will help you set realistic financial goals and allocate resources effectively. Don't forget to create flexibility for unexpected expenses or potential opportunities.

REVIEWING AND OPTIMISING OPERATIONS

Taking a closer look at your day-to-day operations can reveal opportunities for efficiency improvements. Start by evaluating your current processes—are any bottlenecks or outdated practices slowing you down?

Consider investing in technology or tools that can automate routine tasks, freeing up your time to focus on strategic initiatives. Review your supply chain and vendor relationships to ensure you're getting the best value and service.

SETTING CLEAR AND ACHIEVABLE GOALS

Goal setting is crucial for driving your business forward. Begin by assessing what you've achieved this year and identifying areas for improvement. Your goals should be specific, measurable, achievable, relevant, and time-bound (also known as SMART goals).

For example, instead of setting a vague goal like "increase sales," aim for something more precise like "increase sales by 15% in the first quarter by expanding our online presence." This approach gives you a clear target to work towards and a way to measure success.

ENGAGING YOUR TEAMS

Your team plays a vital role in your business's success. As you plan for the New Year, involve your employees in goal-setting. This fosters a sense of ownership and ensures that everyone is aligned with the company's vision.

Provide opportunities for professional development and encourage open communication to keep your team motivated and engaged. A committed and skilled workforce is one of your most valuable assets.

MONITORING PROGRESS AND ADJUSTING PLANS

Once your plan is in place, it's essential to monitor your progress regularly. Set a schedule for reviewing your financials, goals, and operational metrics. If things aren't going as planned, be prepared to make adjustments. Flexibility is crucial in navigating the challenges and opportunities that the new calendar year will bring.

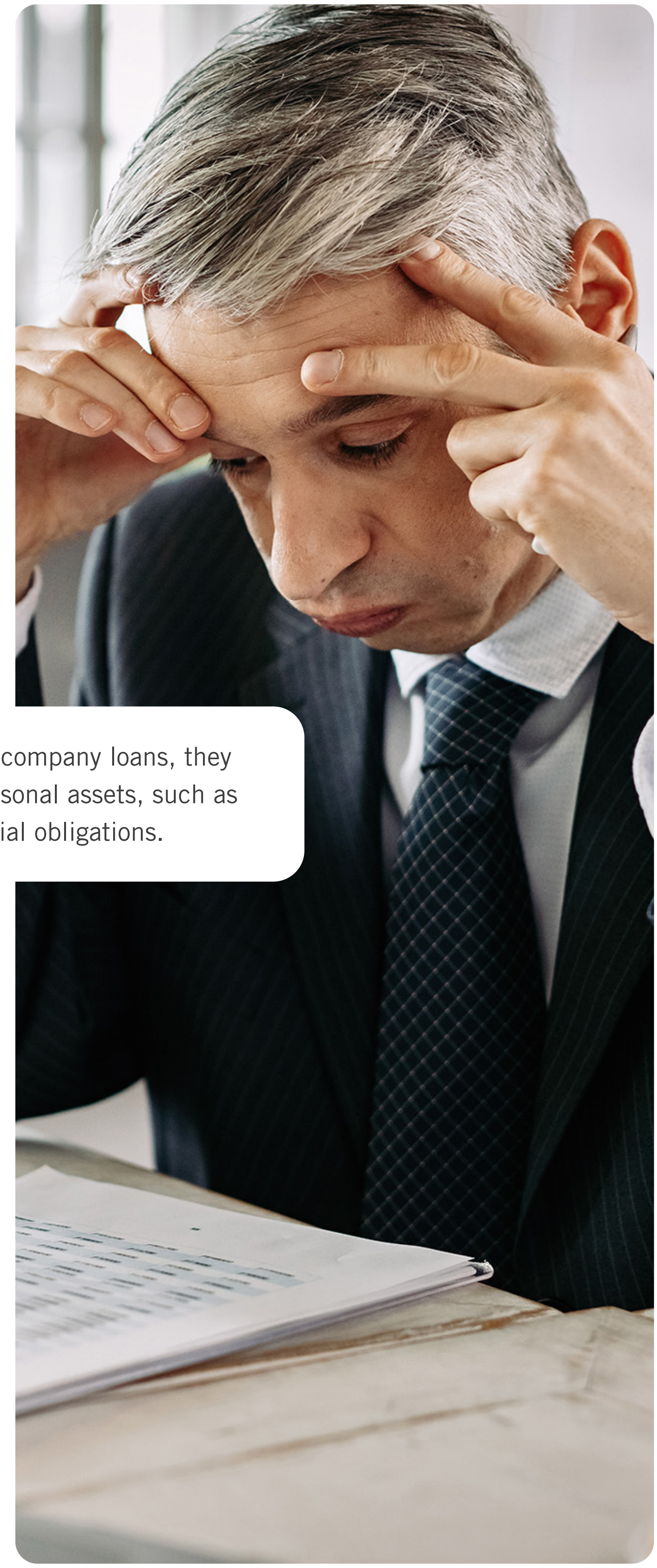
The new year is a fresh start and an opportunity to set your business on a path to success.

By budgeting wisely, setting clear goals, optimising operations, engaging your team, and staying flexible, you'll be well-positioned to achieve your business objectives. Take the time to plan strategically now, and you'll reap the rewards in the coming months.

2025

Director Liability For A Company - How Does It Work?

As a director, your responsibilities don't end when your company ceases trading. Even after a business stops operating or is deregistered, you may still be personally liable for certain obligations. This includes situations where the company has debts or becomes insolvent.



If a company is insolvent—meaning it can't pay its debts as they fall due—directors can be held accountable. Signs of insolvency often include low cash flow, delayed payments, and legal action from creditors. Directors are legally required to assess the company's financial position regularly to determine if insolvency is a risk. Failing to take timely action can lead to personal liability for unpaid debts.

Directors can also face personal liability for company losses if they breach their duties. This could lead to civil penalties, criminal charges, or even disqualification from managing companies in the future. Breaching director duties includes failing to act in the company's best interests or not meeting the required financial obligations.

Under the Director Penalty Regime, directors may be held responsible for unpaid taxes, particularly PAYG withholding and the Superannuation Guarantee Charge. This means that even tax debts can fall on directors personally if not addressed by the company.

Additionally, if directors have provided personal guarantees for company loans, they may be liable to repay those loans if the company defaults. Personal assets, such as a home, could be at risk if the company fails to meet its financial obligations.

In cases where the company acts as a trustee, directors may also be liable for any breaches of trust or if the company acts beyond its powers.

Finally, directors involved in illegal phoenix activity—transferring assets to a new company to avoid paying debts of an old one—may face severe legal consequences, including personal liability and criminal charges.

In short, being a director comes with ongoing responsibilities, and personal liability can extend far beyond the active life of a business. Understanding these obligations is crucial to protecting yourself and your assets.

If the information in this article has raised some concerns, why not speak with your trusted business adviser? We may be able to assist you (or point you in the right direction).

The Value of Client Retention: Why It's Key for Your Small Business

As a small business owner, attracting new clients is likely high on your list of priorities. However, another side to the equation is just as crucial—retaining the clients you already have. Client retention plays a significant role in your business's long-term success, and focusing on it can be a fiscally savvy move.

Here's why prioritising client retention can make a significant difference in your business and how you can improve retention rates.

1. Cost Efficiency

Acquiring new clients can be expensive. Marketing, outreach, and onboarding all require substantial time and resources. In contrast, maintaining relationships with existing clients tends to be more cost-effective. Research consistently shows that acquiring a new customer can cost five times more than retaining an existing one. By keeping clients happy and continuing to meet their needs, you save money that can be redirected into growing your business in other ways.

For example, investing in personalised client services or loyalty programs may seem like an added cost, but it's typically more efficient than chasing new leads.

2. Increased Revenue Opportunities

Existing clients are more likely to make repeat purchases, trust your recommendations, and explore higher-value services. As they become familiar with your business, there's an opportunity to introduce new products or services that meet their evolving needs. Cross-selling and upselling become more natural when a client already trusts your brand.

From an accounting perspective, this increases your revenue without the added expenses of new client acquisition. Additionally, loyal clients tend to refer others, creating a steady stream of new business at no extra cost to you.

3. Stronger Client Relationships

Retention is not just about keeping clients on board; it's about building long-term relationships.

Stronger relationships mean deeper trust and open lines of communication. When clients trust you, they're more likely to turn to you when they need additional support, such as financial advice, which can lead to more stable revenue.

You can focus on building solid and lasting relationships with your customers through consistent communication, excellent service, and personalised attention.

4. Client Feedback and Business Improvement

Loyal clients can provide valuable feedback that helps you improve your offerings. Because they've had more experience with your business, they can offer insights into areas that need improvement, helping you refine your services or products. You can boost satisfaction and improve retention by actively listening to their feedback and making adjustments.

You should seek feedback from your own customer base to foster a mindset of continuous improvement and remain competitive.

5. ReducedTurnover

High client turnover can lead to instability in your revenue streams. Lowering your turnover rate can stabilise your cash flow and long-term financial health.

Consistently losing clients means you're constantly in a cycle of trying to fill gaps, which can limit your ability to grow. In contrast, focusing on retention provides a reliable income stream, allowing you to plan ahead more effectively.

Tips to Improve Client Retention

- **Focus on customer service:** Make your clients feel valued by providing exceptional support and responding to their needs quickly.
- **Offer loyalty incentives:** Discounts, loyalty programs, and personalised offers can help keep your clients coming back.
- **Stay engaged:** Regularly check in with your clients to ask about their experience and let them know about new services.
- **Provide ongoing value:** Find ways to offer value continuously, whether through educational content, exclusive deals, or updates on how your products and services can meet their changing needs.

While attracting new clients is important, retaining your existing ones is key to maintaining a financially sound business. Client retention often holds the key to sustainable growth and long-term financial stability.

By nurturing relationships with existing clients, businesses can reduce costs, unlock new revenue opportunities, and foster deeper trust and loyalty.

Investing in customer relationships isn't just good business—it's a strategic move that leads to stronger, more resilient enterprises.