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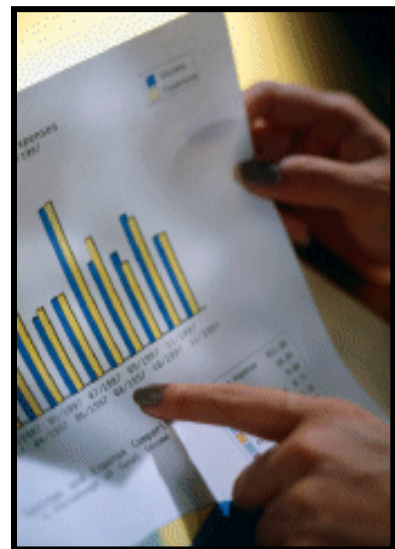
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### **Monitor Solvency So You Don't Get Into Difficulties**

In the current economic circumstances business owners and managers should be monitoring their business' solvency so as to avoid potential problems. Signs of potential insolvency include:-

- declining profit margins - leaders should be conscious of gross profit percentages and net profit percentages;
- declining cash flow - this can be caused by delay in payments from debtors; demand from creditors for earlier payments; build-up in stock and work-in-progress levels; or unnecessary capital expenditure;
- a high level of staff turnover can be a clue of some financial instability in the business;
- creditors putting stop on supplies - can be a real indicator that something is wrong with the business;
- a never decreasing bank overdraft is also a danger sign;
- loss of a major customer can cause instability in the business;
- falling behind in payments of GST and Income Tax;
- incurring interest on credit card balances;
- paying creditors well beyond their stated terms of trade can highlight financial problems and could be very dangerous if the creditor stops supply and demands immediate payment.



If any of these problems are occurring in the business, the earlier the business asks their accountants for a full review of business activities, the better, so that a policy can be determined, including:-

- full diagnostic review of the business;
- review debtors, stock and work-in-progress levels;
- review creditors to determine days taken to make payments compared to creditors' terms of trade;
- update or preparation of a business plan which outlines the business' strategies for successful trading over the next 12 months. This will include budget and cash flow projections.

The key thing for the business leader to do is to take action and not sit in the hope that the situation will improve itself. This will mean maintaining relationships with the bank and keeping the bank informed; talking to key customers and entering into realistic payment arrangements with suppliers; keeping team members informed so that they are able to answer comments being made to them by customers and suppliers; and at the same time, continue to be outstanding ambassadors for the business. If things are 'off the rails', accept that changes are necessary even though some of them may be painful.

If you have any concerns about your business' performance in the current difficult circumstances please contact us.

## Culture Is The Hidden Success For Businesses

To be successful a business needs culture - the "icing on the cake".

Culture affects every aspect of the business; shareholders, directors, management, team members, customers and suppliers.

Culture is the hidden success:-

- The attitude of team members of "going the extra distance" to satisfy customers requirements.
- The attitude of customers who might be prepared to overlook late delivery because of their overall satisfaction of dealing with your business.



Culture relates to the image that your business creates in the market place:-

- Are staff pleasant and presentable?
- Is the telephone answered in a professional manner?
- Are emails produced in a professional manner?
- Are telephone calls and emails replied to promptly?
- Are products delivered on time?
- Are products delivered with the required workmanship?
- Is quality a priority in the business?

Culture is one of the main attributes of a business that will hold the business together and will give the business that extra strength and perseverance to battle through and survive harsher economic circumstances.

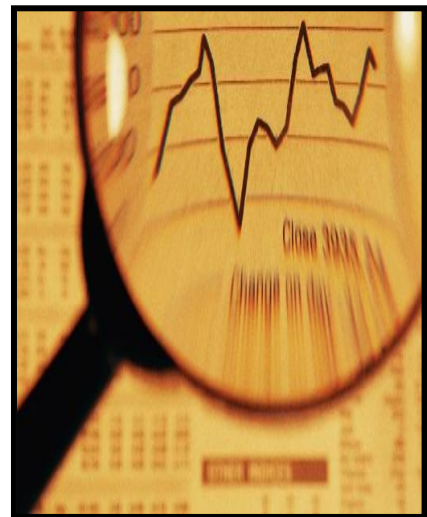
If you would like to discuss a "Culture Review" for your business please contact us.

## Franchisees Need To Monitor The Franchisor

If you are operating a business as a franchisee you need to exercise due diligence and observe closely the comments made by the franchisor and read and analyse the written reports, including financial reports, prepared by the franchisor. If you are unable to understand and interpret financial reports, please seek our professional accounting advice.

The type of information the franchisee should be monitoring include the franchisor's audited financial statements, which the franchisor is obliged to produce, on an annual basis, under the franchising Code of Conduct. If the franchisor produces six-monthly reports, try and get a copy of these.

Look out for signs of financial difficulty from the franchisor. This could include late despatch of stock, trouble obtaining stock, or long delays in payments of amounts owed to the franchisee. If you are suspicious that the franchisor is having difficulties, seek legal advice at the earliest opportunity as to whether there has been a breach of the franchise agreement. This might give you a legal basis to take some action against the franchisor. Possible actions could include renegotiating the franchise agreement and renegotiating the lease so that the franchisee deals directly with the landlord.



In some franchises, individual franchisees have formed groups to monitor the performance of the franchisor. If the franchisor does get into financial difficulty and an administrator or liquidator is appointed, franchisees should obtain immediate legal advice. In most cases, you will be obliged to continue to operate the business and make the payments required under the franchise agreement to the administrator or liquidator. If you have any meetings with the franchisor or representative of the franchisor, make sure you keep detailed file notes of all matters discussed and that you keep all correspondence to and from the franchisor or the franchisor representatives.

## Exporters Need Export Plans

Exporting requires detailed planning and research to understand cultural issues, regulations, types of business models and representatives. It is important that detailed investigations are undertaken and that you don't launch blindly into a foreign market.

To successfully undertake export operations you need:-

- to consider an export market business plan;
- a plan to suit your market priorities and objectives;
- business development services to help with aspects of planning representation in other countries;
- sales and marketing targeting initial customers,
- targeting reference sites;
- management for your business in the foreign market;
- to facilitate strategic alliances in the foreign market.



If you require further assistance in planning an Export Entry Strategy you should contact Austrade and/or have a discussion with us.

## Export Market Development Grant

If you are an exporter, your sales income is under \$30million per annum and the business has incurred at least \$10,000 on eligible export expenses (in the first claim year you can combine 2 years of expenses), you can claim an Export Market Development Grant of 50% of the expenditure over \$10,000, with the maximum grant being \$150,000. To apply for an Export Market Development Grant you must lodge the Export Market Development Grant application by **30 November 2009**.



Key expenses eligible for claims (some have sub-limits) include:-

- Overseas Representation;
- Marketing Consultants;
- Overseas Market Visits;
- Communication Costs with overseas markets;
- Product Samples;
- Trade Fair Expenses;
- Promotional Material; and
- Overseas Buyers Expenses in visiting Australia.

If you would like assistance with the preparation of an Export Market Development Grant application, please contact us.

## Financial Stress Testing

If you are planning to borrow money from a financial institution in the current difficult economic times, you will need to satisfy the bank that you have the ability to repay the loan irrespective of the prevailing financial conditions.

Financial Stress Testing requires the business to prepare best and worst case scenarios, taking into account sales levels, gross profit margins, operating expenses and interest rates. As part of the Financial Stress Testing Presentation, you will need to present financial data prepared no later than 1 month prior to the application being lodged, so the banker can ascertain the current financial performance. Other items to be included in the Financial Stress Testing analysis include Key Performance Indicators for the previous financial year and the current year to date, debtors' aged analysis, creditors' aged analysis and budget variance reports.

If you need to borrow additional funds, please contact us so we can assist in the preparation of a suitable package of information to satisfy the bank's Financial Stress Testing requirements.

## Importers - Are You Using The Tradex Scheme?

Importers can register with AusIndustry to avail themselves of the Tradex Scheme to preserve cash flow by not having to pay upfront payments for Customs Duty, GST or other taxes, if it is expected the goods are to be subsequently exported, or incorporated in goods that are exported, within one year. Approximately 1,520 businesses availed themselves of the Tradex Scheme last financial year. These firms received \$85million in customs duty collections forgone and \$155million in GST exemptions.

If you would like to discuss the operation of the Tradex Scheme, please do not hesitate to contact us.

## Business Plans - Some Questions to Consider

### Suppliers

Some questions to consider when reviewing your suppliers for the preparation of a business plan:-

- Who are your major suppliers and for which products/services?
- What are your annual purchases?
- What are your suppliers' terms of trade?
- Have you negotiated the best terms of trade with suppliers?
- Are there alternative suppliers?
- Do you involve suppliers in marketing/promotion activities?
- Do you negotiate special prices for specific purchases?
- Do you obtain quotes from alternative suppliers?
- Have you given personal guarantees to suppliers?



To be continued.....There are over 50 questions relating to the preparation of a business plan. In the next issue, we will cover Business Quotes Proposals.

## What's It Mean?

**Trend Analysis...** assists in planning your business growth and goal setting based on the previous year's performance. Factors affecting Trend Analysis include competition; management; business planning; business re-investment; and demographic information of customers, etc.



### FREE SEMINARS

1. If you have a Self Managed Super Fund or are considering setting up your own superfund this seminar is a **must** attend so, come along on the 15<sup>th</sup> September 2009 to learn about the new rules, obligations & regulations for super funds.
2. Economic Update breakfast seminar on the 22<sup>nd</sup> September 2009.

For more information and to reserve your place call 03 5221 1000

**Our new web-site is finally live – go to [www.illingworthdavid.com.au](http://www.illingworthdavid.com.au) to take a look.**

### 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*



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