



The **BUSINESS**
ACCELERATOR
MAGAZINE

December 2019



THE 5 PHASES OF BUYING A BUSINESS

If you're thinking of buying a business, you need to understand that it is a process. Basically, there are five stages or phases which include:

1. Due Diligence

When you're investigating buying a business and potentially spending several hundred thousand dollars, it's vitally important that you do a detailed review of the business' operations, financials and reputation. This is the 'due diligence' process.

There's a lot at stake so you can't just rely on gut feel and trust your instincts. You probably wouldn't buy a second-hand car for \$20,000 without a detailed inspection by a qualified mechanic so if you're planning on spending fifty, a hundred or two hundred thousand dollars to buy a business then you need to complete a comprehensive review of the business.

Buying a business is exciting and can be a whirlwind but it's also a process that requires planning and patience. To minimise the risk, you need access to financial data of the business including historical sales figures. How profitable is the business and what assets are included in the sale? What are the terms of the lease on the building and what stock is included in the sale? There's a long list of questions around the financial aspects of the business and it all starts with a financial health check. If the business doesn't satisfy the financial test, then it's probably not worth investigating the other aspects. As a guide here are some questions we would ask regarding the financials.

- Have you received and analysed the financial records for the past 3 years including profit and loss statements and tax returns? There is no substitute for certified copies of financial statements



and never rely on statements simply generated by the vendor's accounting software.

- Is there a list of plant and equipment plus fixtures and fittings that the owner intends to sell and where has the valuation come from for these items? Are any of these items under finance agreements (lease or chattel mortgage)?
- Details of any stock being sold with the business and the valuation method. How will it be counted and valued at settlement?
- Do sales and purchase records reconcile to bank statements? Have the records been well kept? Are the total sales broken down by product or service line?
- Does the business have potential for growth and if so, what is your plan to turn that potential into profit? Can you increase sales with the current resources?

- Based on past financial results, have you done a future cash flow projection and profit forecast? What is the break-even point and are profits adequate to warrant the risk of buying?
- What are the sales patterns year-by-year and month-by-month? Is there a seasonal pattern? What is the sales mix (the ratio of each product sold to total sales)? Do a small percentage of customers or clients represent a large percentage of sales?
- Are there any one-off sales that won't be recurring? What is the impact on profit?
- Are you buying the accounts receivable/debtors? If so, do you have an aged listing of them?
- Has the existing owner received any pre-payments (e.g. deposits) that should be handed over to you at settlement?

- continued over page



THE 5 PHASES OF BUYING A BUSINESS

- continued from previous page

Of course, this is just the tip of the iceberg and every business is different. You'll also need a thorough understanding of the industry, trends and latest technology being used. You should know why the vendor is selling the business. Basically, the due diligence process is all about making sure you know what you are buying and making sure the price is fair and reasonable. You don't want any surprises after you complete the purchase.

2. The Offer and Acceptance

Once you have done your due diligence the next stage is to make an offer to buy the business. The offer should be in writing and set out the terms and conditions to avoid any misunderstandings down the track. Of course, once the offer is accepted you should get the acceptance in writing.

The offer should be clear about:

- The purchase price and payment terms - deposit, retention and settlement amounts
- What assets are included in the sale - goodwill, stock, plant and equipment, client lists, website, phone numbers etc.
- Treatment of existing employees - who is to be retained and on what terms?
- Whether the sale is subject to any special conditions - e.g. satisfactory due diligence or finance approval
- Whether the vendor will provide any handover - training and ongoing involvement

- Restraint or non-compete clause to be imposed on the vendor

At this stage there is no legal requirement to pay a deposit, however, most vendors will request one. If you pay a deposit, we recommend you pay it to a third party like a solicitor or business broker rather than directly to the vendor.

3. Contract Review

Once agreement has been reached regarding the general terms of the sale, you move to the next phase and get the solicitor to draft a contract of sale.

Both parties will review the contract and you can expect changes as the contract goes back and forth with revisions. Having a solicitor who specialises in business sales can save time and money and all correspondence between the buyer and vendor should be channelled through them. Make sure you review the draft contract with your solicitor and understand the terms. You'll normally find the contract contains a number of clauses that seem favourable to one party or the other and remember, the buyer is risking their money, so you need to be negotiable.

4. Negotiations and Exchange

After you and your solicitor have reviewed the contract you will need to provide the other party with your feedback. Typically, the changes to the contract will be handled by the respective solicitors. The contract review should identify any issues or points for negotiation. When the parties finally reach agreement, it's time to sign (execute) the contract. The deposit is normally paid

at this point and the vendor should start to plan the transfer of the business' assets.

5. Settlement

Leading up to settlement, you should finalise your due diligence and satisfy yourself that the vendor's information and financials are accurate. You should also ensure that the following items are ready to be transferred to the buyer at settlement:

- Business Assets including the Business Name and Website Domain Name(s)
- Phone and Fax Numbers
- Client Lists
- Employees
- Lease on the Business Premises
- You should also calculate price adjustments for the following:
 - Any rent or rates prepaid
 - Employees leave entitlements
 - Lay Buys or Deposits
 - Stock on hand (at cost or agreed value)

With the price now finalised it's time to settle and make payment. Assuming you've followed the steps above you can complete the handover of keys and provide the signed forms to transfer the business assets including the trading name and domain name etc. Finally, if you're looking to buy or sell a business, please don't hesitate to contact us.



Merry Christmas

WE WOULD LIKE TO TAKE THIS OPPORTUNITY TO THANK YOU FOR YOUR SUPPORT AND TO WISH YOU AND YOUR FAMILY A SAFE & MERRY CHRISTMAS, A HAPPY NEW YEAR AND A PROSPEROUS 2020.



Your Christmas Cash Flow

Historically, the December quarter is the largest quarter of economic activity in Australia. Many industries experience their peak sales at Christmas time including retailers, the information & communications sector, accommodation and wholesalers.

Other industries slow down around Christmas time including manufacturing, agriculture, education and real estate. A December 2018 study produced by the Westpac bank indicates over a third of businesses experience no significant change over the festive season and feel the Christmas period isn't a make or break period. Some businesses including professional services regard the end of the financial year as the most important time of the year.

The festive season can be a tough time for small business owners because they sacrifice the chance to relax and wind down, miss sleep due to extended working hours or have limited cash flow. With only a quarter of Australian businesses experiencing their busiest economic quarter, that leaves three quarters struggling to cope with low seasonal demand for their products and services, staff absences and disruption from their suppliers. Most importantly, Christmas can be the toughest period for cash flow which might mean you struggle to pay suppliers and staff particularly if the slow trading period extends into January and February. The Westpac Report indicated that 30% of small business owners would sacrifice their own salaries to pay staff and 40% of businesses would experience late payment of their invoices.

Here are some tips on how businesses can stay on top of their cash flow at this time: -

Accounts Payable and Receivable

- Ensure invoices are promptly issued to customers (and sent to the correct person)

- Offer as many payment options as you can - cash, credit card, EFTPOS etc.
- Re-negotiate or establish favourable payment terms
- Monitor your debtors and chase payment where customers are outside your terms
- The ATO report that the costs associated with invoicing can be reduced by 70% through e-invoicing
- Pay invoices on time, not ahead of time
- If your business is seasonal, make sure you put some funds away to prepare for the tougher times

Stock and Supply Ordering

- Carefully monitor your stock and supplies and avoid over ordering and carrying excess stock leading into a quieter sales period. Avoid locking up your cash with excess stock and supplies
- Re-visit your sales and stock levels from this time last year - forward planning is critical. Take into consideration if your suppliers have a close down period
- This may be the time to call it a day on any dead stock and utilise it as giveaways, hampers or donated to charities
- Christmas and New Year might represent a chance to offer bundles or extra discounting on any slow-moving stock

The Price is Right?

Although retailers will be in a rush to stock

up for a seasonal upswing, it's important to take the time to assess whether your pricing strategy is right. Again, looking at last year's records will be important to examine: -

- What was last year's low margin biggest seller? Can you increase that margin this year?
- Have your costs increased this year and have prices been adjusted to reflect those increases?
- Last year's least popular items? Were the margins too high? Drop the price?

Wishing you all a safe, happy Festive Season and a Prosperous 2020.





PROPOSED SUPERANNUATION AMNESTY EXTENSION

There could be some good news on the horizon if you have fallen behind with your Superannuation Guarantee (SG) obligations. Back in May 2018 the Government proposed a 12-month superannuation amnesty that was to run from May 24, 2018 until May 23, 2019, however, the amnesty failed to secure its passage through Parliament. The belief that the amnesty was too lenient on recalcitrant employers was a major road block.

The Government has now resurrected the Superannuation Guarantee (SG) amnesty giving employers the opportunity to catch up on any outstanding Superannuation Guarantee amounts. Legislation enabling the amnesty is currently before Parliament and if enacted, will apply from the date of the original amnesty announcement (24 May 2018) until 6 months after the legislation has passed Parliament. Employers will have this period to voluntarily disclose underpaid or unpaid Superannuation Guarantee payments to the Commissioner of Taxation. The amnesty applies to historical underpaid or unpaid SG for any period up to the March 2018 quarter.

In the 2017/18 financial year, complaints against employers for non-compliance increased by 56% from 8,220 in 2016/17 to 12,903 in 2017/18. Since the original announcement, the Government reports that over 7,000 employers have come forward to voluntarily disclose their historical unpaid super.

To qualify for the amnesty, employers must disclose the outstanding Superannuation Guarantee to the Commissioner of Taxation and either pay the full amount owing or enter into a payment plan with the Tax Office. If you agree to a payment plan and do not meet the payments, the amnesty will no longer apply. Please note, the amnesty only applies to voluntary disclosures and if the Tax Office detect an underpayment before you come forward, full penalties will apply. The amnesty also does not apply to amounts that have already been identified as owing or where the employer is subject to an ATO audit.

Under existing law, if you've missed a payment or haven't paid an employee's super on time, you are required to lodge a Super guarantee charge (SGC) statement and pay the super guarantee (SG) charge on any SG shortfall amounts.

If passed, the legislation for the amnesty period will:

- Remove the \$20 per employee per quarter administration charge
- Remove the imposition of General Interest Charge (GIC)
- Make the payment of Superannuation Guarantee Charge tax-deductible

The amnesty does not remove the need to pay 10% interest on the shortfall amounts, as this is not a penalty as such, but is designed to compensate employees for lost earnings.

If an employer fails to take advantage of the amnesty and is found to have underpaid employee Superannuation Guarantee, they will be required to pay the SGC which includes penalties of up to 200%. Outside of the amnesty period, the ATO has the power to reduce the penalty in whole or part, however, the legislation enabling the amnesty imposes tougher penalties on employers who do not voluntarily correct underpaid or unpaid Superannuation Guarantee. The legislation removes the Tax Office's ability to reduce these penalties below 100%. Effectively, the Commissioner of Taxation loses the power for leniency even in cases where an employer has made a genuine mistake.

Senator Jane Hume, the Assistant Minister for Superannuation, Financial Services and Financial Technology said, "Employers will not be off the hook - to use the amnesty, they must still pay all that is owing to their employees, including interest." She went on to say, "Importantly, employers who do not take advantage of the one-off amnesty will face significantly higher penalties when they are subsequently caught." She went on to say, "The ATO estimates an additional 7,000 employers will come forward due to the extension of the amnesty. This means around \$160 million of superannuation will be paid to employees who would otherwise have missed out."

The proposed extension comes a month after the Australian Taxation Office (ATO) said it will use increasingly available data to send proactive "nudges and warnings" to employers who aren't complying with their SG obligations.

Currently, Superannuation Guarantee legislation requires employers to contribute 9.5% of employee wages to either a super fund or a dedicated retirement savings account. If your business has engaged any contractors during the period covered by the amnesty, these arrangements will need to be reviewed as it is common for these types of workers to be classified as employees under the Superannuation Guarantee provisions even if the parties have agreed that the worker should be treated as a contractor.

If your business has fallen behind on its Superannuation Guarantee obligations and is eligible for the amnesty, we urge you to contact us today.





Employers BE CAREFUL!

There has been a number of high-profile businesses in the media recently for the wrong reason. They have been accused of underpaying their staff including television celebrity chef George Calombaris' restaurant group who back-paid workers \$7.8 million in wages. More recently, supermarket giant Woolworths has admitted underpaying about 5,700 of their salaried staff an amount in the range of between \$200 million to \$300 million. The underpayment dates back as far as 2010.

These large employers join a long list of major corporates who have been found to have underpaid their staff. The list includes Wesfarmers, 7 Eleven, Qantas, the Australian Broadcasting Corporation (ABC), the Commonwealth Bank, Super Retail Group and Michael Hill Jewellers.

But how can this happen?

Payroll in this country is complex with more than a hundred awards to interpret. Within each award there are various pay rates including ordinary time earnings, overtime, penalty rates, public holiday rates, weekend rates, shift allowances and travel allowances. When setting up an employee in a computerised payroll system you need to understand these rates and various allowances. Groups like the Council of Small Business Organisations Australia (COSBOA) and the Australian Retailers Association (ARA) have argued workplace laws are too complex and need to be streamlined but don't hold your breath on any changes.

For a small business owner with a single employee there's no excuses. They must

follow a number of steps when onboarding an employee including ticking the right boxes in their payroll software. There are check boxes for things like an existing HECS debt, various leave entitlements and superannuation calculations. When things go wrong employers tend to blame the software, but the program is only processing the data that is entered into the system. Tick the wrong box and you could innocently trigger a series of underpayments until you or the employee detects the issue. This could be weeks, months or even years later like the Woolworths case.

So, what is the message for small business owners?

We run the payroll for some of our clients and we have checklists in place and review employment agreements for new staff members. We also review timesheets and run reconciliation reports to cross check the data. It's certainly not just a simple 'tick and click' process.

The Woolworths case highlights the fact that most employees don't even know they are underpaid because they trust their employer will get it right. Ultimately the onus is on the employer to get it right and a series of raids initiated by the Fair Work Ombudsman (FWO) detected a high level of 'wage theft' in regional Victoria and NSW. The FWO has revealed some disturbing results from this series of inspections conducted in the Albury/Wodonga, Ballarat and Wollongong regions:

- Just under half (47%) of the 489 businesses that received surprise visits (including retail outlets, takeaway shops, cafes and bars) were in breach of Workplace Laws.
- Over a third (35%) of audited businesses were found to be underpaying workers



their minimum hourly rates, while 12% weren't paying correct penalty rates.

- More than half (63%) of employers audited were "unaware" of all applicable workplace relations obligations, 15% had "misinterpreted" award requirements and 9% stole wages because of a "business decision" such as paying a flat rate.
- Wage theft was the most common breach identified by FWO inspectors followed by record-keeping failures.

The Fair Work Ombudsman Sandra Parker said, a "lack of awareness" was behind the majority of non-compliant cases with employers paying fines totalling more than \$30,000. Parker went on to say, "Australia's minimum pay rates are not negotiable, and employers in the fast food, restaurant and café sector need to actively check that they are paying their staff correctly".

The moral of the story is you have clear responsibilities as an employer and the right software is absolutely critical. Have a clear onboarding process for your staff and if you have any queries about your payroll or software please don't hesitate to contact us.





WHY DO BUSINESS START-UPS FAIL?

New businesses fail for a multitude of reasons. A lack of sales and cash flow will destroy a business, but inadequate capital and a lack of planning will also bring a business to its knees. Other obvious business killers include failing to adapt to changes in consumer behaviour or technology.

Management issues like poor record keeping, mismanagement of inventory and failure to delegate can

contribute to the collapse of a business. Underestimating your competitors can prove fatal for a business while expanding too quickly can also trigger trouble. These are all common causes of business failure, however, in some cases they are just the symptoms and not the real problem. For example, a lack of sales will create cash flow issues, but the real problem might be a lack of effective marketing. Incorrect pricing

or an inferior quality product will also stop a business in its tracks.

Data released by the Australian Securities and Investment Commission (ASIC) found cash flow issues were the primary reason SMEs go broke and a study released by the Australian Centre for Business Growth (ACBG) ACBG reveals some more detailed explanations including:

Let's explore some of the major reasons why business start-ups fail in more detail.

#1 NO MARKET DEMAND

Business works on the supply and demand equation. If there's no demand in the market for your product or service, then it will fail. You need to understand what the consumer really wants and that generally means solving their problem or satisfying their needs. Ideally, the problem needs to be big enough so you have plenty of potential customers and to succeed you need produce a scalable solution. If you can produce a better or faster solution you are on track.

Creating a new business idea is relatively easy - redesigning, adjusting and refining the product or service to meet the demands of the consumer is the challenging part of the business puzzle. As a business start-up you need to listen to your target market and your potential customers. Your family and friends shouldn't influence your decisions and you might have to invest in some research or surveys to find out what the market needs.

#2 LACK OF CASH

This might sound very obvious but sometimes the business failure is not caused by a lack of funds, rather, the wrong use of funds. Buying too much stock, investing in the wrong type of marketing and employing the wrong staff can drain your cash reserves.

17%	Leadership, management and planning - 17% of respondents said they didn't do enough market research, marketing or sales for their business, or didn't know how to.
14%	A further 14% said they didn't understand finance or didn't have the necessary financial skills to manage their business, lacking knowledge of how to properly fund business growth.
13%	Broader issues such as drought, interest rates, regulation and global trends tripped up 13% of respondents, who said they had no risk mitigation plan.





WHY DO BUSINESS START-UPS FAIL?

- continued from over

Again, understanding your market is vitally important because your target audience know where and what you should be spending your money on. They can steer you in the right direction and tell you where your prospects can be found. That means you can channel your time and money in the right places. You can burn your marketing budget very quickly on the wrong social media channel or marketing tools.

Your target market can advise you whether to invest in developing new product features or encourage you to keep working on a new product they might pay extra for. They can provide valuable feedback that can shape your future product development.

#3 THE WRONG TEAM MEMBERS

As the owner of a new business you often need to wear many hats. You might need to be the marketing manager, the bookkeeper, receptionist, content writer and webmaster. Having a skilled team can definitely help accelerate your success and the post-mortem from failed businesses often includes statements like, "If only we had a digital marketing expert or accountant on staff". Others lament that "If only I had a partner to bounce ideas off".

The right team can make a huge difference but sometimes they are out of financial reach for start-ups. You might find freelancers on fiverr.com or upwork.com that can fill the temporary hole but more often than not, as the business owner you need to upskill or learn how to do the task yourself. Jim Collins in his acclaimed book, *Good to Great*, promotes the need to get the right people on the business bus before you figure out where to drive the bus.

#4 MONITOR YOUR COMPETITION

Every business needs to analyse their competition and never underestimate your competitors. Never stop examining what they are doing in the market, monitor their marketing and understand their pricing structure.

You need to monitor changes in the marketplace and as a start-up you need to understand the landscape before you consider launching. Start by identifying the strengths and weaknesses of your main

competitors. They have a share of your market for a reason so understand their point of difference, prices and marketing focus. The more informed you are about their business, the better.

Follow them on social media, regularly review their website and even get on their mailing list so you get their updates, newsletters and details of any new product or service offering. Stalking your competitors might sound unhealthy, however, they are successful for a reason and you can learn from their model. Ignore them at your peril.

#5 POOR MARKETING

Your marketing could be the difference between doom, gloom and boom. As a new business owner, you'll invest a huge amount of time and money in research and development, professional advice, a shop or office fit-out plus equipment and stock. It's a massive financial and emotional investment that could amount to nothing if you don't get your marketing right.

When you finally open the doors of your business, don't expect a queue of customers unless you have the right marketing tactics in place. If you think the moment your website goes live you'll be inundated with orders, think again. With websites, it's not a case of 'build it and they will come' because Google can take 3 to 6 months to index your content. This means you could be invisible on internet for months after launching your business.

If you haven't already downloaded our e-Book, *'The 1 Simple Secret to Growing Your Business'* you can download it for FREE from our website. It details our 'winning website formula' that we use when helping clients build their lead generation website and covers things like lead magnets, calls to action and the need for videos and social proof.

A lot of business owners (and not just start-up owners) rely on 'hope and pray marketing' but if you want an extremely successful business you MUST have a predictable system for attracting your ideal type

of customer. That requires you to map out your marketing plan because any kind of marketing that doesn't generate revenue is wasted money and wasted effort.

Finally, if you're looking to start a business make sure you download our *New Business Starter Kit* from our website. This 32-page guide covers every aspect of starting a business including business registrations, insurances, business structures, software, business plans, cash flow budgets, legal issues plus a large section on marketing including branding, websites and SEO.

THE NEW BUSINESS
**STARTER
KIT**

Download Now and Get Your
Business Off to a Flying Start!

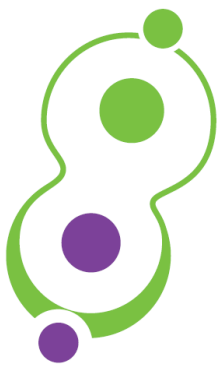
FREE DOWNLOAD

THE **1** SIMPLE SECRET TO
**GROWING
YOUR
BUSINESS**

It's what separates the top two percent
of businesses from the rest!



The **BUSINESS**
ACCELERATOR
MAGAZINE



scotts
chartered accountants

Sladen House,
410 Pakington Street,
Newtown VIC 3220

Phone: (03) 5224 1133

Fax: (03) 5222 1195

Email: info@scottsca.com.au

Website: www.scottsca.com.au

i n f i n i t e p o s s i b i l i t i e s

IMPORTANT DISCLAIMER: This newsletter is issued as a guide to clients and for their private information. This newsletter does not constitute advice. Clients should not act solely on the basis of the material contained in this newsletter. Items herein are general comments only and do not convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of these areas. The information provided in this bulletin is not considered financial product advice for the purposes of the Corporations Act 2001.