The BUSINESS ACCELERATOR MAGAZINE

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CHARTERED ACCOUNTANTS

The BUSINESS ACCELERATOR MAGAZINE

THE KEY INGREDIENTS FOR BUSINESS SUCCESS

At some stage in life, most people entertain the idea of starting a business. The attraction of being your own boss that offers more freedom and potentially a higher income is almost irresistible. While there's no magic potion or secret formula that guarantees business success, highly successful businesses have some common characteristics that we will explore across a series of articles.

Are You Suited to Entrepreneurship?

Before we explore the common denominators of successful businesses, let's look at whether you have the right DNA to run a business. People go into business for a multitude of reasons, but some people almost fall into business by accident. While entrepreneurship sounds attractive, it isn't for everyone and the traits of successful business owners often include being disciplined, organised, passionate, skilled and creative. If you want to go into business you need to be prepared to make sacrifices including working longer hours plus self-employment comes with added pressure, stress and risk. The survival rate in the first five years isn't encouraging with around 50% of Australian small businesses disappearing in that timeframe.

The reasons for the relatively low survival rate are many and varied but it comes as no surprise to find that the big business killer is a lack of finance is. Of course, this could be a symptom of bad financial management, a lack of demand, low quality products, poor marketing, the wrong location or bad business management. Having the wrong team, supplier or pricing model can suffocate your business and burnout could be the signal to get out.

While there's no simple formula that guarantees business success, we can learn from the mistakes of others. It can be a fine line between success and failure and starting or buying a business necessitates research, risk, passion and courage. To succeed you need to make the right opening moves so planning and timing are important. The COVID-19 pandemic highlighted the importance of timing, and all markets go through the four phases of the life cycle – start-up, growth, maturity and finally decline. Where is the market for your business right now? Ideally, you want to join the market in the growth phase rather than the decline stage so you need to do your homework because an industry or product can move to the next stage very quickly. For example, is there new technology on the horizon that could disrupt the industry and potentially make your idea or product obsolete or redundant?

A lot of budding entrepreneurs get swept up in the excitement of starting their business and in the rush, they bypass some important steps and check points. Some businesses are borne out of simple ideas but quickly enter a world of legal complexity with industry and government regulations. Failing to tie up the legal loose legal ends can prove fatal, and the truth is, enthusiasm, money, hard work, talent and a great idea are usually 'must haves' but they don't guarantee success. Being a good technician is not enough anymore, you need to be able to manage the business compliance and management aspects particularly if you plan to grow and employ staff.

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While the business start-up phase can be a whirlwind of ideas it can also be a management minefield. The excitement of entrepreneurship can blur your decision making and start-ups need to make key decisions about the business or tax structure, accounting software and insurances. There are business registrations to complete, and you need to consider the best way to finance plant and equipment. If you're looking to employ staff from the outset there are human resource issues to consider including employment agreements, payroll software, workers compensation insurance plus superannuation guarantee obligations. For an entrepreneur fuelled by excitement and adrenalin, this endless list of 'to do' items can be frustrating but rushing the process can mean you miss one key issue that can trip you up with catastrophic financial consequences.

Over the years we have mentored hundreds of entrepreneurs through the start-up phase of their business and along the way we have developed a range of tools, templates and checklists to help you get your business off to a flying start. We have consolidated these resources into our 32-page publication, 'The New Business Starter Kit' that you can download from our website. You'll find that endless list of 'to do' items has been summarised into an 82-point checklist.

What Are the Characteristics of Successful Businesses?

Every business is different but in this series of articles we will explore the common traits of highly successful businesses.

1. Planning

In business, failing to plan is planning to fail. Building a business is a bit like building a house, you need to have a plan and build on solid foundations. Your business plan should include a marketing plan and a cash flow forecast for the first 12-months of operation. With no trading history you'll need to make lots of assumptions to piece this together but remember, nobody understands your business idea better than you.

The start-up phase is hectic and it's easy to get caught up in in issues like product development or burying your head in researching your customer's habits and your competitor's marketing. Too often we find start-ups overestimate demand for their products and underestimate their costs. That often translates to a cash flow shortage in the early stages which can prove disastrous. Your budget and financial plan are key documents particularly if you need to secure finance from a bank or third party. There's a lot at stake and hitting the start button without financial proof that your business is viable could mean you burn a lot of cash and possibly burn yourself out in the process. Your business plan must prove to investors and financiers that your business concept works and make sure you seek professional advice to verify your figures. If the numbers don't stack up, you need to make a big decision. Look to cut costs, not corners and if you can't prove the viability of the business you will struggle to raise finance which is a big red flag. Revisit your business plan and see if you can make strategic changes to increase the revenue or reduce costs:

- Put your five largest expenses under the microscope to see if they can be pruned.
- Review your prices - will the market tolerate a 10% increase in price and what impact will that that have on your bottom line?
- Can you source cheaper inputs from suppliers without compromising the quality of your products?
- Could you operate from smaller or cheaper premises in the short term?
- Do you need all the staff you have budgeted on in the first 6 to 12 months?
- What can you do to get a better result from your online marketing activities?

- Should you lease rather than buy plant and equipment?
- Could you offer additional related services to increase your revenue?
- Are there new markets you could try without overextending your resources or finances?
- Is there a different niche target market you have overlooked?

2. Point of Difference

If your business doesn't have a clear point of difference compared to your competitors, it's unlikely you'll win a big slice of the market. In many industry sectors there is a 'sea of sameness' so you need to find something thing that clearly distinguishes your business from the pack. Starting and competing in a congested market without a serious point of difference is going to prove an uphill battle.

Entering a mature market means you are up against established businesses who have a head start on you. They probably already have a large customer database, proven products and systems, a website and a social media footprint. If your business doesn't offer something new or innovative then you must have another distinguishing feature. The less innovative the business idea, the more compelling your point of difference needs to be.

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If you run a pizza shop, hairdressing salon or coffee shop you've probably got lots of local competitors. It might be very difficult to differentiate your product or service but that's where you need to think outside the box and your marketing might need to be your differentiator. Your point of difference doesn't need to be unique, but it does need to be of value to your customers, clients or patients. Solve a problem, promise faster, cheaper or better quality products or services. Bundle a unique combination of products or services together and make them practical, impressive and convincing. Finally, don't forget to heavily promote your point(s) of difference!

As a guide, your differentiators must tick these three boxes:

- Truthful – you can't just make it up and you must deliver on your promise.
- Provable – You must be able to prove it's real to a sceptical potential customer
- Relevant – it has to mean something to a potential customer.

Of course, markets evolve, and you might catch your competitors off guard if they fail to adapt to changes in consumer demand or technology. Look at the history of former market leaders like Kodak and Borders. They failed to adapt to changes in consumer behaviour and paid a high price. As a new player in the market, this could be your point of difference and edge by having the latest technology or systems that deliver a better, faster or simpler customer experience.

3. Know Your Numbers

Successful business owners know their numbers. This includes:

- The cost of goods they sell.
- The gross profit margin on every product they sell.
- How many sales they need to make each day or week to break even.
- The key performance indicators (KPIs) in the business.
- The key profit drivers in the business.
- Weekly/Monthly Payroll and fixed costs.

Probably the most important number is your price. While you might have the newest, most exciting product or service in your industry, can you bring it to market at a price consumers will accept and still make a sustainable profit? No matter how special you think the goods or services are, there's always an upper limit as to what people are prepared to pay. Remember, your competitors have alternative products and probably at different price points.

Your competitor's prices or the industry benchmarks can give you some idea on the price range you should target but be very careful about discounting. That strategy might get you a toe hold in the market, but low margins can bring a business to its knees. It might drive sales in the short term, but it can create an issue with future price expectations and also create a perception that the quality of your goods is below your competitors. This can also reflect poorly on your brand, particularly when you're hanging your hat on the quality of your products. While discounting has its place, there needs to be a purpose behind the price drop. It could be to clear old or obsolete stock; you might need to generate some cash flow, or it could be a 'loss leader' to win a new customer.

If you need help with setting your prices talk to us today. We will make sure your price calculations include all costs and still allow you to make a sustainable profit. We can do some financial modelling based on different price points and input costs to help you prepare forecasts for various scenarios including best case, worst case and the mid-point. You can also access free templates for a business plan, cash flow budget and profit & loss statement from the resources section of our website.

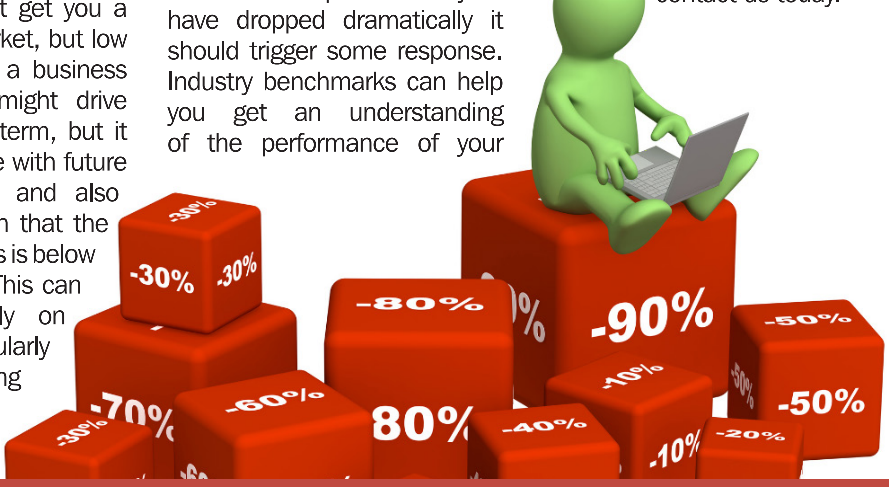
Businesses don't succeed by accident and yours won't either. Running a business is a work in progress and you have to constantly review what is working, what isn't working and what needs working on. The numbers tell a story, and they can alert you to emerging issues. For example, if your weekly or monthly sales fall below break-even point you need to read the warning signs. If sales for this week or month compared to the same period last year have dropped dramatically it should trigger some response. Industry benchmarks can help you get an understanding of the performance of your competitors and where you might need to improve operations. For a start-up business these benchmarks can be invaluable because you have no financial track record and there is a lot of estimates and guess work when preparing your budget.

Summary

Entrepreneurship isn't for everyone. No amount of blood, sweat or tears can guarantee the financial success of your business and businesses fail for a number of reasons. Successful businesses have a plan, develop a clear point of difference and know their key numbers. Timing is important and sometimes luck can be the difference between surviving and thriving. Of course, when it comes to luck, the harder you work, the luckier you get.

Super successful businesses have great teams and their management also make good business decisions. As you'll read in other articles in this series, they also have a lead generation website and are marketing savvy. They systemise their business processes and do their homework on their competitors.

If you're looking to build and grow a successful business, we invite you to contact us today.



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ARE COVID-19 GRANTS & SUBSIDIES TAXABLE?

The State and Federal Governments have provided business owners with a range of grants and subsidies through the pandemic including the Cashflow Boost, COVID-19 Disaster Payments and JobKeeper. While you might think all government support is tax free, this is not the case.

To make a government grant or subsidy tax-free, legislation must be passed to classify it as exempt income or non-assessable income. As a guide, any income received will be assessable unless the Government has legislated for it to be tax-free. For example, JobKeeper is not tax free, and recipients must include it in their income tax returns. The original JobKeeper payments were $750 a week but were taxed, meaning recipients received $90 less each week based on an annualised $39,000 income of $750 each week. For employers who received JobKeeper payments, these amounts will need to be included as income.

On a Federal level, the Prime Minister has announced that the COVID-19 Disaster Payments will be tax free. Previously, disaster recovery grant payments to primary producers and small businesses in relation to floods between February 19, 2021 and March 31, 2021 were also made tax-free. Other payments however, such as Pandemic Leave Disaster Payment, are taxable.

The Treasurer has also been granted the power to make COVID-19 relief provided by the States and Territories tax-free but only from September 13, 2020, and only if they request the Commonwealth Government to make it tax free. It's somewhat confusing because there are a range of different tax treatments depending on what support you receive and from what source. To date, only a series of Victorian business grants are tax-free. The recent business grants in New South Wales, Queensland and South Australia have not as yet been declared tax free (but we expect that this will change).

A new law was passed on Monday August 9 to ensure COVID-19 Disaster Payments dating back to its introduction on June 3 will now be treated as non-assessable non-exempt income. Such payments were previously classified as taxable. Due to its retrospective application back to June 3, 2021 (when Victoria entered its fourth lockdown), some individuals will now need to lodge an amendment to their 2020/21 tax return if they have already lodged it and included the payment as assessable income.

We understand that Services Australia will now reach out to impacted individuals through a myGov message and SMS.

If you're not sure about the tax treatment of any grants or subsidies you have received from the Government, we suggest you contact us before you finalise your bookkeeping or submit your tax return for the year ended 30th June 2021.

The greatest compliment we receive from our clients is the referral of their friends, family and business colleagues. Thank you for your support and trust.

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ATO's Data-Matching Programme Continues to Focus on LIFESTYLE ASSET PURCHASES

The Tax Office has now extended its lifestyle assets data-matching program for the 2020/21 financial year through to 2022/23. They will acquire insurance policy information from 25 insurance providers for certain classes of asset including motor vehicles with values of $65,000 and above, marine vessels above $100,000, thoroughbred horses over $65,000, fine art over $100,000 per item and aircrafts over $150,000.

The ATO are expecting to identify around 300,000 individuals each year with their data-matching program that has been in operation since 2016. It is designed to give the ATO an insight into individuals who may have been declaring insufficient income in their tax returns to support the purchase of these luxury or lifestyle assets. Taxpayers who dispose of assets and do not declare the revenue or capital gains on disposal of those assets will also be identified. Data collected by the ATO will be retained for five years.

According to the ATO, it will also help identify taxpayers who are purchasing assets for personal use through their business or related entities and claiming GST credits they are not entitled to plus people who are using those assets for the personal enjoyment of an associate or employee which may give rise to a fringe benefits tax liability. The program will also be used to identify SMSFs that may be acquiring assets but applying them for the benefit of the fund's trustee or beneficiaries.

Where an individual has been identified for not complying with their tax obligations, the ATO said it will apply "appropriate treatment recommendations" but noted that it will not result in the "automated generation of compliance activities". "Where a taxpayer is correctly meeting their obligations, the use of the data will reduce the likelihood of contact from us," said the ATO. "In cases where taxpayers fail to comply with these obligations even after being prompted and reminded of them, escalation for prosecution action may be initiated."

The extension of the lifestyle assets data-matching program comes as the ATO increasingly relies on similar programs including its work on motor vehicles and cryptocurrency to ensure taxpayers are meeting their tax and superannuation obligations. The ATO will continue to collect records from eight state and territory motor vehicle registries for the 2019/20, 2020/21 and 2021/22 financial years. Registry records for around 1.5 million individuals are expected to be collected each year for any newly registered or transferred vehicles with a purchase price or market value of $10,000 or more.

According to the ATO, the records will help it "identify higher-risk taxpayers with outstanding lodgements and those with undeclared income whose asset holdings may not be proportionate to their declared financial position".

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RENT RELIEF FOR VICTORIAN (& NSW) COMMERCIAL TENANTS

The Victorian Government has announced the reintroduction of the Commercial Tenancy Relief Scheme that means landlords are obliged to provide rent relief to eligible commercial tenants. Small and medium businesses with an annual turnover of less than $50 million and who have experienced a decline in turnover of 30% or more due to the pandemic will be eligible as well as most ACNC registered charities that have experienced a decline in turnover of 15% or more.

The new Commercial Tenancy Relief Scheme will be retrospective and operate from July 28, 2021 to January 15, 2022 and affords protection to eligible leases that were in effect on 28 July 2021.

To satisfy the decline in turnover test, tenants will need to compare their turnover for a consecutive 3-month period between 1 April 2021 and 30 September 2021 with the corresponding comparison period in 2019. Like JobKeeper, alternative tests are available to entities where there is not an appropriate comparison period in 2019. For the purposes of the scheme, turnover is based on the GST concept of current GST turnover, as defined in the GST Act but varied to include supplies between group members and any state government COVID-19 support grants received by the tenant. There are also special rules for deductible gift recipients and other ACNC-registered charities.

How does this scheme relate to any previous rent relief?

If the tenant is already repaying deferred rent or has an existing agreement with the landlord arising from the first rent relief scheme, the existing deferred rent will be frozen until 15 January 2022, at which time the amount outstanding will be added to the amount deferred under the new rent relief scheme.

How do tenants apply for rent relief?

Eligible tenants must make a written request to their landlord for relief, which must be accompanied by a statement that they are an eligible tenant and satisfy the decline in turnover test. Within 14 days of making a request, the tenant must provide a statutory declaration confirming that they are an eligible tenant and that the information provided is true to the best of their knowledge. The statutory declaration must be accompanied by at least one of the following to evidence their decline in turnover:

(1) accounting records

(2) Business Activity Statements

(3) bank statements, or

(4) a statement prepared by a practising accountant.

What are the landlord's obligations?

Landlords are mandated to provide a written offer for rent relief within 14 days of receiving a request from an eligible tenant and at a minimum, the rent relief offered must be proportional to a tenant's decline in turnover. For example, a business with a decline in turnover of 50% must be offered rent relief of at least 50% for the relevant rent relief period. At least half of any rent relief must be in the form of a waiver, with the remainder being deferred. Any rent deferred will be payable in equal instalments commencing from 16 January 2022 until the end of the lease term or over a period of two years, whichever is greater.

Applications (including supporting evidence) made by 30 September 2021 will be eligible for rent relief backdated to apply from July 28, 2021 to January 15, 2022. The rent relief period for applications made on or after 1 October 2021 will run from the date the application is made until January 15, 2022. Landlords are also required to offer an extension to the existing lease term equal to the period for which the rent is deferred.

Where an agreement is not reached within 14 days of an offer being made, a tenant will be deemed to have accepted a landlord's offer of relief if:

- The landlord's offer meets the requirements set out above; and
- The tenant has not referred the matter to the Small Business Commissioner.

Reassessment

Although eligibility for rent relief is determined by a one-time test, the regulations provide for a mandatory reassessment of rent relief as at October 31, 2021 for businesses that commenced trading prior to 1 April 2021 and which made a request for rent relief on or before 30 September 2021. The re-assessment is based on the tenant's turnover for the quarter ended 30 September 2021.

If the re-assessment results in a change in turnover, which is any difference between the decline in turnover percentage used for the initial request for relief and the decline in turnover percentage based on the quarter ended 30 September, the amount of rent relief provided to the tenant must be adjusted from 31 October onwards.

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A failure to submit evidence of the re-assessment may result in the rent waiver being removed. However, there will be no impact on deferrals.

Protections under the scheme

An eligible tenant cannot be evicted without the landlord obtaining a direction from the Small Business Commissioner. An eligible tenant will be afforded protection if:

- They have made a request for rent relief and continue to pay rent in proportion to their decline in turnover;
- A rent relief agreement has been reached; or
- They are unable to trade due to sickness, injury or natural disaster.

A restriction on rent increases will remain in place until January 15, 2022 regardless of whether or not the tenant has requested rent relief. Further, if an eligible lease called for a review of rent during the protection period that would result in an increase in rent, the review is deemed void.

What if you cannot reach an agreement?

The Small Business Commissioner will once again have the power to conduct mediations and issue binding orders in the event landlords and tenants cannot agree to new leasing arrangements.

Support for landlords

Support is being provided to assist small landlords who provide rent relief to their tenants and who can demonstrate 'acute hardship' as a result of giving rent relief. While the details are yet to be released, the previous scheme was limited, providing grants of up to $3,000 for landlords with less than $3m in taxable land holdings.

The government has also announced that landlords who provide rent relief to their tenants under the new scheme will be eligible for land tax relief of up to 25% in respect of the relevant land holdings. This land tax relief will be in addition to any previous land tax relief provided to the landlord. We are currently awaiting further details to be published by the State Revenue Office in relation to the eligibility criteria and application process for the new round of land tax relief.

What are the next steps?

If you need assistance with the decline in turnover rules or any other aspect of the new Commercial Tenancy Relief Scheme please contact us.

NSW Extends Commercial Tenancy Relief

Commercial landlords in New South Wales will now be required to offer rental relief to tenants with an annual turnover less than $50 million under an extended state support scheme.

The NSW government have reintroduced national cabinet's Mandatory Code of Conduct for Commercial Leasing, which will mandate rent relief for eligible tenants hit hard by COVID-19 until at least January 13, 2022. Under the extension of the Retail and Other Commercial Leases Regulation (COVID-19) 2021, which was due to expire on August 20, landlords will be required by law to renegotiate rent with their tenants in step with the national cabinet's mandatory Code of Conduct.

The same regulation previously only required the state's commercial landlords to attempt mediation before evicting or locking out tenants. Now, however, landlords will be required to offer rent relief in proportion with a tenant's decline in turnover, at least half of which must be offered as a waiver plus enter rent renegotiations before moving to evict or lock their tenants out.

Minister for Finance and Small Business Damien Tudehope said the extended support will offer much-needed protection to small businesses like cafés, restaurants, hair salons and gyms for another six months as lockdown restrictions persist. Mr Tudehope said, "We have always encouraged landlords and tenants to come to the table and negotiate, but now we are going one step further by mandating the minimum relief that landlords need to provide impacted tenants".

The extended regulation will apply to commercial and retail tenants with a turnover of up to $50 million who meet eligibility criteria for either the COVID-19 micro-business grant, COVID-19 Business Grant or JobSaver Payment. The mandated rent relief will also be accompanied by a new $40 million Hardship Fund, which will offer monthly grants of up to $3,000 for small commercial or retail landlords who have waived rent of at least the same value, along with any land tax relief they're eligible for.

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