

Welcome

Welcome to the ninth edition of the Accru Plus client newsletter.

In this edition we look at the potential \$\$\$ now available to businesses via various government grants. Given statistics show that some companies are still facing financial difficulties, we also provide some pointers on managing business risk and clarify employees' rights in the event of an insolvency. On a brighter note, we offer some thoughts on keeping your website fresh, based on our recent experience of revamping our own website.



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at www.accru.com**

R&D \$\$\$\$ available for innovative companies

BY SAM FACY, ACCRU HARRIS ORCHARD, ADELAIDE

A new measure announced in the Federal Government's 2009 Budget is set to increase the level of R&D support available for innovative small and medium sized companies. The Government expects an additional 5,500 small businesses to benefit under the new arrangements – is yours one of them? Accru Adelaide outlines the current R&D program and the changes proposed, as well as other potential sources of government grants for businesses.



R&D tax concessions

The R&D tax concession program is designed to increase the level of research and development undertaken by Australian companies. Currently, the concession enables companies to deduct 125% of eligible expenditure incurred on R&D activities from their assessable income. Companies can access the concession via a schedule in their tax return after registration of the company's projects with AusIndustry. To encourage increased spending, an additional 50% deduction may be available where eligible expenditure is increased from one year to the next.

Are you eligible?

Your business may be eligible to claim the current R&D concessions if it meets the following criteria:

- + Your business is a company;
- + You spend more than \$20,000 on eligible R&D expenditure in the relevant year;
- + The activities meet the definition of research and development activities under section 73B of the ITAA 1936 and they are undertaken on your behalf; and
- + Your business is registered with the IR&D Board for each year you wish to claim the concession.

In addition, the program incorporates an R&D Tax Offset which allows companies in a loss situation to

'cash in' their R&D related losses and receive money back from the Government. To be eligible for the current Offset, your business:

- + Must be a company;
- + Must have an annual group turnover of less than \$5M; and
- + Have an aggregate R&D expenditure of between \$20,000 and \$1 million.

Proposed changes from 2010

In the May 2009 Budget, the Government announced changes to the current program which are proposed to take effect from the 2010-11 income year. The changes will effectively increase the level of R&D support available and also make the refundable credit available to companies in tax loss with no limit on the level of R&D expenditure they undertake.

Details of the proposed scheme are still sketchy, but the main points include:

- + Small firms with less than \$20 million pa turnover will receive a tax refund of 45 per cent when they file their tax return (equivalent to a 150 per cent concession).
- + Firms with more than \$20 million pa turnover will receive a 40 per cent tax credit on filing their return (the equivalent of a 133 per cent deduction).
- + The Credit will be decoupled from the corporate tax rate and thereby creates certainty in the level of assistance.
- + The increased benefits to companies will be balanced by removal of the complex R&D Tax Concession Premium and tightening eligibility.

Interim measures

The Government has not yet released the full details of the new tax credit scheme as they are currently undertaking consultation to formulate the final legislation. However as an interim measure between now and the introduction of the new system, the R&D expenditure threshold for the R&D Tax Offset will be increased from \$1 million to \$2 million for 2009/10.

The Government believes this will demonstrate their increased support for eligible small companies.

Other business development grants

In addition to the R&D Tax Concession, there are many other government grants available from government bodies such as AusIndustry. Government Granting Programs typically fall into two key categories: entitlement programs and competitive programs.

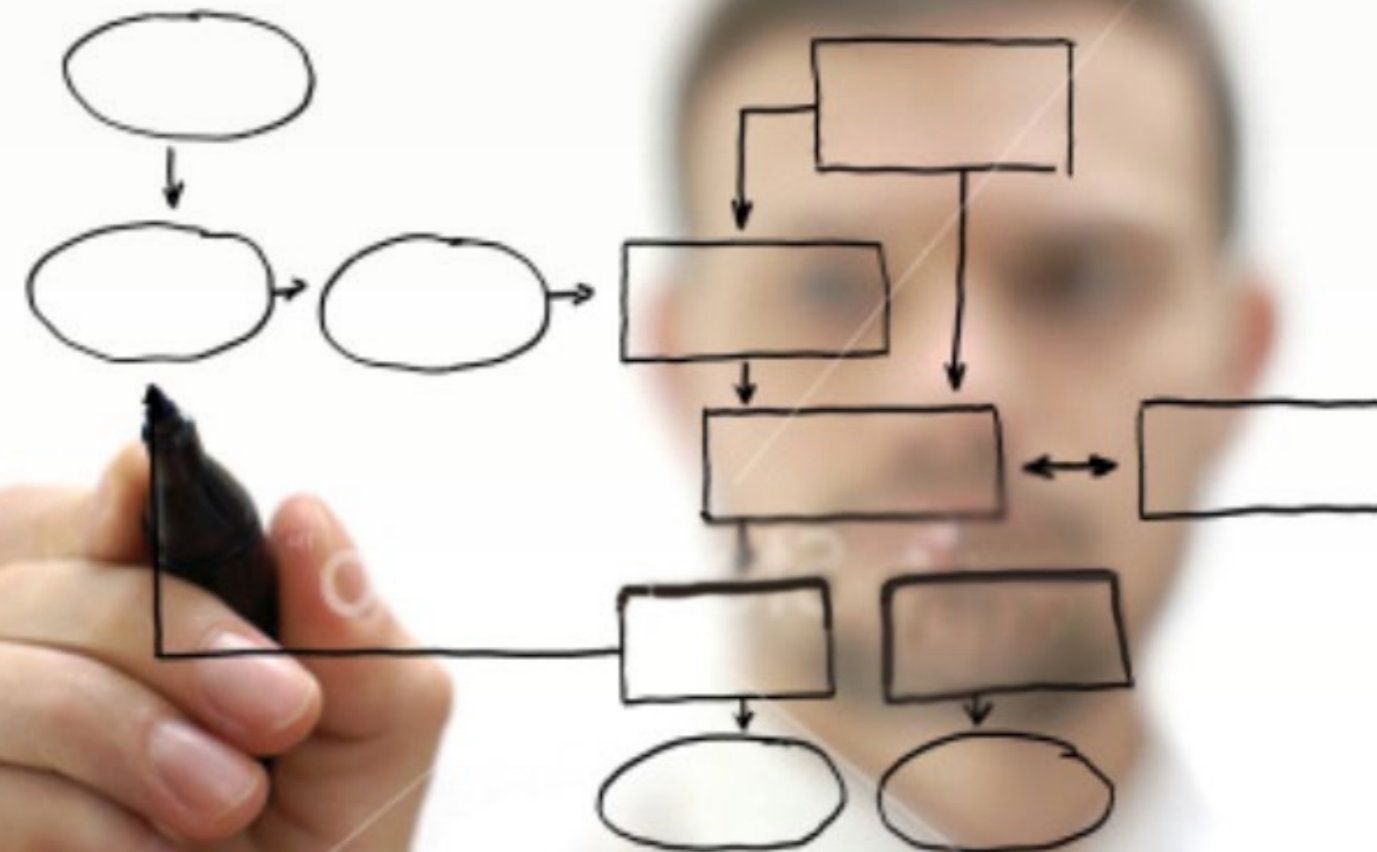
For entitlement programs, an applicant need only be eligible to qualify for assistance. Examples include the Export Market Development Grant (EMDG) which provides a rebate on a proportion of eligible export market development costs.

For competitive programs, applications are assessed and ranked against others and compete for support from a defined or limited pool of funds. Applying for a competitive grant can be time consuming since it requires the development of a detailed business case and completion of application forms, but it typically delivers more substantive rewards.

At present, most competitive grant programs focus on leveraging an enterprise's investment in technology development and commercialisation (innovation programs) or accelerating business expansion (economic development and structural adjustment programs). While many opportunities exist for businesses within the food innovation, TCF, tourism and automotive industries, the competitive grant landscape in Australia is in a state of flux with many programs under review.

Another avenue of funding that may be well worth pursuing is the Federal Government's Enterprise Connect program, which provides subsidies on business performance improvement initiatives to qualifying businesses. See www.enterpriseconnect.gov.au for more information.

Accru can assist you to evaluate the various government assistance and incentive programs available and how they may apply to your business. To find out more, please contact your local Accru adviser.



BY LISA BARKER, ACCRU
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Predicting and planning for business risk



Many types of risk will be encountered in business. Some will have a minimal impact and can be managed easily, others may threaten the longevity of a business. As recent high-profile business failures have shown, the cost of losses due to risk management lapses can be catastrophically high. Where do you start with risk management? Here's a brief guide.

Identifying risks

The types of risks faced in most businesses are far ranging. Some risks are intuitively obvious, but unfortunately many are not. In order to identify these risks, it's helpful to consider them in these categories:

- + Financial
- + Contractual
- + Equipment
- + Service delivery
- + Project
- + Commercial
- + Security
- + Organisational
- + Reputation
- + Strategic
- + Operational
- + Technology
- + Legal & regulatory compliance
- + Safety incl workplace safety
- + Stakeholder management
- + Client-customer relationship

Risk categories provide a structure for identifying risk and are often initially identified through a brainstorming exercise.

The risk management process

The risk management process is a series of steps that enables initial and continual review of risk. It helps business owners identify potential impacts, both negative and positive, and manage these to ensure the best outcome for the business. In brief, the steps are:

- + Communicate and consult: Identify who should be involved in the identification and assessment of risk and engage those who will be involved in their treatment, monitoring and review.
- + Establish the context: Establish the parameters of risk management within the business. For example, a business owner may only be interested in identifying financial risks.
- + Identify the risks: Identify as many risks as possible that may affect, either negatively or positively, the objectives of the business and its activities. It can be useful to ask What can happen? How can it happen? Why could it happen?
- + Analyse the risks: Determine which risks have a greater impact than others. This provides a better understanding of the consequences and likelihood of a risk occurring in order to make a decision about committing resources to control it.
- + Evaluate the risks: Determine the level of risk that your business is willing to accept. The result of this step should be a prioritised list of risks are not considered acceptable and require further action.

- + Risk treatment: Identify options for treating or controlling risk in order to reduce or eliminate negative consequences or to reduce the likelihood of an adverse occurrence, as well as enhance positive outcomes.
- + Monitor and review: Monitor risks, at least annually, to review the effectiveness of the strategies and systems that have been set up to manage them and any changing circumstances that may alter risk priorities.

Key to the success of the risk management process is communication and consultation with key staff. Staff members will assist in the identification process, as well as treating and monitoring the risks. Some will have a part in putting together the risk management plan, and can be assigned to oversee certain risks that may impact on their area of the business.

For more information see the Risk Management Guide for Small Business, available at www.smallbiz.nsw.gov.au, from which much of the above information has been sourced.

Financial risk management

Accru can assist you with your financial risk management, including cash flow, budgetary requirements, tax obligations, creditor and debtor management, remuneration and other account management concerns. We also offer insurance business expense and income protection insurance, an important part of any risk management plan. To discuss protecting your business from financial risk, please contact your local Accru adviser.

BY ACCRU
SMITH CHILCOTT,
AUCKLAND

SME collapses may not be over Where do employees stand?



The latest insolvency data from the Australian Securities and Investment Commission shows 876 companies entered external administration in July, compared with 854 last year. While the 3% rise was modest, insolvency experts in Sydney and Melbourne are seeing a rise in insolvency enquiries. Given some employers are not out of the woods yet, it is timely to consider employees' rights should their employer face formal insolvency procedures.

Termination of employment

Upon the commencement of a liquidation, employment is automatically terminated. A receivership differs in that employment does not cease automatically upon appointment of receivers. Receivers have 14 days within which to terminate employment otherwise the receiver becomes personally liable for any salary or wages accrued from the date of their appointment. An administrator also has 14 days to terminate employment agreements.

Employees' claims ranking

In a liquidation or receivership, employees' unpaid wages, holiday pay and redundancy payments generally rank as preferential creditors, ahead of tax claims and other creditors and only behind the liquidator's fees and costs.

When a company is placed into voluntary administration, there is no set ranking of creditor claims. The priority of employee claims, if any, would be set out in the Deed of Company Arrangement ('DOCA') prepared by the company's administrator. The DOCA is a document typically detailing a restructuring plan for the company. Generally, the statutory priority afforded employees in liquidations and receiverships will be reflected in the DOCA.

Employees take preference over a secured creditor

In a liquidation or receivership where a creditor holds a General Security Agreement over a company, preferential claims, including employees' preferential claims, will still rank ahead of that creditor when it comes to realising the company's accounts receivable and inventory. However, creditors with a security registered specifically over accounts receivable and/or inventory (as a Purchase Money Security Interest), will be entitled to these realisations ahead of a preferential creditor.

Retaining employees during the insolvency process

If a liquidator, receiver or administrator can extract additional value from the sale of a business as a going concern, staff will generally need to be retained. Similarly, if the business cannot continue to trade but retention of some of the staff will preserve the value of the assets and increase realisations, then they will need to be employed during liquidation, receivership or administration.

The liquidator, receiver or administrator will need to identify and employ the staff required to service the business and enhance its desirability to any potential purchaser. For each employee they wish to retain, a new employment agreement will be entered into.

A post liquidation/receivership employment contract does not affect the employee's rights in respect of their prior contract. For example, if employees are entitled to a redundancy payment under the pre-existing employment agreement with the company, any subsequent employment by a liquidator or receiver will not affect that entitlement.

Both Auckland and Sydney have established insolvency practices and would be pleased to assist should you require further information on this topic.

Note that exact details of applicable legislation may vary between Australia and New Zealand.

The 'Fantastic' Story

BY SUE MCLEAN ACCRU FELSERS, SYDNEY

The complete turnaround of Fantastic Furniture in the '90s, followed by year after year of profitable growth and expansion, makes their story truly 'fantastic'. On the tenth anniversary of their listing and twenty years of operation, Accru Sydney is proud to share the story of one of our most valued clients.

Fantastic Furniture was started by two furniture salesmen in 1989 with only \$8,000 of equity. During the next six years they grew the business to a turnover of \$36 million. The original owners were quite innovative in their methodology, however during 1995 they began to sustain substantial losses due to theft, lack of tight financial controls, poor staff morale and poor management procedures. In 1996, the directors had no alternative but to appoint an Administrator to the company.

When Julian Tertini, co-founder of Freedom Furniture, first toured Fantastic back then it was something of a basketcase. Nevertheless, Julian and his partners Peter Brennan and Peter Draper thought it was worth buying. Paying a grand total of \$1 as well as assuming all the company's liabilities, Julian took charge of Retail with Peter Draper heading Manufacturing and Peter Brennan leading Finance, and the new team set about rebuilding the business.

At this point, good support from an accountant was crucial and Accru was engaged to help with the administration, business restructure and establishing high standards of compliance and financial control.

The new team made their mark. After only a year under new management, Fantastic was back in the black earning \$1.1 m in profit. In just two more years, they floated the company on the Australian stock exchange, with Accru as their primary accountant.

Listing during the tech boom in September 1999, furniture wasn't exactly flavour of the month but Fantastic again defied the odds to achieve a healthy listing price.

For anyone who purchased shares back then, what a bargain the stock turned out to be. In Fantastic's ten years as a listed company, profits have grown from \$2 million to \$26 million and the share value has risen sevenfold. Achieved largely without the use of debt or additional capital, this is a story of real, profitable growth.

Through economic downturns, Fantastic's business model of quality, low-priced furniture has proved resilient – their furniture sells in good times and bad. In the midst of last year's retail downturn, Fantastic's strong balance sheet enabled them to acquire retail stores and sites while prices were cheap and sellers abundant. They snapped up ten struggling Dare furniture stores for just \$700,000 and acquired Le Cornu furniture in Adelaide and Darwin, as well as expanding into Western Australia, bringing their total portfolio to 110 stores across the country.

What makes Fantastic different?

Companies like Fantastic are something of a rarity, so what makes them different?

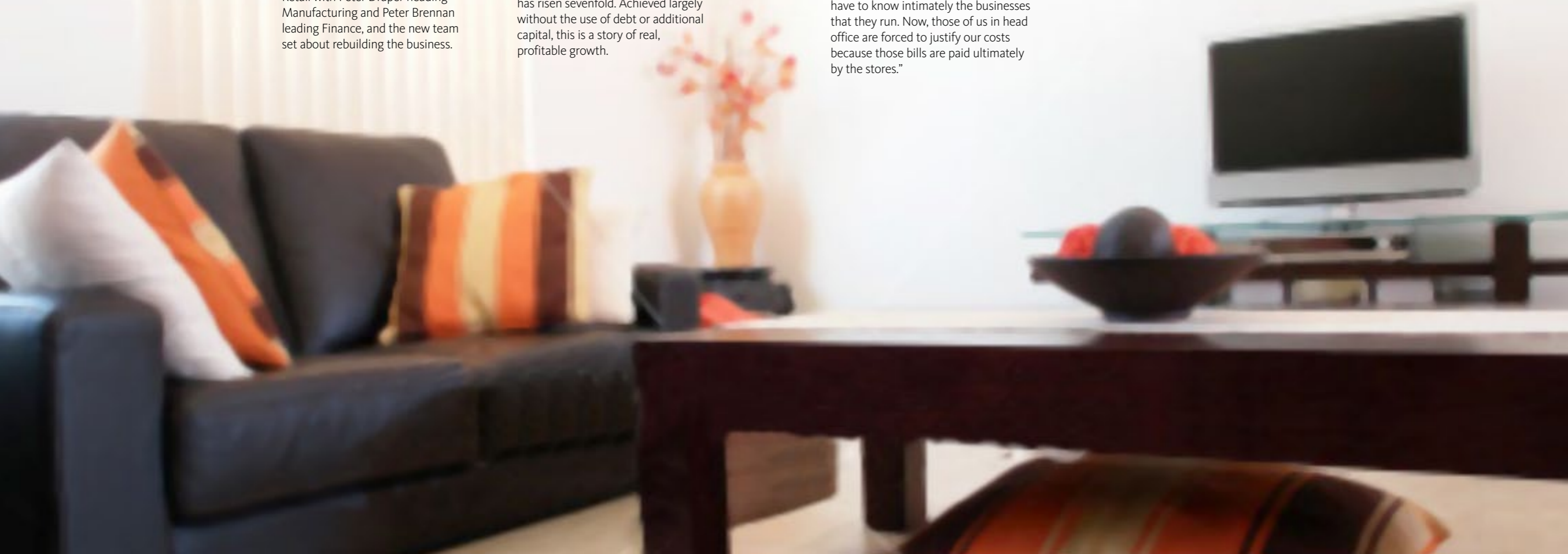
According to Julian Tertini, Fantastic's MD, staff empowerment is key to his success. Soon after taking over Fantastic, he gave each of his 13 store managers a cheque book and told them that they were responsible for paying their own bills. "We gave them \$200,000 worth of stock but I told them that if they ran out of cash, then we would either close the store or change the manager. Up until then, they never knew if they made a profit or not. I was criticised because the managers knew too much. But I believe that they have to know intimately the businesses that they run. Now, those of us in head office are forced to justify our costs because those bills are paid ultimately by the stores."

On the factory floor, staff empowerment has also played a key role. When Peter Draper took over the factory operations, it was decided to operate the factory as a separate profit centre. The team came to understand that the retail division would only buy from them if they were the best (and cheapest) supplier. Staff became actively engaged in suggesting improvements and some of these saw Fantastic changing the way the production line operated. With other changes like paying staff per item they built, having them take responsibility for quality control and allowing them to go home when they finished their daily production requirement, productivity crept up. Three years later, the factory was profitably producing sofas cheaper than retailers could either buy locally or import from China at that time.

Trust and mutual respect is also embedded in Fantastic's culture. Their approach has always been to apply a very personal touch to show that management listens to their staff's needs and appreciates and respects their contributions. This management style has engendered loyalty. Fantastic regularly fill vacancies through employees referring their friends and family to positions being created in stores and other support areas.

'Sell cheap and sell lots' is perhaps another of Fantastic's secrets to success. Their inventory turnover, a critical ratio for retailers, is close to six times per year. This compares with less than three for more upmarket retailers like Nick Scali. At the same time, profitability has held steady over the past year despite the challenging economic conditions. That means Fantastic have managed to control the cost of goods and/or not had to adopt discounting to attract customers like many retailers have. Either way, the figures are incredibly impressive and help to explain why Fantastic has been a top performing business in recent years.

The team at Accru are proud to have played a small part in this Australian corporate success story, especially one built on values of 'putting people first' that are similar to our own. We wish Fantastic all the best on the 10th anniversary of their listing.



Keeping your website fresh

BY MARTIN RUSH, ACCRU PAGE KIRK JENNINGS, PERTH

A significant proportion of businesses have a website. Often the biggest cost from a time and money perspective is creating its initial framework and 'look and feel'. Once this is completed, the website is populated with content. At this point the business owners launch their website, pat themselves on the back for a job well done and think their work is complete. In reality their work has just started.

According to Google there are in excess of one trillion web page addresses. That means there is a lot of competition for attention. How will you get people to your website and how will you get people returning to your website? It's vital to ensure all the information it contains is up-to-date and relevant, and your site has something to keep your visitors interested and coming back for more.

It was not that long ago that a website, once built, was forgotten about or reviewed yearly at best. A website was essentially an on-line brochure with static content and never-changing web pages.

This is the equivalent of having a store front window that never changes – would you be enticed into the shop? If your website is not updated for months or years, it is likely that customers and clients will have the impression of a business that is complacent, stale and out-of-date.

Businesses creating a new website or re-designing an existing one need to think of their website as an ever-changing, fluid and dynamic showpiece. To keep a website fresh and interesting, someone within the business should be appointed to manage and update the content. This may involve writing articles, updating products and services, updating the home page and managing the content management system. A quality content management system is imperative. Relatively inexpensive and easy to use, it will allow your website to be updated regularly in a time-efficient and cost-effective manner.

One of the biggest website sins a business can commit is to have dated content. How often have you been to a website and clicked on the 'Latest News' section to find an article that is 6 or 12 months old? It does not create a good impression.

If businesses are struggling to find relevant new content, they may consider writing about special offers, achievements of the business or employees, case studies about their product or service, general industry news and tips, or even set up an interactive area.

A website is a now basic requirement of any marketing plan. By creating a site that is constantly evolving and dynamic, you have a much greater chance of distinguishing yourself from the other one trillion websites out there!

www.ac cru.com has had a makeover!

Accru's website has just been relaunched with a reinvigorated look and feel, and most importantly, new content. It now houses regularly updated news, useful tools and fresh new information about our people, services and local offices.

When you visit, be sure to check out the 'Accru Online' Client log-in area, the new photos of your favourite partners, and the story about a former Accru Rawsons partner (recently featured on *Australian Story*) who has been helping to rescue children from slavery in Asia.

Visit us online at the all-new www.ac cru.com

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