The BUSINESS ACCELERATOR MAGAZINE

ASPIRE WEALTH GROUP
BUILDING YOUR BUSINESS & PLANNING YOUR FUTURE

September 2016

The **BUSINESS** ACCELERATOR MAGAZINE

Buying A Business & Due Diligence

Let me ask you this question, would you buy a second hand car for $20,000 without a detailed inspection by a qualified mechanic? Presumably not. Then why would you invest tens or even hundreds of thousands of dollars to buy a business or franchise without a comprehensive review of the business?

The ultimate reason you are buying a business or franchise is to generate a return on your investment. That return comes in the form of an annual income stream plus, hopefully, a capital gain when you sell the business. As such, before you sign the contract of sale you need to put the business through a 'due diligence' process. In a sense you are putting the business (or franchise) under the magnifying glass and the due diligence process should examine a range of issues.

The process usually starts with the financial aspects and if the business doesn't pass the financial examination, it's probably not worth investigating the other aspects. Depending on the type and size of the business you may need to review the staff, the business premises and commercial lease, equipment, suppliers and customers. There are so many questions you need to ask in the fact find stage including, but certainly not limited to:

- Are any of the staff related to the vendor and will they stay on post settlement?
- Are any related staff being paid non-commercial rates? (i.e. family inflated wages)
- Are any major customers related to the vendor and will you retain them? Are all their transactions at market rates?
- Are suppliers related to the vendor? Will you get the same price and volume discounts?
- Will the major active customers continue buying from you when the business transfers?
- Employees IP, turnover in recent years, related to the vendor, at market value – price adjusted for related persons (and are customers and suppliers related to vendor) All transactions at market value?
- Equipment and Machinery - Inspect and site all items and note the make, models, serial numbers plus service history
- Does this business have any patents or trademarks – are they current and transferable?
- Is the Lease on the property transferable and will the rental be on the same terms?
- Are there any pending legal issues or warranty claims on the products?
- Is a new competitor planning to open nearby?

The list of potential questions is long and research undertaken by Griffith University's Asia-Pacific Centre for Franchising Excellence included a survey of just over 600 current and former franchisees and independent small business owners. The findings regarding due diligence were astonishing with the majority of new independent business owners and franchisees relying on their "gut feel" when setting up or buying a business. The survey also revealed the level of due diligence undertaken by operators before buying or establishing a new business in Australia was "unsophisticated" and most business owners have a "naïve" appreciation of business.

Surprisingly, new business owners only spent a "relatively low" amount of time on the due diligence process and prospective franchisees tend to spend more time than independent business owners. This apparent lack of time and money invested on due diligence is a big surprise given business owners are often nervous and cautious when buying a business. The research revealed that the average spend by current and former franchisees was in the range of $2500 to $2700 while independent businesses owners spent between $1500 and $2290.

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Buying A Business & Due Diligence (cont)

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The Financial Aspects

While every business is different, your investigation should start with the historical sales figures of the business. Are they trending up or are they in decline? Is this trend consistent with industry? A business with declining sales or profits is a warning sign and the valuation should take this into account. You buy a business based on current financial data not on the financial potential of the business.

What is the trend with bottom line profits? Are they in decline and can you identify why? Have wages or other expenses blown out? Has the gross profit margin dropped and can you negotiate a better price with another supplier to lift the profit margin?

As a minimum, you need to obtain copies of the financial records for the past 3 years including balance sheets, profit and loss statements and if available, tax returns. Never rely on financial statements generated from the vendor's accounting software program because too often they are a computerised shoebox. Ideally you should obtain certified copies from their accountant. As a guide, here is a list of basic introductory financial questions you should be asking but they are really only the tip of the iceberg:

- Do sales figures reconcile to point of sale records, bank deposits, Business Activity Statements and income tax returns etc.
- Have the records been well kept? Do they break sales down by product or service line?
- 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)?
- Are there related party transactions that inflate the profit?
- Are profits adequate to warrant the risk of buying?
- Do a small percentage of customers represent a large percentage of sales? When was the last time they ordered and are they still a customer?
- Are there any one-off sales that won't be recurring? What was the impact of these transactions on the business profit?
- 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 (lease or chattel mortgage) agreements?
- Details of any stock being sold with the business and the valuation method. How will it be counted and valued at settlement?

- 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?
- 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 they should turn over to you at settlement?
- Are there any bad or doubtful debts?

The list goes on and while buying a business can be an adrenaline rush, you need to be thorough with your due diligence. To minimise risk you need to be patient plus have an understanding of the industry and potential game changers like emerging technology and new competitors. Make sure you know why the vendor is selling the business and always engage a solicitor to review the contract of sale because the devil is always in the detail. You might want the contract to have clauses about retention and restraint of trade so the vendor can't start a similar business around the corner from the current location.

If you're looking to buy a business or franchise, we urge you to consult with us. Over the years we have helped numerous clients value businesses and navigate their way through the due diligence process.

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Is Your Website A Billboard Or Lead Generator?

What's the primary purpose of your website?

Unfortunately, when reviewing most websites it's hard to tell. So many websites are simply 'electronic brochures' that list the who, what and where of the business. In our opinion, no matter what industry you operate in, having a website that sells, one that generates a constant stream of enquiries from prospects is critical.

A website that generates traffic and customer leads can make a massive difference to your business success. Let me ask you these four questions about your website:

- Do you know how many visitors came to your website today?
- Do you know what page they landed on?
- Do you know the bounce rate (visited one page and moved on)?
- Do you know the percentage of visitors that viewed your site on a mobile device?

These 'analytics' are readily available and you need to monitor the performance of your website. Do you know how much new business your website has attracted in the last year? If the answer is negligible it's time for a new website or at least a makeover. You also need to stop viewing your website as a cost and start thinking of it as an investment.

While businesses fail for a multitude of reasons, the most common ones cited are poor record keeping, inadequate cash flow and a lack of sales. Some of these reasons are really just symptoms and the real cause can be traced back to poor marketing. If your website lacks strategy, quality targeted content, a lead magnet, calls to action and some search engine optimization (SEO) tactics then your business will probably never reach its full profit potential.

Marketing Has Changed – Inbound vs Outbound

In the past decade there has been a fundamental shift in the way consumers make their purchasing decisions. The availability of free, high-quality information online has changed the way they buy and the internet has also changed the way businesses communicate with their customers.

Historically, we used 'outbound' marketing techniques to 'buy' the attention of customers. We interrupted consumers with cold-calls, persistent sales representatives, pamphlets, brochures, radio, TV advertisements, newspaper ads, billboards and telemarketing. Courtesy of the internet there has been a massive shift in marketing techniques. These outbound marketing methods have been replaced by 'inbound' marketing methods - marketing activities designed to bring visitors into your business as opposed to sales teams trying to get the attention of potential customers. Modern marketing now promotes your business through blogs, podcasts, videos, e-Books, e-newsletters, whitepapers, search engine optimization (SEO), social media channels and other forms of content marketing. These methods are designed to earn the attention of customers and draw customers to your website by producing relevant, interesting and targeted content.

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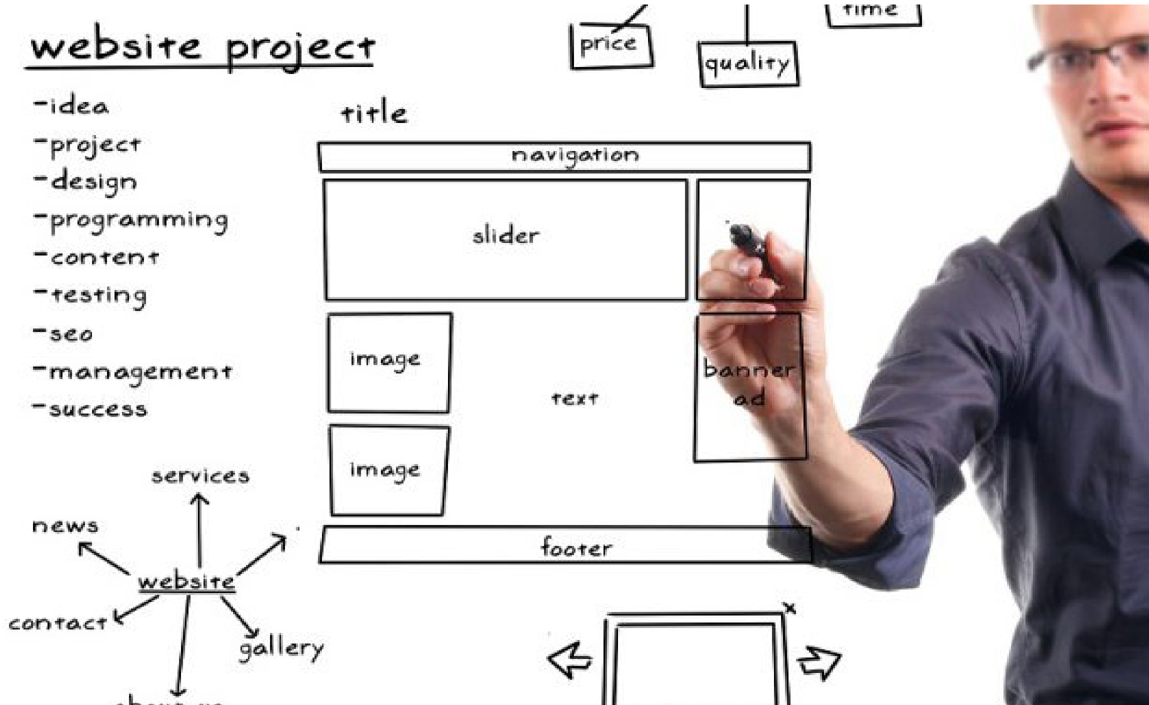
Inbound Marketing



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Is Your Website A Billboard Or Lead Generator?

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In the online world, consumers hold the power. They can subscribe or unsubscribe from your newsletter, block a phone call and move on from your website with a simple click of a button. Today's consumers will do extensive online research as part of the buying process. They read reviews, participate in forums, use social media channels to get feedback and download guides and product reports. In fact, a study from Fleishman-Hillard suggests that 89% of consumers use the internet to source information on products, services and businesses before they make their purchasing decision. Buyers want to gather as much information as possible before they have to speak to a sales person or make a purchase.

The term 'inbound marketing' is also associated with the concept of 'permission marketing' and inbound marketing has five stages including:

1. Attract traffic to your website
2. Convert website visitors to leads
3. Convert leads to sales
4. Turn customers into repeat higher margin customers
5. Analyze for continuous improvement

While the role of your website is to generate traffic and enquiries, the challenge is to convert these leads into sales and nurture the customers so they keep coming back. Marketing automation has replaced high-touch, repetitive manual processes and they trigger a series of pre-defined sequences and actions from the back end of your website. A carefully constructed website will pull traffic from your various sources of content and if you can then engage with your site visitors you can convert the visitors into leads. The next step is to nurture these leads and turn them into customers. That's really just the beginning because a great website will then have automation processes in place to generate repeat business from those customers.

Your Website is Your Silent Salesperson

Your website is like the front door to your business and often the first touch point with a prospective client or customer. You only get one chance to make a good first impression and your prospects will pass judgment on your brand and business in seconds. It can make or break a business and your website remains the most relevant and important piece of marketing technology for business owners. While your sales people probably work a 35 hour week your website is working 24 hours a day, 7 days a week, 52 weeks of the year. It is your silent sales person and needs to be more than just an electronic billboard.

Remember, you are competing with close to 1 billion other websites on the internet and in your industry you're probably competing with businesses with much larger marketing budgets than yours. That might sound daunting but the internet is virtually a level playing field so you can compete and beat the major players in your industry. In some cases you'll find the big players in your industry are complacent about their position in the market and they don't measure and monitor the performance of their website. You might find they have a 'set and forget' attitude to websites and their content is stale so their website is ripe and rotting.

Website success doesn't come easy and while the internet offers a 'field of dreams' in terms of potential leads, if you have a 'build it and they will come' attitude you will fail. Your website will always be a work in progress because the search engines like Google crave regular, fresh, original content including videos and blogs. It doesn't matter how successful your website is right now, there is always scope for improvement. The great websites are simple, informative and consistent. They turn heads, catch the eye and are easy to navigate and understand.

SuperStream Compliance Deadline Extended to 28th October

The Australian Taxation Office have granted small business owners a slight reprieve to comply with SuperStream. While the compliance deadline was actually 30th June 2016, the ATO states that it recognises that some small businesses will require additional time to implement the required changes.

SuperStream requires super contributions for employees to be made electronically in a standard format. Although 450,000 small businesses are already registered and compliant, the ATO acknowledged some employers need more time to find an appropriate SuperStream solution for their business. Consequently, no compliance action will be taken against small businesses who missed the 30th June 2016 deadline but must ensure they are compliant by the 28th October 2016.

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Before You Buy a Business

Starting a business can be a mine field and no amount of research, passion or planning can guarantee the success of a start-up business. The risks are high which explains why so many budding entrepreneurs look to buy an existing business or franchise operation rather than start from 'scratch'.

Buying A Business

On face value, buying a business seems a safer bet because it is already operational with customers plus a regular cash flow. You would be buying the goodwill associated with the business together with any stock, equipment, fixtures and fittings plus hopefully an up to date customer database that you can market to in the future.

It sounds easy but before you invest in someone else's business you need to go through the 'due diligence' process. As a buyer you should be familiar with the Latin term, 'caveat emptor' that means 'let the buyer beware'. Essentially, you take on the risk that the business may fail to meet your sales and profit expectations. The onus is on the buyer and all too often they are impatient and rush the process. Buying a business is an exciting time but impatient buyers often get burnt fingers.

The due diligence process is all about making sure you know what you are buying. You want to be sure the asking price is fair and reasonable and you don't want any surprises after you complete the purchase. As such, the due diligence process involves a detailed review of the business' operations, finances, reputation and industry. If you don't fully understand the business, the ongoing costs, the staffing requirements and the likely profit and return on your investment, then you haven't done your homework.

In business, 'failing to plan is planning to fail'. The research undertaken by Griffith University's Asia-Pacific Centre for Franchising Excellence included a survey of just over 600 current and former franchisees and independent small business owners and the findings were astonishing. The majority of new independent business owners and franchisees rely on their "gut feel" when setting up or buying a business and close to half of these business operators were not familiar with the term 'due diligence'. The survey also revealed the level of due diligence undertaken by operators before buying or establishing a new business in Australia was "unsophisticated" and most business owners have a "naïve" appreciation of business.

Surprisingly, new business owners only spent a "relatively low" amount of time on the due diligence process and prospective franchisees tend to spend more time than independent business owners. This apparent lack of time and money invested on due diligence is a big surprise given business owners are often nervous and cautious when buying a business. If you're going to invest a large amount of money and you're relying on the business to provide you with an income to fund your future lifestyle we urge you to invest heavily in the due diligence process.

There are a number of aspects to the due diligence process but as a starting point you need to address these basics to reduce your risk:

- Sales/Revenue - What Customers generated the revenue and will it continue?
- Business Premises - is the lease transferable?
- Equipment - is it in good working order and is it free from debt
- Staff – who do you plan to retain and will they stay on?
- Suppliers - Will their pricing change?

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Before You Buy a Business

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Buying A Franchise

Franchises are big business in Australia and in a sense, you are buying a 'business in a box' complete with someone else's brand, systems, processes and marketing materials. While it sounds simple, the 'box' comes wrapped in legal red tape and there is always issues around the potential power imbalance between franchisors (who own the network) and franchisees (who run the individual businesses).

There are conflicting stories about the success rate of business start-ups and franchises. The Franchise Council of Australia claim the Australian Bureau of Statistics indicate that 40 to 45 per cent of small businesses close within the first two to three years, with failures rising to 60 to 70 per cent after three to four years. By contrast, the average term of a franchise contract is five years and the average tenure in a franchise network is seven years. This suggests franchisees generally experience enough success during their initial contract to want to renew, however, a 2008 study suggested that:

- Only 81% of franchisees are profitable
- 3% of franchisees generate a loss of more than $50,000
- 58% of franchisees generate a profit of less than $50,000 per annum

Clearly buying a business or franchise doesn't guarantee financial success, however, the perception is that buying a franchise carries less risk. Having said that, in the space of 24 hours in October 2011 close to 400 Australian franchisees operating under the Refund Home Loans and Tyrecorp brands were hit with the news that both companies had collapsed. More recently, 7-Eleven have been embroiled in a wage scandal and internal documents obtained by *Fairfax Media*, show 68 franchisees left the 7-Eleven system in the 12 months to June 2015.

Of course, this is not to say that franchises don't work because there are some great success stories. The takeaway message is if you're looking to buy into a franchise you need to do your due diligence and put the franchise contract under the microscope so you know exactly what you are buying and understand all the ongoing franchise fees.

If you're looking to buy a business or join a franchise we urge you to consult with us to discuss the due diligence process.

ATO and the 'Sharing Economy', Targets Uber & Airbnb

The Australian Taxation Office have announced they will be focusing on undeclared income derived by taxpayers from the 'sharing economy'. The 'sharing economy' refers to income usually derived from buyers and sellers connecting through a facilitator (usually an app or a website) and this may include:

- Renting a room or whole house for a short term (e.g. airbnb)
- Taxi and travel services (ride-sourcing) for fare (e.g. Uber)
- Provision of personal services such as professional or creative services (e.g. graphic designer, creation of websites, odd jobs, deliveries or furniture assembly)
- Rental of a car parking space

Income earned through provision of the above services need to be declared when preparing individual tax returns. In addition to the non-declaration of income, the ATO will also be monitoring compliance issues such as taxpayers registering for GST or ABNs where necessary.

Specifically, a ride-sourcing service is providing a car available for public hire and individuals need to register for GST regardless of turnover (i.e. the $75,000 threshold for turnover for GST does not apply to ride-sharing services), register for an ABN, record and charge GST, provide a Tax Invoice when requested for fares over $82.50 and lodge a Business Activity Statement.

Individuals operating infrequently or non-commercially (e.g. car pooling where passengers provide petrol money or the service is provided without a profit making purpose) need not register for GST.

Provision of a room or house for short term stays does not attract GST as there is no GST payable on residential rent. Providers need to keep records of income and expenditure for inclusion in their tax return.

The ATO advises they have in excess of 600 million pieces of third party data to track activity and income and those that omit significant amounts of income will be caught.

If you engage in any of these activities and are not sure of the tax implications, please don't hesitate to contact us.

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