



Suite 23, 1 Elyard Street, Narellan NSW 2567
Telephone: (02) 4646 1025 | **Fax** (02) 4648 2561
Email: admin@milroyaccounting.com.au
Website: www.milroyaccounting.com.au

September 2015

Franchising ... Risk & Return

Franchising is certainly big business in this country with sales turnover of \$144 billion. The Franchising Australia 2014 Report tells us that there are 79,000 franchisees operating in Australia employing more than 460,000 people. The perception is, buying a franchise is safe and a guaranteed cash cow.

The reality is franchises do fail. Wendy's Supa Sundaes, the former master franchisor of the ice cream and hot dog chain was placed in voluntary administration in July 2015. The eight year old Refund Home Loans franchise with around 350 franchises collapsed several years ago as did Pie Face and car care company, Midas Australia. The list of casualties is long.

Franchising is now across most industry sectors and buying a franchise is often described as buying a 'business in a box'. You are basically buying someone else's business or brand together with all their systems, processes and marketing collateral. It sounds like a recipe for success but before you invest in a franchise you need to do your homework. In the due diligence process you might find the systems and training the franchisor offer are inadequate, the location is unsuitable or there is no real marketing plan behind the business. You might also find that the market is saturated and as an example, in the last 18 months we have seen a flood of frozen yoghurt shops come and go.

We are not suggesting for one moment that buying a franchise isn't a great potential investment. However, given most franchises appeal to first time business owners, this serves as a warning and you need to be selective about your investment. A franchise study from 2008 suggests that:

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

According to a report on food franchising by Franchise Business Review, 51.5 percent of food franchises earn a profit of less than \$50,000 a year; roughly 7 percent exceed \$250,000 with the average profit for all restaurants coming in at \$82,033. That sounds reasonable but when you factor in the initial franchise fee of between \$500k and \$1m for a restaurant it represents a relatively small return on investment.

On a positive note, the Franchising Australia 2014 report suggests 72 percent of franchisors report that franchisees have recorded increases in revenue over the 2013/2014 financial year. In addition, over two thirds of franchisors believe franchisees have recorded profit growth over the last financial year and over 80 percent of franchisors expect franchisees to record revenue and profit increases in 2014/2015.

THE TRAPS

While some franchisors market their franchise as a 'turnkey' operation, running a business requires energy, passion, persistence and commitment. There is no substitute for hard work and if the business was just a profit making machine surely the owner would set up more sites and just employ the staff?

The number one question that a prospective franchisee wants to know is, "How much will I earn?" It's a fundamental part

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.



Franchising ... Risk & Return (Continued)

of the buying equation and some franchisors now offer income guarantees, particularly in the service franchises. Given these types of franchises generally attract first-time business owners moving from a salaried employment position the income guarantee can be very appealing. Guarantees are often stated as '\$1000 a week for the first ten weeks' to reassure the franchisee and reduce the perceived investment risk.

Other franchisors are offering prospective franchisees a guaranteed income of say \$50,000 per annum. This provides the franchisee with a degree of income stability for the first year of trading and can help the franchisee secure finance. While income guarantees might provide short term peace of mind for new franchisees, they expire and buyers need to look beyond income guarantees when evaluating a franchise. What if the operator is not suited to the type of work or has no marketing or people skills?



Generally speaking, most people looking to buy a franchise will look at least two different franchises before making a decision. You need to look at the total package including the price, training, equipment, marketing materials, ongoing fees and income guarantees. Don't make the decision based on one aspect of the offering and make sure you understand the terms and conditions of the franchise agreement.

Buying any business doesn't guarantee financial success and franchises are not immune from risk. Before you invest in a franchise or consider franchising your business we urge you to consult with us.

Business Start Up Corner - Confessions of a Failed Business Start-Up

Over the years we have had hundreds of people approach us about starting a business. It's exciting when you have that 'light bulb' moment that could be your ticket to financial success, however, it takes more than a great idea to create a great business.

We have identified some of the biggest mistakes a start-up business owner can make and for retailers, location is a big one. Cost conscious start-ups often settle on a location based on price. If your business needs foot traffic then you need to invest in the right location. Is parking critical? Do you need a shopfront and will the lease allow prominent signage? If you think great service will compensate for a poor location, think again. From an accountant's perspective it's so frustrating to hear a client tell us they have signed a 3 year lease on a commercial property in the wrong location. For example, we have seen hairdressers set up in small shopping strips competing with 5 other hairdressers and frozen yoghurt shops pop up in an area where there are no local schools. Size is also important and if the business takes off then you could be bursting at the seams looking for new premises and trying to sub-lease the old premises.



Another obvious mistake is a lack of finance. Many start-ups go into business with big dreams and shoe string budgets. They didn't plan for all the start-up costs and run out of money before the business even had a chance to find its feet. Expenses like insurance and signage are often overlooked while legal fees, website development and marketing costs are often under estimated. You need to identify every cost in the planning phase and produce revenue forecasts based on reasonable assumptions. You also need to have a finance buffer because the day you open the doors doesn't mean instant sales and cash flow.

Your cash flow budget should prove the viability of your business and a positive cash flow just doesn't happen, it needs to be planned. History tells us that any business that fails to accurately forecast its cash flow in the first 12 months is on a collision course and your cash flow budget is designed to:

- Forecast your likely cash position at the end of each month
- Identify any fluctuations that may lead to potential cash shortages
- Plan for your taxation payments
- Plan for any major capital expenditure, and
- Provide prospective lenders with key financial information.

Confessions of a Failed Business Start-Up(continued)

Another pitfall for start-ups is building a website in haste that resembles an 'electronic billboard'. It simply lists the who, where and what of the business. Your website can be the difference between boom and gloom so you need to carefully plan your website and the content should target your ideal type of customer. Your website should be your marketing heart and be high on your list of priorities, not something left to do a week from the launch of the business.



Lots of entrepreneurs have a 'build it and they will come' mentality when it comes to websites but the search engines like Google can take 3 to 6 months to index your content. That means your business could be almost invisible during this time. To fast track your online results you also need to build inbound links from other websites, have a Google+ account, create a YouTube account and videos plus create social media channels.

All too often entrepreneurs get caught up in the product development stage without planning the marketing and distribution. Unfortunately, a business with a great product but no distribution channel will never achieve its full profit potential.

The marketing plan starts with identifying your ideal customers. If you know the type of customer you are 'fishing' for you can identify the appropriate marketing 'bait and tackle'. Your target market could be characterised by a certain gender, demographic, geographic location or level of disposable income. Do they spend time online? If so, which social media platforms should you target? For example, Facebook ads let you narrow down an audience so you can target certain demographics and their particular interests.



Before you pull the trigger and launch your business you also need to create a brand, build a lead generation website full of targeted content and plan the production of blogs, videos and other content. Failing to plan is planning to fail and a lot of people in start-up mode are impatient. They've invested a lot of time thinking about their business idea and can't wait to take it to market. In some cases, the business launch is almost an obsession, but without planning and forward thinking you'll find issues emerge that you never considered and they could stop you in your tracks. For example, insurance can seem like just another cost in a bottomless list of expenses, however, the moment you 'flick the switch' and open your doors, accidents can happen. Public liability insurance can't be put off until tomorrow if you have customers walking in your premises today.

A business plan provides a blueprint for the future and it forces you to do a SWOT Analysis and examine your business' strengths, weaknesses, opportunities and threats. It should also incorporate a marketing plan, finance plan and address all the legal issues like contracts and leases. Look at your competitors and their prices. What is their point of difference and what do you offer that is unique? Dissect your website and make your calls to action even more compelling. What lead magnet will you give away in exchange for a prospect's email address. The list is long but it is all part of the planning process. Constantly ask yourself this question, "What If"?

As you know, starting a business can be a frantic time, full of pressure and deadlines. As a consequence, it's easy to cut corners and ignore professional advice but are the terms of your lease exactly what you expected? Have you got the right business structure in place with adequate asset protection if things turn sour? Are your contracts water tight and do you have the appropriate insurances in place? Entrepreneurs in a hurry often lose focus on what's important and overlook legal and accounting advice.

In business, passion, persistence and hard work are essential but there is no substitute for solid foundations. You need the right structure, location, marketing plan, website, insurances and accounting software to succeed. If you're looking to start a business or need advice on how to bring your business concept to life, talk to us today.

Business Changes in 2015/2016

There are a number of legislative changes that impact both small and medium sized businesses in 2015/16. The company tax rate cut comes into effect but there's a range of other changes you need to be aware of including:



Company Tax Rate Cut

From 1st July 2015 the company tax has been cut from 30% to 28.5% for incorporated small businesses with turnover of less than \$2 million. The company tax cut is limited to those businesses with turnover of less than \$2 million which is aggregated, so if you have multiple businesses you have to look at the 'aggregation' provisions.

5% Tax Discount for Unincorporated Small Businesses

From July 1, 2015 small businesses that are not incorporated receive a 5% tax discount capped at \$1000 per annum. A sole trader with an annual turnover of \$300,000 and a taxable income of \$75,000 would pay tax of around \$16,000 under the previous system. With the 5% tax discount the sole trader will pay \$15,200 in tax, a saving of \$800.

Increase to the Minimum Wage

As of 1st July 2015 the minimum wage increased by 2.5%, the equivalent of \$16 per week. It's important for small business owners to review the awards they have in place as they may be impacted by the 2.5% increase. If you are paying staff in excess of these base rates then no action is required. The Fairwork Ombudsman website has Pay Tools to help you check your current pay rates at:-

<http://www.fairwork.gov.au/about-us/news-and-media-releases/website-news/minimum-wage-increase-from-1-july-2015>

SuperStream Begins for Small Employers

The SuperStream system started on 1st July 2015 for small employers with 19 or fewer employees. SuperStream is a compulsory change for all employers across the country, with small businesses now required to make super contributions electronically in a specific format. There is a 12 month period of grace, but don't leave implementation to the last minute. Employers can update payroll software or work with an accountant or BAS agent, a clearing house or with the super fund directly. You need to look at the option that best suits your business.

Changes to Claiming Start-Up Costs

Under previous rules, a start-up businesses could only claim their administration costs over five years. As from 1st July, 2015 if you set up and are profitable in your first year you can claim those establishment costs as a tax deduction in the first year.

Employee Share Schemes

New laws governing employee share schemes came into effect on 1st July, 2015. The tax on options is now paid when the option is converted to a share. The government has also introduced a new incentive that will allow further deferral of the taxing point where eligible start-up companies issue shares or options to their employees at a small discount. The purpose is to tax employees on the benefits when they are able to cash them out.



Changes to Claiming Car Expenses

The methods of calculating work-related car expense deductions have changed from the 1st July 2015. The '12 per cent of original value method' and the 'one-third of actual expenses method' have been removed. The 'cents per kilometre method' has also changed by replacing the three (cents per kilometre) rates based on engine size, with one rate set at 66 cents per kilometre in respect of all cars. The Tax Commissioner will be responsible for updating the rate in subsequent years.

Work-Related Expenses & Rental Property Claims Under Scrutiny

Around 12 million Australians lodge a tax return every year. The Tax Office contacted around 350,000 of those taxpayers last year about errors or omissions on their returns and they expect similar statistics this year.

Around half of those contacted last year were due to basic errors such as misspelt names or addresses, spouse details not included, incorrect bank account details or birth dates. In addition, some errors were attributable to the taxpayers lodging their return before third party pre-filled data was available. The remaining 170,000 taxpayers were contacted by the ATO because they had claims deliberately omitted or misreported income.

Each year the ATO routinely cross-checks taxpayer returns with the 600 million pieces of data they receive from third parties including banks, employers, health insurers, state and federal agencies plus overseas treaty partners. This year the ATO is paying particular attention to work-related claims as well as rental property deductions.

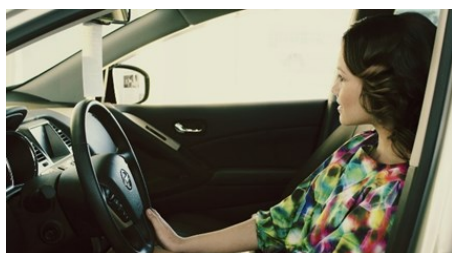
WORK-RELATED CLAIMS

The ATO revealed in July that it intended to pay particular attention to work-related expense claims across all industries and they will be monitoring :

- a) Double-dipping - where claims are made for work-related expenses when the employer has already reimbursed the expenses.
- b) Excessive work-related claims such as claiming 100% of the mobile or internet bill when only 20% is work-related.
- c) Private expenses such as travel from home to work.

To claim a work-related expense, the expense must have been paid for by the individual, it must be related to your employment and you must have kept a record of the expense. In relation to home to work travel, a normal trip cannot be claimed unless;

- Your vehicle is used to carry bulky tools or equipment necessary for your work and you cannot leave them at the work site,
- Your home is your employment base, or
- You regularly work at multiple job sites each day.



RENTAL PROPERTY DEDUCTIONS

This year, the ATO will be paying close attention to:

- Excessive deductions claimed for holiday homes
- Rental income split between husbands and wives
- Deductions to be apportioned for the period when the property was rented out or is genuinely available for rent
- Claiming the cost of repairs and maintenance made shortly after the purchase of the property
- Interest deductions claimed for the private proportion of loans.

Investment property owners need to follow some simple rules to ensure they get their tax return right:

- 1) Accurate records are crucial to ensure the correct amount of rental income is declared and that there is supporting evidence of claims made.
- 2) You can only claim deductions for the periods when the property is rented out, or is genuinely available for rental. Where properties are rented out at below market rates (e.g. to family and friends) claims must be limited to the amount of income earned while rented. For example, a taxpayer claimed deductions for a holiday home, however, the taxpayer rented the house to family and friends at less than market rate. Apart from a brochure at the taxpayers' business premises, no other effort was made to rent the property out. The advertised rent was much higher than surrounding properties and the ATO disallowed the claim deeming the property was mainly for personal use with deductions limited to the amount of rent received.
- 3) Costs for damage repair, renovation, defects or deterioration which existed at the time of purchase cannot be claimed as an immediate deduction. These 'initial' repairs and improvements to a property are not deductible.
- 4) Taxpayers claiming interest must only claim the portion that relates to the rental property. The ATO adjusted the tax return of a taxpayer where a property had been refinanced to pay for their daughter's wedding and an overseas holiday. The taxpayer claimed the whole amount of interest, not just the portion related to the rental property, so it was disallowed.
- 5) Husbands and wives jointly owning a rental property need to ensure that they do not split the income unequally to gain a tax advantage. Instances have occurred where people have included the income in the low income earner's return and the expenses in the high income earner's return. The Tax Office takes a dim view of these arrangements and imposes higher penalties where they believe there is an element of fraud.

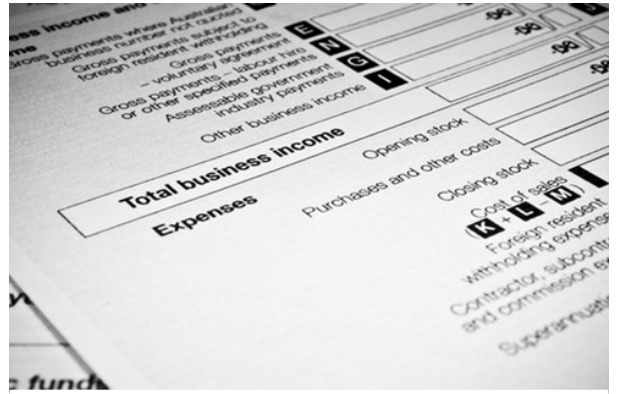


Dealing With the ATO

It is estimated that one in fifteen small businesses fail because of inaccurate or poor record-keeping. The ATO's record keeping requirements have a dual purpose, tax collection being the primary one, but to also give small business owners more financial control. Up to date financials let you make informed business decisions.

Since you have to comply with the ATO requirements, it makes good business sense to make the process and figures more meaningful. Current data will give you greater knowledge of your business' strengths and weaknesses and help you identify the need for finance before it becomes a crisis. Of course, to obtain finance from a bank you need up to date financial statements.

With the ATO audit activity on the rise they now have a large database of over 30 industry standards they use for benchmarking business performance. These include gross profit margins in your industry, the ratio of wages to turnover and other key performance indicators. Any significant variance in these benchmark ratios could trigger an ATO audit, particularly if you operate in a cash industry. The ATO also reconcile BAS information, PAYG information and end-of-year tax returns and expect you to be able to explain any differences between the various statements.



Late lodgement of documents is also an issue, with late BAS statements incurring fines of up to \$850. It's better to show a BAS estimate, 99% correct, on time, than show a 100% correct BAS late.

Record Keeping Guidelines

- 1) Get on top of the paperwork and the software you are using. If you are struggling, engage someone else to do it (like a bookkeeper or our office) and have them report back to you. Get to know your key numbers.
- 2) If you're behind with the ATO let us negotiate a payment arrangement for you. Accountants have a rapport and extensive experience with the ATO. They also have greater confidence in negotiating with us rather than an individual client.
- 3) Comply with the deadlines. An approximate BAS on time is better than a late BAS and the ATO has increased the fines and penalties for late lodgement.
- 4) Check the industry benchmarks on the ATO's website or talk to us to make sure your business is operating within the guidelines.

There's An App for That ... Lighten Your Wallet's Load

If you have stood at a checkout hoping you haven't moved the card you're looking for into the other wallet or left it on your desk, or if you find yourself shuffling through an endless pile of loyalty cards, you may find one of these apps (available in iTunes or from Google Play) will let you ditch the plastic and lighten the load.



Key Ring lets you scan, store and track merchant rewards cards direct from your smartphone. It also lets you join new programs, receive mobile coupons and synchronise the app online. The app allows you to add cards by just scanning them in by using your smartphone camera and the barcode or entering it manually. Key Ring produces merchant information when the barcodes are scanned, or you can enter data from the website. You will need to create an account to do this, but it's worth it - the website synchronises beautifully with the app and maintains a backup of your data that easily transfers to a new phone. Key Ring displays both the barcode and the numbers associated with each program, so cashiers can enter the numbers manually if need be. Key Ring is free and it works .

The Simple Wallet App by DKK allows you to secure all of your passwords and valuable information in a very simple way. Their program allows you to create notes and photos, which are encoded within the app instead of in the phone's gallery. Due to a few simple independent algorithms and the absence of an internet connection, each note and photograph is encrypted separately and therefore data theft is prevented. There is a Lite version available for free on both iTunes and Google Play or the full version is \$3.44 or US\$2.99.

Marketing Corner - It's Not All About You

When it comes to marketing there are certain non-negotiable guidelines that need to be followed. The golden rule is, your marketing content needs to be all about your prospects and not about you.

If you examine your current marketing content do you talk about our people, our products, our experience, our services, our offices and our knowledge? This is incredibly common and while it's much easier to talk about you and your business, it's not engaging with your customers and your prospects.

The challenge is to create marketing copy that addresses the one thing that counts, what your prospects will get out of working with you! Your message needs to get their attention in under 10 seconds on your website and if your message is about you and not them, you've missed an opportunity.



Solve Their Problems

You need to show an understanding of their challenges and look like the business that can solve those problems. You need to display that you can deliver value and that you are planning on helping them. If so, they might be prepared to stay on your website for longer and learn more about your business and your offerings. Failing to connect means your prospect is only a click away from a competitor's website.

Be Different

Today's buyers have already done their online research. When they find you, they probably already know two or three of your competitors and have a feel for prices. So, they are looking for something that makes you stand out or makes you different. If you fail to deliver something better than the competition then you're at the back of the queue. What do you deliver that's remarkable?

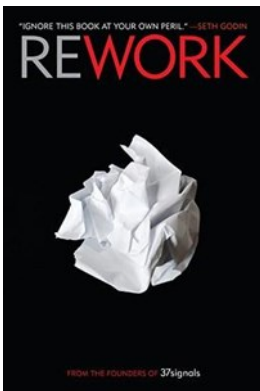
Social Proof

Your prospects want proof that you've helped other customers or clients with similar issues. They need to see testimonials, videos, case studies and success stories. Supporting proof is reassuring and provides confidence in your solution.

Changing your marketing message is not difficult, it just takes a prospect-focused approach. Write your copy with a 'you and your' approach, not a 'we and us' approach. Make sure your message is tuned into the prospect's radio station, W.I.F.M. (What's In It For Me) rather than churning out the same company-focused material.



Book Corner - Rework by Jason Fried & David Heinemeir Hansson



Rework: 'Change the Way You Work Forever' by Jason Fried & David Heinemeir Hansson

Why Read It? This is an easy to read book that will change the way you think about your work. Simply written, with few words and big pictures, but with profound wisdom about how to be successful and productive without being a workaholic or sacrificing work/life balances. "Rework" shows you a better, faster, easier way to succeed in business.

What you will learn – a better, stronger, faster way to succeed in business. How to be more productive, how to get exposure without breaking the bank and tons more counterintuitive ideas that will inspire and provoke you. Read it and you'll discover that whatever you think is holding you back are only excuses. What you really need to do is stop talking and start working and this book shows you the way.

IMPORTANT DISCLAIMER: 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 constitute or convey advice per se. Also changes in legislation may occur quickly and we therefore recommend that our formal advice be sought before acting in any of these areas. This newsletter is issued as a helpful guide to clients and for their private information. It should be regarded as confidential and not be made available to any person without our prior approval.