June 2009 eNewsletter

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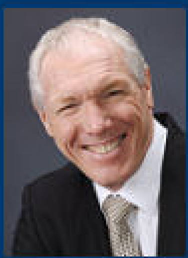
"A bank is a place that will lend you money if you can prove you don't need it."
Bob Hope

This month's cartoon ...

2009 Financial Year End Will Be Different



Peter Rowe

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Clear Goals, Better Management, Bigger Profits, Happy People!

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Hi [firstname],
[introduction]

I recently attended a presentation by Mike O'Hagan (founder of Australian Mini Movers), and I came away with some gems, the best of which was, "Your business goes where you aim. Most people start by aiming too low. Aim high from the outset."

My focus in this edition is on putting the current economic realities into perspective and then looking at how you can take advantage of the changes that are happening and the lessons that are being revealed by both those who have failed and those who are succeeding.

Taking up Mike's point: I'd like you to accept that the platform on which you are standing may be pitching a little at the moment, but I'd like you to "aim high" nonetheless - and to then put a plan together that will hit the mark for you.

If you'd like some help, or just an adjustment to your perspective, feel free to contact me and I'll be glad to share what I have with you.

Enjoy!

Regards Peter Rowe

Peter

Director ProfiTune Business Systems

STOP PRESS!

On 1 June 2009, ProfiTune International were granted accreditation under the federal Australian Quality Training Framework for their nationally-recognised Diploma of Business Coaching. Candidates undertaking the two-year-long qualification will complete more than 500 hours of study and practice and will emerge competent and accredited to coach clients across a wide range of business issues.

ProfiTune MD Peter Rowe, said that the Diploma was the culmination of 10 years of work by his team, and represented a major step towards establishing a national standard for business coaches, who are presently unregulated.

"I'm looking forward to the day when Business Coaches, like Financial Planners, need to hold a licence to practice," said Mr Rowe, "and the Diploma is a significant step in making that a reality." For further information, please use this link.

2009 Financial Year End Will Be Different

(Time to read this article: 3 minutes)

You know that I am mightily impressed by the research that Jim Collins and his team did in *"Good to Great"* and, if you're a regular reader of this newsletter, you may recall occasions on which I have reflected on one insight or another in the context of the business environment of the day.

Collins has recently pushed out a new short book on how companies, at the top of their game and their market (perhaps companies like your own?), can stumble - and he looks at the difference in reaction between those who crash and burn, and those who pick themselves up, learn from the experience, and go on to further greatness.

More importantly, he has identified the *5 Stages of Decline*, and sounds the sober warning that most victims don't know they have The Decline Disease until Stage 4 - when it's *very* late, and when the therapy is *very* scary!

So, in the interests of providing you with a quick "check up from the neck up", here are Collins's *5 Stages of Decline:*

1. **Hubris:** *We've made it!* (Symptoms: Arrogance, disconnect from values, denial of the role of luck, believing your own press. Cure: "Retaining a somewhat irrational fear that perhaps your success stems in large part from fortuitous circumstances, so as to stay focused on what got you here in the first place.")
2. **Undisciplined Pursuit of More:** *We're so great, we can do anything!* (Symptoms: Pursuit of more scale, more growth, more acclaim, more of whatever those in power see as "success." Straying into areas where you can't be "World's best at" and/or for which you have no burning passion. Cure: Stick to what you are passionate about AND can be world's best at and don't do anything else; renew your vows to your Values regularly and use them as a compass.)
3. **Denial of Risk and Peril:** *Titannicitis - We're so big even God couldn't sink us.* (Symptoms: Explaining away negative or disturbing data by attributing it to outside forces or sources. Window dressing. Risk taking on a scale that could endanger the organisation. Cure: Paranoia about negative information and the automatic assumption that "it's us; it's what we're doing".
4. **Grasping for Salvation:** *We're sinking!* (Symptoms: Sharp visible declines in key performance indicators; reactive behaviour; grasping at straws; seeking saviours; radical transformation. Cure: Go back to what made you great in the first place - your key values - and translate them into the current context. Be rigorous about what not to do.)

5. **Capitulation to Irrelevance or Death:** *We're going down for the third time!* (Symptoms: Grasping for silver bullets; repeated false starts; market irrelevance; bankruptcy. Cure: Abandoning 'survival' as a strategy and accepting 'rebirth' as the only way out; retaining only your values and seeking new relevance to your market. Stoicism and preparedness to never give up.)

Xerox, with $19 billion in debt and only $100 million in cash, came back from Stage 4. IBM rebuilt itself from Stage 4, as did Disney. Iacocca did the same first time around with Chrysler so it can be done - *but there is no guarantee of permanence* - it's a continuous process of maintenance and renewal.

For a fuller treatment of Collins's book, go to this link.

PS The relevance of this information is directly proportional to your success of the moment - if you feel you've "made it" then the information is truly *vital* for you *right* now!

PPS Chrysler makes an interesting study right now. Having come back from the dead in the '80s, they promptly returned to making the types of cars they wanted to (the massive V10 Viper is almost the epitome of this fact), instead of making the types of cars their *marketplace* wanted, and that the world *needed*. Chrysler are facing bankruptcy as this goes to press.

Business Rules for Surviving Anything!

(Time to read this article: 4 minutes)

It's interesting to watch the fallout from the Global Financial Crisis (GFC) and see that most of my friends and clients in small and medium businesses are doing better than "OK".

Sure, they are facing the challenges presented by frightened bankers who have tightened credit and taken the opportunity to do a little interest gouging at the same time (on that point see the article "Australian Banks Are Failing" elsewhere in this edition), but most have adopted the strategy that since things are a bit harder, they need to focus on doing more of what works for them, and less of everything else. The result is generally an increase in business despite the downturn; they are working a lot harder and doing a bit better, and that puts them streets ahead of those businesses who are "waiting for the Government to fix things".

I thought it was worth a look at what the good guys - both big and small - are doing that works for them pretty well regardless of the economic climate, and I came up with the following observations:

1. They Stay Positive

They accept the pain that any disruption to their forward progress brings, they immediately assess what needs to be done to match the change in circumstances, and then they set about looking to see what new opportunities the changes will present - and they know that there will be opportunities.

2. They Communicate Early

As soon as they are aware of a shift in their world and they've formulated a take on what it means and their first response, they communicate that to their team, ask for their input, and seek their renewed commitment to do whatever it takes. They keep their people up to date on developments in an open and honest way.

3. They Keep An Eye On The Dashboard

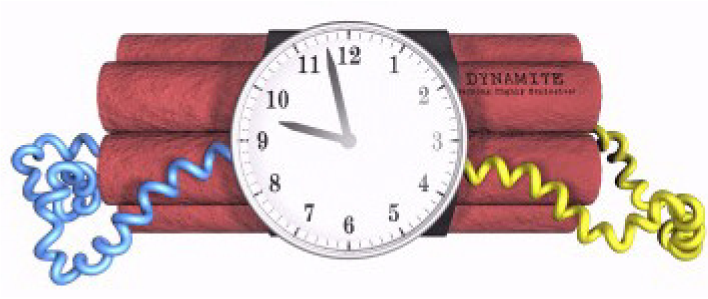
They work out the key numbers that tell them what's happening in their business right now; they create systems that enable them to see those numbers easily all the time; and then they focus themselves on those numbers - obsessively. When a number moves the wrong way they take immediate action and stay on it until it normalises. (For more on this point, see Dashboards from a past edition)

4. They Pull Their Banker in Close

They set up regular contact with their bankers before they ever need them; they proactively provide monthly or quarterly analysis of performance and projections; they forecast credit requirements, and they build comfort and trust for the future.

5. They Use Debt Like Gelignite

They accept that debt is dangerous: they handle it with care; they only use as much of it as they need to remove the object in their way; and they keep it in a safe place when they're not using it.



6. They Cut the Fat

They know that as their business moved into middle age it gathered a little weight in non-revenue staff, marginal products, and questionable customers. A return to fitness means cutting non-revenue staff then replacing half of them with revenue earners; then running a ruthless competitive analysis over every product and service and cutting the bottom 20%; then repeating the exercise with your customers, dropping the bottom 20% then immediately seeking the same number of new customers who fit the profile of your best customers.

7. They Informalise

They can remember a time when they were smaller - *and* more profitable! There were less people and so less coordination, ritual, formality and bureaucracy - less non-revenue activity. They strip down, simplify and streamline every section of their business. They see lean and mean as good when times are tough.

8. They Evolve

They recognise that nothing stands still in business; they study the market to anticipate change so that they can convert it to opportunity. They know that if the economic pie is shrinking the present opportunity must focus on gaining a larger slice of a smaller pie; and that the future opportunity lies in preparing themselves to ride the wave as their bigger slice grows rapidly when the pie expands again. They focus near and far managing now with the future in mind.

9. They Partner With Suppliers

They know that not all suppliers are equal (and probably know that not all will survive) so they pick winners and get close to them, seeking to partner in strategic marketing and looking for ways in which to support each other so that both parties gain an advantage. In a very real sense, a good supplier can also be a very good low-cost banker.

10. They Look for Opportunities

They know that if they are feeling the heat, then their less able competitors are probably feeling *fried* - and may be open to selling, merging, joint venturing or just plain "getting out". They use innovative solutions to acquisitions and mergers to conserve cash and, if they are going to lay out cash, they involved their banker from the beginning.

Australian Banks Are Failing

(Time to read this article: 5minutes)

OK, so I used a lurid headline to get your attention and now that I have it here's the real headline: *"Australian Banks Are Failing Small Businesses, Thus Harming Our Economy."*

Bank bashing is easy, but I'm not heading in that direction here. What I'd like to do is point out a series of simple facts that may widen your understanding of just what is going on when your bank manager either knocks back your next request for business credit, or jacks up your interest rate and fees.

History

Back in the 1980s, after our banks were deregulated and transformed themselves overnight from dull regulation-protected clerks to sophisticated market players, they went partying with some *real* businessmen named Bond, Skase, Herscu, Goward, Connell et al (a crew whom Trevor Sykes called "The Bold Riders").

When that decade's bubble of easy money finally burst our banks woke up with a $28bn hangover. That was more than they were worth at the time and it could be argued that they were "technically bankrupt".

They desperately needed to rebuild their balance sheets with high interest loans and big chunks of fees but big business had the same massive financial hangover as the banks (they'd partied together, remember?) and were no help at all. The Government would not let the banks rip into the mortgage belt for fear of a voter backlash, but they did recognise the need to let the banks rebuild their balance sheets and so they turned a blind eye while the banks hoed into the only sector of the economy who had any money left - the conservative, under-leveraged, liquid and thrifty small business sector who hadn't participated in the financial debauchery of the previous decade! The Cinderellas!

For those of us who remember it, running a business in the aftermath of the '90s was like trying to run a marathon while donating blood at every corner. We had to beg for the credit that we needed to grow our businesses and then pay interest rates and fees for that credit that were nothing short of iniquitous.

Given that small business employs the majority of wage earners and contributes more than 50% to our GDP and tax, it was akin to the banks (and a complicit Government) taking the oil out of the good half of the economic engine while that (small business) engine was doing its best to drag a recovering economy up the hill. It hurt!

Deja Vu

And now, it's happening again! Big business - big banks - did some really stupid deals over the last 15 years involving instruments that they just did not understand, and they got out of their depth mixing with some real smart fellas - again. They lost hundreds of *billions* of dollars of shareholder's funds but, in this aftermath, Governments are issuing tax-payer-backed guarantees to banks for their borrowings to again enable them to rebuild their savaged balance sheets.

They are now doing that at the expense of other, more responsible sectors of the economic community - the traditional mortgage lenders, and *small business.*

The banks are still lending on normal commercial terms to *big* business - that is, to the same half-smart guys who lost fortunes through their *own* use of sophisticated financial instruments in the fist place - but they are *screwing* small business with interest rates that they say "*reflect the risks involved in this sector*"!

The SME Risk Factor

What risk!? No one that I know in small business has crashed for even a *single* billion dollars, let alone hundreds!

I couldn't find any real numbers but I'm sure that if you added up the total small and medium business loan defaults over the last two years, you would not get anywhere near the $6bn our automotive industry says it needs from the Government (us taxpayers) to survive; or the billions of dollars lost by the speculative property developers, managed investment schemes, superannuation funds - *banks* - and the like!

When one of our big four banks can trumpet that they have just borrowed money in Japan at 1% interest (thanks to a taxpayer-backed guarantee), and that same bank applies 12.39% interest to a business overdraft, there is obviously something seriously wrong in the game.

When the big four Australian banks admit to making an extra $121m in fees in the past 12 months, I just shake my head and knuckle down to a long wait for justice.

Give Us a Break!

We're the good guys! Why penalise us? What have we done wrong? We didn't participate in the Mad Hatter's party that lead to the GFC. We haven't laid off 50% of our workforce. Quite the contrary, many of us have tightened our belts, trimmed the business for stormy seas, taken a pay cut and are hanging in there with our team hoping that we can keep everyone together long enough to come out the other side in one piece. We haven't turned and run.

And . . . we haven't asked for a Government Guarantee!

What we *would* like to ask for, however, is a bit of consideration - access to the funds we need to grow our business (and to *drive the recovery*, by the way) at interest rates that reflect the true cost of the money to the bank, plus a realistic risk factor based on our real world performance (and not on those fancy financial models - remember, boys, they're what got you into this mess in the first place!)

The second tier banks are looking pretty friendly to me at the moment - and they probably need to be after the Big Four used the Government Guarantee bogey to vacuum up 80% of the housing loans that the second tiers rely on to pay for their banking operations.

If you're in business, I'd be talking to your local Bank of Queensland, Bendigo Bank and Suncorp manager about now - he or she probably feels as miffed as you, and may be able to provide something more accommodating than the straightjackets the Big Four are offering small business at the moment.

MIS and KISS - A Sign of the Times

(Time to read this article: 2.5 minutes)

While writing this edition, two of Australia's largest Managed Investment Schemes (MISs) went into liquidation. While their demise was precipitated by the ATO wrongly withdrawing a key tax concession that made MISs attractive in the first place ("wrongfully" because the courts reinstated it, but too late to save the day), there were two other factors that would have eventually lead to their demise anyway.

Steroids and Tax Breaks

The first of those was the fact that MISs were expected to be profitable primarily because of a tax break - they didn't have quite as good an inside run as a religion would enjoy in this country, but they certainly weren't playing on a level playing field with others in the primary industry sector.

If you take steroids in sport, you enjoy an early and unfair advantage over your honest competition, but your subsequent organ failure tends to square the books with finality. So it was for the MISs. When their tax steroids were withdrawn, their poor underlying management and business model spelt doom.

Anyone who drives their business distracted by a focus on avoiding tax is destined for poverty or worse. We see too many small business operators who are so focused on paying little or no tax, that they succeed year in and year out - legitimately - *by making no money!*

Make a profit, pay taxes, invest the rest! It's the only formula for wealth that works consistently!

Obfuscation

The second reason that the MISs failed, is one that appears time and time again as the press peel back the lid on the dealings of those who've failed in a spectacular enough fashion to make their pages: Complexity.

One MIS administrator described the "extremely complex structure" that he would need to unravel to determine the true state of affairs of the company. Another administrator dealing with the $100m collapse of a whitegoods specialist revised his initial fee estimate from $600,000 to $1.2m citing the "incredible complexity of the company's accounts and their intercompany dealings".

If a trained accounting specialist needs $1.2m-worth of time to work out what was going on in that business, could the people running it have had any clue at all as to where they were and how they were doing at any point in time?

Warning Signs

If a business becomes so complicated that you can't explain it to an intelligent 12 year old there is a fair chance that you don't understand it yourself - and you can't control what you don't understand.

So here are a few simple rules:

1. Keep your structures simple - draw a diagram if you have more than a simple company or trust & company arrangement and make sure they pass the "12-year-old test".
2. Keep your reports (your dashboard) simple, and check them at least monthly against your Profit & Loss and your Balance Sheet. If there is any variance find and understand the cause immediately.
3. Keep your focus on your cash. If it keeps going up, you're probably OK; if it's going down make sure you know why.
4. Focus on attaining your target or ideal net profit before tax.
5. Use the PAYG system of company tax as a motivational tool and scoreboard (this is a major point and if you'd like to know more about why,

please email me.

Debtor Tips

(Time to read this item: Less than 1 minute)

- Check your Aged Debtors Report weekly (as opposed to "weakly") in the current climate.
- Ring anyone who is overdue *on the day* they become overdue. Set a goal to keep the customer but to get your money. Use rapport, understanding and dogged persistence. It *is* your money and they *are* breaking an agreement.
- Reclassify all of your customers. Rather than basing their ranking on sales volume, base it on their adherence to your trading terms. You might fine tune this by adding a factor for "ease of dealings". Tell the top category of customer of their new status with you. Consider rewarding them in some way - more with recognition than money. Tell the ones who are not in the top ranking why they are not - and invite them to move up.
- Failure by a customer to keep to their account terms with you is an early warning sign. Ignore it at your peril.
- Get rid of the "30-day, 60-day, 90-day" boxes on your statements and replace them with "Due" and "Overdue". You're not a bank, and it's not alright to be overdue.

Thoughts on the Subject of Banking

(Time to read this item: 2 minutes)

A bank is a place that will lend you money if you can prove you don't need it.
Bob Hope

A banker is a fellow who lends his umbrella when the sun is shining and wants it back the minute it begins to rain.
Mark Twain

When two friends have a common bank account, one sings and the other weeps.
Proverb

O Gold! I still prefer thee unto paper, which makes bank credit like a bark of vapour.
Lord Byron (particularly apt right now with gold nudging US$1000 an ounce.)

Bank failures are caused by depositors who don't deposit enough money to cover losses due to mismanagement.
Dan Qayle

If you owe the bank $100 that's your problem. If you owe the bank $100 million, that's the bank's problem.
John Paul Getty (but recently it could have been a bunch of other guys)

When asked, "Willie, why do you rob banks?" he replied, "'Cause that's where the money is."
Willy Sutton, bank robber

On the Lighter Side

Poor Banker

Q: What is the difference between a pigeon and a merchant banker?

A: A pigeon can still put a deposit on a Ferrari!

Which Bank?

A UK bank recently decided to use a new electronic mail system to market a new range of services to 2000 of its richest and therefore most valued customers and had one of its computer programmers write a program to search through its databases and select these elite clients automatically.

The programmer ran the selection then tested the mail system using an imaginary customer called Rich Bastard. Unfortunately the test customer was not removed from the final run, resulting in all 2000 clients receiving a letter which opened with "Dear Rich

Bastard."

If you need a computer programmer who is prepared to work very cheaply right now, we know where you can find one who recently worked for a major UK bank.

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