SPRING 2015

BUSINESS | EDGE

Backed by BDO

DOING BUSINESS IN AUSTRALIA INCLUDING TAX ISSUES AND OPTIONS

SUCCESSION PLANNING

BUSINESS INTELLIGENCE

Audit | Tax | Advisory
www.bdo.co.nz

BUSINESS EDGE

Welcome, to the spring edition of Business Edge - our newsletter providing insights on key issues impacting New Zealand businesses.

In this issue, we discuss:

- Doing business in Australia with insights from Kiwi businesses who have succeeded in Australia
- Key tax issues and options you need to consider when entering the Australian market
- Successfully managing family succession planning in your business
- Understanding the key concerns of Business Intelligence

We love to get your comments, so if you would like to let us know your thoughts on these articles, ideas or suggestions for future articles, please feel free to email them to editor@bdo.co.nz

Best regards,

Adam

Adam Davy
Head of Advisory
BDO New Zealand
www.bdo.co.nz/advisory

LESSONS FROM THE FRONTLINE

If you're thinking about expanding into Australia, the best place to start is to talk to Kiwis who have been there, done that - and have the scars to prove it.

This article was authored by ANZ Bank New Zealand Limited

We have obtained some insights from Kiwi businesses who have suceeded in Australia, and what it takes to win across the ditch.

1. Aussies play hard. Really hard

As Kiwis, we admire and look to emulate the competitive nature of Australian sports teams. They're always tough competitors and they never give up – and it's the same in the business arena. Yet many New Zealand businesses fail to anticipate that, and underestimate just how aggressive and competitive the Australian market can be. Succeeding in Australia is a lot about having the right attitude. You need to be resilient, because you will get a few knocks along the way. You need a great deal of emotional and intellectual rigour, and you need to be well prepared. But Aussies also respect fighters – and if you're resilient enough you will succeed.

2. Success in New Zealand means little in Australia

Aussies don't generally think much about New Zealand. We're like a little brother or sister that they don't take too seriously. So having built a successful business here doesn't automatically give you credibility in the Australian market – unless you also have a proven record in other, larger markets like the US or UK. To prove your chops, you'll need to show you can perform consistently in Australia.

3. Be distinctive

If you're trying to expand into the Australian market, you need to be stand out. Piggybacking on New Zealand's clean and green branding is not enough – in the Australian market that space is already claimed by Tasmania. You need to establish your own position in the market and demonstrate that you are useful and relevant in your own right. Make sure you have a distinctive and well thought out proposition, and show your customers exactly what you can do for them.

4. It takes time to crack the gumnut

The length of time it can take to get established in Australia is often a major source of frustration. For example, getting meetings with decision-makers is often much harder than in New Zealand. It's a bigger, less intimate market, and Australian organisations often have many more layers of hierarchy to work through. With both Federal and State requirements to meet, compliance can be costly and more time-consuming than in New Zealand. The Australian business environment is also a relatively litigious one, and competitors are typically not shy about using a range of means to make it more difficult and drive up costs for new entrants. Factor these considerations into your planning, and be patient.

5. It's not a single market

Australian states are quite different from each other in many ways. They have their own regulatory and legislative requirements. Cultural nuances differ – in Victoria for example, you need to follow an AFL team (or at least be able to talk about the game). Each state also has its own often fierce brand loyalties and Australians can be quite parochial. Having access to local networks and resources that help you understand and manage those diferences is crucial.

6. It's all about relationships

In Australia, building relationships is vital. Your most senior people have a key role to play and they will need to take the lead. But you also need to establish good relationships at mid-management, technical and 'shop-floor' levels. Too many New Zealand businesses make the mistake of trying to establish those relationships from a distance. Be prepared to spend signifcant amounts of time on the ground, face to face.

7. Stay true to your core values

Even though you're operating in a different country, don't lose sight of the values and culture that drove your success in New Zealand. More importantly, take the time to incorporate your Australian staff into that culture. Don't allow different cultures or attitudes to develop which can damage your business by creating the potential for inconsistencies in customer service or business processes.

8. Ensure your New Zealand business is strong

Expanding into Australia takes time, effort and money – but don't take your eye off your operation at home. You'll need your New Zealand business to fund your entry costs into Australia and provide a solid base for your expansion strategy. It will also need to be strong enough to function without CEO and senior management attention for extended periods. Another tip – keep your debt management in New Zealand, and ensure money spent in Australia doesn't impact any bank covenants you may have in New Zealand.

9. Don't try to do it all yourself

Don't assume that what works in New Zealand will work in Australia. Make good use of consultants who know the local environment and who have local connections (although you'll need to be prepared to pay for them). There are also many formal and informal networks that exist to help New Zealand businesses in Australia which you should take advantage of.

TAX IMPLICATIONS OF DOING BUSINESS IN AUSTRALIA

Taxation is one of the key business costs to think about when you're entering the Australian market. At BDO we work with a wide range of New Zealand businesses to help them understand and manage their tax obligations in Australia. Based on our experience, here are some of the key issues and options you'll need to consider.

Double taxation

One of the most fundamental tax issues for New Zealand businesses expanding into Australia is the potential double taxation of Australian profits. Tax paid in Australia does not generate imputation credits for New Zealand shareholders. What that means in practice is that if you have a permanent presence in Australia, such as a branch or subsidiary company, you'll pay Australian income tax of 30%. However, if you want to repatriate those profits to the ultimate NZ natural person or trustee shareholders in the form of dividends, you must also pay 33% tax to Inland Revenue – effectively increasing your tax on those profits to 53%. To put it another way, you have to earn $143 in Australia to get the same after-tax proceeds to shareholders as $100 earned in New Zealand. This is obviously a signficant issue. However, there are a range of options in terms of managing it. The best solution will depend on your particular business; however options include:

- Using New Zealand retained earnings for dividend payments.
- Using Australian profits to fund business growth or reduce debt.
- Ensuring you are charging appropriately (through transfer pricing) for products and services provided to your Australian operation.

Business structure:

Tax issues are also relevant in choosing the most appropriate business structure for your Australian operation. Common structures (and their tax implications) include:

Export only (no physical presence in Australia)

This is a typical way for companies to 'dip their toe' into Australia. Generally, if you're simply exporting to Australia and have no physical/permanent presence there, no Australian income tax should be payable. However there are a range of other tax obligations you'll need to factor in such as GST, customs and stamp duty.

Australian branch of your NZ company

Establishing an Australian branch is a relatively common option. With this structure the double taxation issue applies to income earned in Australia. There are also adverse tax implications if you sell your Australian business, including Capital Gains Tax and Stamp Duty considerations.

Australian subsidiary of your NZ company

This is the most commercially accepted approach for New Zealand businesses establishing themselves in Australia. While the double taxation issue applies, it is much more advantageous on exit than a branch structure as no Australian tax should apply if you sell shares in Australian subsidiaries.

NZ limited partnership with Australian branch

This structure has the advantage of mitigating the double taxation issue, but it also has significant disadvantages. These kinds of structures are not well regarded in Australia, and it can be hard to find advisers with adequate experience of dealing with them. There are also significant adverse tax implications if you sell.

Australian limited partnership

This kind of structure is not very common, and has significant tax issues on exit.

Branch vs subsidiary?

Branches and subsidiaries are the most popular structures used by New Zealand companies setting up in Australia. In BDO's experience of working with both of these, a subsidiary structure can have benefits:

- Australians can be quite 'parochial' in that they often prefer dealing with 'local' businesses. Being seen as a branch of a New Zealand company may put you at a disadvantage in terms of the perception of your customers, suppliers and other stakeholders.
- Subsidiaries provide a higher level of risk isolation than a branch structure.
- Registration with ASIC and ATO is typically much easier, faster and less costly for subsidiaries. The level of documentation required for a branch structure can be significantly greater and more complex.
- Local funding & banking is often easier to arrange for a subsidiary.
- Subsidiaries may be able to take advantage of tax concessions for research and development activities.

GET ADVICE EARLY

Of course, while they are important tax issues alone should not drive your choice of business structure. The best solution for you will also depend on a range of factors such as your time frame, your market, and your business strategy and ambitions. It's essential to get good advice from people on the ground who understand the local environment and the local regulatory framework - it will save you a lot of time and potential expense down the track.

For more information:

Alan Scott, Partner, BDO Wellington
alan.scott@bdo.co.nz

Mark Lodder, Partner BDO Christchuch
mark.lodder@bdo.co.nz

Tim Zonneveld, Partner, BDO Auckland
tim.zonneveld@bdo.co.nz

Angie Hicks, Partner, BDO Brisbane
angie.hicks@bdo.com.au

FAMILY OWNED BUSINESS SUCCESSION PLANNING

The obstacles to planned succession by business founders include:

- Fear of death
- Reluctance to release control and power
- Threat to personal identity
- Bias against planning
- Difficulty choosing among children
- Fear of retirement
- Jealousy and rivalry

However most founders favour the family solution because:

- It gives their personal ideas and values a greater chance of survival
- They feel their life's work is in good hands
- They don't lose contact with the business, and even retain some influence over it
- They feel their sacrifices have been worthwhile.

In a family business, succession planning cannot start too early. No one can know with certainty when succession will happen, but failure to prepare may be disastrous for the family and the business. The longer the planning and implementation period, the more successful the result is likely to be.

Initial questions to consider include: Do my children want to come into the business? Are or will my children be the most qualified to run the business or is an outsider better qualified or skilled? Which child or children will I choose? What role is each person more suited to? Will the family be better off if I sold the business?

Successful succession planning involves the identification and education of a successor and the gradual relinquishing of control. Consider all the succession options with an open mind, avoid sentimentality, and discuss the alternative options with others. Consider the aspirations and qualities of family members to identify whether they are, in reality, potential successors and consider their training and experience needs.

In a family business, and many other businesses, there are many steps before completion of the succession plan and retirement. This requires copious amounts of planning, strong leadership, good communication and plenty of time. This family life cycle to get to this point is well summarised by the **four L's** cycle:

- **Learning business**
- **Learning the family business**
- **Learning to lead the family business**
- **Learning to let go**

LEARNING BUSINESS starts as a child when they go into the office or business and see how the business is run. The family business or the business where mum or dad work, often provide our teenagers with their first work experience. After that, things need to change. There is a tendency for the family business to be regarded as an easy place to get a job, a "job for life", or employer of family members, regardless of capabilities and commitment. Such an attitude ignores the requirements of the business and ignores the needs of the individuals including developing the right attitude and motivation. In an ever changing business environment, the business must maintain appropriate quality staffing at all levels and cannot afford to carry individuals, whether family members or not, if they do not make a full contribution. Family members who are employees are likely to be able to contribute more to the business if they have had work experience elsewhere. This enables them to bring new ideas and perspectives to the business and will help them earn the respect of non family members. We believe all family members should have work experience outside the business.

When they come back to **LEARN THE FAMILY BUSINESS**, they should only be employed on merit and in positions that they are qualified to occupy. Remuneration should be equivalent to non-family employees. Appraisal, promotion procedures, and guidelines should also be applied the same as any other staff member. Their authority will come from the respect they have earned rather than the shares they have inherited. To help them learn the family business, find mentors for family members both inside and outside of the business. For long term success the family members will need a strong understanding of all parts of the business so there needs to be a plan to provide this depth of experience. However they do not need to be skilled in all parts of the business. If it's not working, don't pressurise family members to join or lead the business. This causes problems in the long run and alternative strategies for the business are required. Sentimentality has to be put aside and commercial reality faced.

The next step in the succession plan is positioning and teaching family members so they **LEARN TO LEAD** the family business. This doesn't happen overnight and takes time and experience. A family member who is learning higher management roles in the family business prior to a parent's retirement, is under enormous pressure both within the family and within the business. They need to be provided with the training, support, mentoring and encouragement necessary to develop all of the skills and knowledge required.

While that is underway, the senior generation need to be LEARNING TO LET GO. This is one of the most difficult things to achieve with many entrepreneurs being reluctant to recognise that anyone else is capable of running their business. You can't retire until you let go and the succession plan is incomplete until you have learnt to let go. This is potentially the most life threatening stage of a family business and regrettably some businesses don't survive at this final stage. You must be prepared to relinquish control to give your successor a fair chance to prove him or herself. They will only learn and the business will only prosper in the long term if you are prepared to progressively let go and demonstrate your confidence in them.

Letting go does not mean leaving. There are always projects a founder can work on and guidance and experience that can be offered around the board table, in management meetings or in family meetings.

To retire from the business, you need something to retire to. Identify what this is early on so that letting go is a project that you are motivated to succeed in.

Try, as far as you can, not to be dependent on the business for income post retirement. It's a long journey and the sooner you start planning and implementing, the more successful the outcome for all involved.

And finally, let go when you say you will.

To discuss any of the themes in this article, please contact your local BDO adviser.

Appoint a caretaker manager

Often referred to as a bridge, this individual is usually a talented professional manager. He/she will be well paid to compensate for the short-term but essential nature of the task. It is not uncommon for this person to become a mentor to the succeeding generation.

Appoint a professional manager

If no suitable family member exists for the short or medium term, an outside non-family manager can be appointed. This is particularly relevant for third-generation family businesses and beyond.

They key issue here is trust: will the business be safe in the hands of an outsider? And beware the appointment of a non-family managing director who has worked for the family for many years and is seen as part of it.

Sell, in whole or in part

This is likely to recover more value from the business. Options include:

- Trade sale, particularly where no suitable successor can be found
- IPO, where external capital is required to finance growth
- Management buy-out: a compromise between transferring the shares to the family and making an outright sale

BUSINESS INTELLIGENCE. INTELLIGENT BUSINESS.

ENGINEERING BUSINESS EFFICIENCY

1Above THE FLIGHT DRINK

A BUSINESS INTELLIGENCE CASE STUDY

Kiwi business 1Above's product is all about boosting efficiency – the body's efficiency in rapid recovery from jetlag through scientifically honed delivery of micronutrients. That's less time wasted feeling exhausted, and more time to be productive.
1Above wanted to apply this philosophy to their financial reporting processes.

Pulling together month-end reporting was time consuming as it involved manually uploading data from Xero into Excel sheets, not only tedious and time-wasting but prone to human error.
"We spent much time copying and pasting versions of our Xero reports into board reporting packages. If any late changes were made, it involved having to repeat this process… The potential for error was high" – Sarah Weenink, Finance Manager.

So, they engaged BDO's Business Intelligence experts to redesign and automate their reporting processes – with spectacular results.
What was once a laborious exercise now takes just minutes. Not only a massive time and cost saving, but freeing up the 1Above team to focus on interpreting month end results rather than wasting time generating reports.

This is one example of the magic of Business Intelligence (BI) – which in a nutshell is about boosting business performance by making analytics and reporting more efficient.

BI uses a variety of smart tools and methods to manipulate and analyse raw data from your systems. This raw data is then transformed into tangible output that can be used to assess your business – dashboards, reports and more.

As we enter an era of ever evolving technology, gadgets and digital interaction, many of us are left wondering "how the heck do we keep up?

One approach is the increasing prevalence of outsourcing day-to-day manual tasks which is an effective time saver, but does mean we lose attention to detail and interaction with what we're doing.
However, using BI to replace manual processes with more efficient and automated processes we achieve massive time and cost savings, as well as retaining much of the control on how we define the output.

Another reason why many businesses stick to manual systems is an assumption that BI is only for big businesses which have massive amounts of data and can afford a complex systems overhaul.
Yet, that's certainly not the case. Every business system no matter how were no linkages between their data, so populating numbers was a tedious task and would result in repetition of the same process over and over.

We were able to use a tool called Quick Win to pull data directly from six different Xero entities and consolidate this into one Excel sheet, removing the need to repeat the reporting process six times.
Another timesaver that was implemented in 1Above's BI reports – they had many different reporting formats for various audiences and stakeholders – we used macros to take care of all the grunt work and to simplify the need for transposing and formatting data. Now there are different icons on their reports to generate tailored reports for their audience.

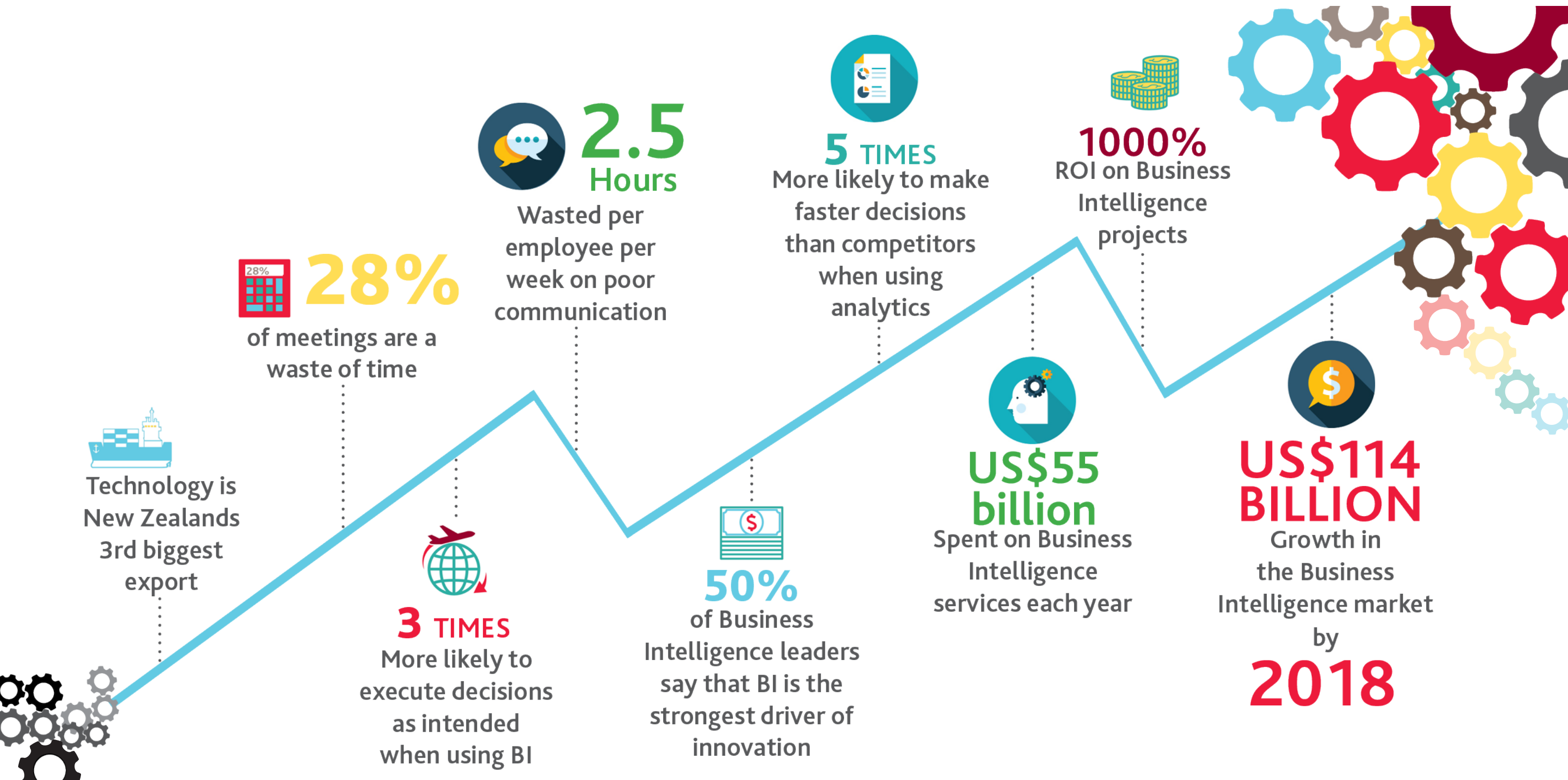
Sarah has also said that BI reporting has enabled 1Above to move the business forward by "being able to focus on other important projects that will result in greater overall business efficiencies, for example the implementation of an integrated inventory system that will complement our financial reporting model."
This time saving has now allowed 1Above to focus on the optimisation of stock management and reporting in the short term future.

Why we should use Business Intelligence

- Improved Decision Making – With all this information at your fingertips and usually at the push of a button, you'll have oversight of your business from many different vantage points to assist with timely and informed decision making.

- Business Efficiency Gains – Gone are the days of manual entry and copying and pasting. Apart from the obvious cost and time savings, BI reduces the chance of manual error by reducing the need for manual input. Reports that used to take several days to put together can now be automated using "digital smarts" such as Excel macros and other tools in our toolkit featured later on. Not only will these reports come out in half the time (sometimes quicker!), they will also be more accurate.

- Identifying New Opportunities – By drawing focus away from **when** these reports can be prepared by, we can start to move towards **how** we can act on this information and **what** paths of action we can take as a result of timely reporting. By reporting quicker and more accurately, we are able to direct our efforts towards the things that really matter.



REFERENCE
Gordon Rimmer - Protocall One Ltd - LinkedIn Slide share
Justin Heinze, betterbuys.com "BI Stats"
Bain & Company

BI has always been perceived to be a tool for big organisations, but times are changing. Our game changers below provides a great platform for SMEs to start developing intelligent reporting.

The Game Changers

Alchemex - An add-on module for Sage, Sybiz Vision, SAP, MYOB Exo and more. Alchemex provides the platform that extracts data from your system which allows for BI reporting. With Excel as the interface, you have all the functionality and familiarity of Excel - dashboards, management reports and graphs... all at the click of a button.

Quick Win Development (QWD) - An add-in for Excel. QWD provides the platform for BI reporting capabilities for Xero. QWD exports Xero data into a granular form for you to manipulate as you wish in Excel. There's no need to export Xero reports and copy and paste, as data is refreshed at the click of a button directly into Excel.

Harnessing the power of Excel (Macros) - With macros you can remove the need for manual input. In essence, macros mimic manual processes – copying and pasting, formatting, hiding columns, etc. We use macros to do all the number crunching, format and present data into a tangible output - board report formats, import templates and more.

CrunchBoards - Earlier on in the year we announced a partnership with a "world-first real time business planning engine" designed to change traditional reporting to dynamic intelligent reporting. This tool has been rolled out throughout the BDO NZ network and has enabled businesses to better manage their business with a more tangible and understandable end product. This is available through your normal contact at every BDO office.

And the good news is that BI is not restricted to just accounting systems. Any system which we can access raw data can be used for BI – CRM, Sales, Marketing, Practice Management, Job Costing, etc.

For how we can help you with Business Intelligence reporting, ideas on streamlining your business and to keep you in touch with the latest and greatest, contact your BDO adviser or contact:

David Stanyer | IT Technical & Assurance Manager
p (09) 366 8140
e David.Stanyer@bdois.co.nz

Ian Koo | IT Consultant
p (09) 366 8217
e Ian.Koo@bdois.co.nz

BDO INFORMATION SYSTEMS ARE BUSINESS PARTNERS WITH:

sage Platinum Business Partner Sage Pastel

Sage Evolution ERP by Sage Pastel

Advance your business in even more ways MYOB Advanced PARTNER

MYOB Exo PARTNER

xero PLATINUM PARTNER

sybiz

CrunchBoards

CONTACT US

Please contact us on 0800 379 528 for any assistance. BDO has a network of offices across New Zealand to back your business success.

Kerikeri
Whangarei
Auckland
Hamilton
Tauranga
Rotorua
New Plymouth
Gisborne
Napier
Palmerston North
Wellington
Christchurch
Invercargill

www.bdo.co.nz