



# Working with family and friends

One of the greatest complaints small employers have is how difficult it is to find good employees. But there's one place they often fail to search for new job applicants – the families and friends of their best employees. After all, current employees who have great work attitudes probably have brothers and sisters with great work attitudes too.

Before rushing headlong into hiring family or friends, consider the ups and downs.

## Advantages

Family members and close friends often come into a business with a strong commitment to the company, more so than the average employee.

Friends and family often think of the company as an extension of the relationship. They may be more flexible and more willing to work when needed, anticipating that they will personally benefit from the long-term success of the company.

Often you know family and friends well, and are familiar with their capabilities and shortcomings. This may enable you to place them in just the right position. Also, your familiarity may allow you to train them more quickly than other new employees.

## Disadvantages

A relative may take advantage of family status, knowing that it's hard to fire them when you're going to be sitting down at the dinner table with them at night.

Other employees may see the hiring as nepotism, especially if the family member is given preferential treatment, or given a

position without having the appropriate experience or training.

Family problems can be brought into the workplace. It's one thing to have a family disagreement at night and be able to leave it at home when going to work in the morning. But it is entirely different when you're facing the same person at work. The strain may affect the entire business.

## Managing the mix

Hiring friends and relatives is tricky. If not handled well, it can sour the work environment. But hiring friends and family can have great benefits, as long as you proceed carefully:

**Business is not a charity.** Don't hire someone's relative just because they "need" a job. If someone has trouble holding down a job, you don't want them either.

**Write a detailed job description.** Make it clear that if the relative or friend doesn't perform as expected, he or she will have to go. Hire on a probationary basis, establishing a two-week or month-long period to see how things work out.

**The right "stuff".** Ask specific, detailed questions about their qualifications before you agree to interview them. People rarely see their own relatives clearly. They're likely to make comments such as "He's a great guy" or "She's so smart." That doesn't tell you if they've had relevant work experience or training. While you want to hire people with the right attitude, leave yourself an out: "I'm not sure Chris has the right computer skills we need."

**Don't have too many chiefs.** It is advisable not to have relatives or friends reporting to one another, or working too closely



together. It's one thing to have siblings work for the same company in different areas, but if they work together on the same project, you're likely to see family or friendship patterns emerge.

**The trouble with spouses.** Spouses or domestic partners working together can present a number of difficulties. There are logistical issues: holidays or family emergencies may leave you doubly short-handed. And behavioral issues: a terrific, eager worker may change dramatically with a spouse around. The dynamics of a couple's relationship is stronger - and usually more emotive - than an employer/employee relationship.

**Cruel to be kind.** Be toughest on your own relatives. Before you hire a relative, make it clear to them that they are going to have to prove themselves, and they will be held to the highest standards.

**Never play favorites.** Make sure all the rules apply to all employees. Everyone has to be qualified and they have to do their jobs well. Otherwise, they're not hired.

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# Ordinary time earnings used for super

Recent changes to the superannuation laws have been made to make ensure all employers are treated the same for super guarantee purposes.

From 1 July 2008 all employers will be required to adopt ordinary time earnings as defined in the superannuation guarantee legislation to calculate super guarantee contributions.

Ordinary time earnings are generally considered what employees earn for their ordinary hours of work, including over-award payments, commissions, shift

allowances and paid leave. It does not include earnings such as overtime.

Most employers adopt ordinary time earnings to calculate super guarantee contributions. There are however, some employers that are calculating super guarantee contributions on earning definitions contained in industrial awards or existing employee agreements.

Employers should verify their current superannuation arrangements now to ensure that they are using the appropriate earnings to calculate super contributions. From 1 July 2008, where the super

contribution percentage in a specific earnings base is below the minimum 9%, employers will be required to pay extra to meet the minimum 9% and avoid additional super guarantee charges.

A definition of "ordinary times earnings" can be found on the Australian Taxation Office website at [www.ato.gov.au](http://www.ato.gov.au).

The ATO is also encouraging employers to consider building the increased super guarantee contributions into their workplace bargaining processes.

# A simple review of break-even point

A person starting a new business often finds themselves asking “What level of sales are needed for my business to make a profit?” Established companies often find themselves asking the same question – many times a little too late.

Break-even point or break-even analysis is based on the relationship between expenses and revenues. It is fundamental to understand how expenses will change as sales increase or decrease. Some expenses

increase as sales increase. On the other hand, some expenses will not change as sales increase or decrease:

## Variable expenses

Variable expenses increase when sales increase. They also decrease when sales decrease. These expenses include items such as cost of goods sold, or some wages.

## Fixed expenses.

Fixed expenses remain the same when sales change. These expenses include items such as rent and administration.

Consider the basic Profit and Loss Statement shown in Example 1. The business with sales of \$750 000 has not made a profit, but it has just reached break-even point.

## Calculating break even point

The basic formula for calculating break even point is sales revenue is:

FC (fixed costs) divided by the gross profit percentage (or contribution margin). In the example, \$450 000 divided by 60% gives a break even sales level of \$750 000. That's the level of sales required to break even.

## Targeting Profit

Break even analysis can be used to calculate the level of sales that are required to reach a desired profit. In order to do this, the desired profit is simply added to the fixed cost.

In Example 2, a profit of \$100 000 is targeted. The calculation for required sales is fixed cost plus profit, all divided by 60%. In this case, that would be \$550 000 (\$450 000 + \$100 000) divided by 60%, giving a required sales of \$916 667.

	Example 1	% of sales	Example 2
Sales	\$750 000	100%	\$916 667
less Variable expenses (cost of goods)	\$300 000	40%	\$366 667
Gross profit or contribution margin	\$450 000	60%	
less Fixed expenses	\$450 000		\$450 000
Profit	\$0	0%	\$100 000

# Keep an eye on your cash flow

Every business owner wants to make more money. But surviving in business is not only about how much money you make, but when you make it and when you spend it. In other words, “cash flow.”

If cash flow is out of control so is your business.

To keep cash flow problems from turning into a tidal wave that drowns your business, you have to plan:

**1. Understand the impact of timing.** All businesses have to pay money out before being paid by customers. In a services business this may be minor: expenses such as marketing materials and basic administrative costs, rent, your website and some travel. Clients will still normally pay well after you have outlayed for these items.

For manufacturers or wholesalers, things are much worse. In these businesses money is usually outlayed to pay for costs of manufacture or inventory. That's in addition to the normal administrative costs and rent.

**2. Prepare a cash flow projection.** Even if you don't create an annual budget, sketch out when you expect money to come in and

when you need money to go out. Take into account any seasonal variations that may effect your business. .

**3. Watch your inventory.** Inventory is just money sitting around in a different form. Whether it's marketing brochures or a warehouse full of books, inventory costs you. The drain of having your cash tied up often counteracts the benefit of the lower cost of buying in bulk. So aim for just-in-time inventory management to keep your cash liquid.

**4. Understand the impact of purchasing assets.** If you purchase fixed assets from revenue, you may find yourself at year end with a profit and no money to pay your tax obligations tied up in assets.

**5. Manage growth.** You may want your business to get bigger, but growth costs money. This isn't just a matter of increased marketing expenses; it can also include things like additional expenses to produce new goods, hire employees, expand facilities, add equipment, and buy supplies. Typically, the bulk of these costs come BEFORE you've received sufficient income to pay for them.

**6. Consider a line of credit or overdraft.** A line of credit differs from a term loan. A term loan is for a specific amount of

money, a specific amount of time, often for a specific purpose. A credit line is more like a credit card. You can take money out when you need it and pay either all or some back every month. Credit lines need to be managed with a cashflow plan.

**7. Prepare for a rainy day.** Every business has income fluctuations. By starting to look for annual income and spending patterns, you have a better idea of when you'll need cash. So build up your financial reserves in your high-income months to prepare for the lean months. The best way to have cash when you need it is to put some away when you've got it.



# WEB WATCH

## ESSENTIAL SITES FOR BUSINESS OWNERS

### Work Place Authority [www.workplaceauthority.gov.au/](http://www.workplaceauthority.gov.au/)

The Workplace Authority is the central point of contact for free advice and information on Australia's workplace relations system for employers and employees

### AusIndustry [www.ausindustry.gov.au/](http://www.ausindustry.gov.au/)

AusIndustry is the Australian Government's agency for delivering products, services and information that support industry, research and innovation. AusIndustry delivers more than 35 programs - including innovation grants, tax and duty concessions, small business skills development, industry support and venture capital.

## Fringe Benefits Tax Update

The following changes FBT apply for the 2008 FBT year:

- The '**minor benefits exemption**' threshold for Fringe Benefits Tax (FBT) purposes will increase from \$100 to \$300.
- Increase in the **reportable fringe benefits** amount threshold from \$1,000 to \$2,000.

## REMINDERS FOR YOUR DIARY

### OCTOBER

- 21 Activity statements - October 2007 monthly activity statements: final date for lodgment and payment.
- 21 PAYG instalments - Annual PAYG instalment notice: final date for payment and if using the rate method or varying the instalment amount, final date for lodgment.
- 28 Activity statements - Quarter 1 (July - September 2007) activity statements: final date for lodgment and payment.
- 29 Superannuation - superannuation guarantee contributions for Quarter 1 2007-8 (1 July - 30 September) - contributions to be made to the fund by this date.

### NOVEMBER

- 11 Activity statements - Quarter 1 (July - September 2007) activity statements: final date for electronic lodgment and payment.
- 21 Activity statements - October 2007 monthly activity statements: final date for lodgment and payment.
- 28 Superannuation guarantee charge statement - Quarterly (if required contributions were not made by the due date) for quarter 1 2007-8 (1 July - 30 Sept). The superannuation guarantee charge is not tax deductible.

### DECEMBER

- 1 Income tax - payment due date for companies and superannuation funds which were taxable large/medium business clients in the immediate prior year.
- 1 Income tax - payment due date for companies and superannuation funds which were required to lodge by 31 October 2007.
- 1 Superannuation - payment of income tax for superannuation funds where one or more prior year income tax returns are outstanding as at 30 June 2007. (Lodgement of return was due 31 October 2007).
- 21 Activity statements - November 2007 monthly activity statements: final date for lodgment and payment.

### JANUARY

- 16 Income tax - Due date for lodgment of income tax returns for companies, superannuation funds and trusts which were taxable large/medium business clients in the prior year and are not required earlier.
- 21 Activity statements - December 2007 monthly activity statements: final date for lodgment and payment.
- 21 Activity statements - Quarter 2 (October - December 2007) activity statements containing a monthly GST obligation: final date for lodgment and payment.
- 28 Superannuation - guarantee contributions for Quarter 2 2007-8: contributions to be made to the fund by this date.

## A Great Read

**Customers For Life:** How To Turn That One-Time Buyer Into a Lifetime Customer

**Author: Carl Sewell**

In this completely revised and updated edition, Sewell enhances his time-tested advice with fresh ideas and new examples and explains how the groundbreaking "Ten Commandments of Customer Service" apply to today's world.

Drawing on his success in transforming his motor vehicle dealership into the second largest in the US, Sewell reveals the secret of getting customers to return again and again in the original Customers for Life. A lively, down-to-earth narrative, sets the standard for customer service excellence has become a perennial bestseller.

Sewell focuses on the expectations and demands of contemporary consumers and employees, showing that businesses can remain committed to quality service in the fast-paced new millennium by sticking to his time-proven approach: Figure out what customers want and make sure they get it. His "Ten Commandants" provide the essential guidelines, including:

- Underpromise, overdeliver: Never disappoint your customers by charging them more than they planned. Always beat your estimate or throw in an extra service free of charge
- No complaints? Something's wrong: If you never ask your customers what else they want, how are you going to give it to them?
- Measure everything: Telling your employees to do their best won't work if you don't know how they can improve
- Borrow ideas from others: Sewell, for example, learned about hospitality from Japanese culture, cleanliness from Disney, and politeness from his mother.

The recent edition is an expanded version of the original. A great thought provoker for any business owner or manager.

Business and personal planning need not be left until the end of the tax year - talk to us now about tax and financial strategies for you and your business.

We are sometimes asked if we are able to help additional clients. We are a growing firm and do appreciate your referrals. We consider it a compliment when you recommend us to your friends and business contacts.