PITCHER PARTNERS
ACCOUNTANTS • AUDITORS • ADVISORS

CONTACT

SPRING 2014

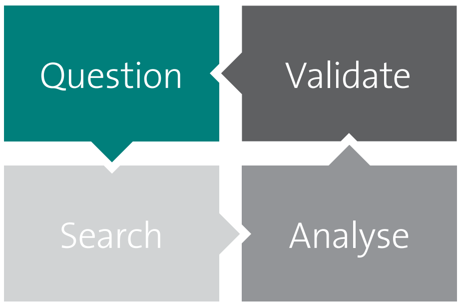
Data analytics, *driving business performance*

Too often business decisions are made based on instinct but we can often find the answers we need within our own organisation.

By analysing the data in our systems, reviewing our processes and talking to our staff and customers we can identify what is really hitting our margins or find the right customer groups to target for growth.

Many larger organisations have the luxury of indepth reporting systems to provide this sort of information, however for the vast majority of businesses this means a one off data analytics project to explore the business drivers. For traditional businesses this means tapping into your accounting system to get data on customers, sales, suppliers and more. For less traditional cloud based businesses this might mean tapping into your social media site to understand customer trends or pulling information from Google analytics to analyse the profile and conversion rate of our customers.

So how might we go about this?



Three key questions to ask yourself

1. Do your latest financials or management reports cause debate around the table?
2. Are you concerned with what is really driving a falling margin?
3. Do you want to grow your business, but not sure which customers or services to target first?

(continued on page 2)

By Dr Richard Shrapnel
Melbourne

an independent member of BAKER TILLY INTERNATIONAL

Data analytics, *driving business performance* *(continued from page 1)*

First we pose the question – what is impacting your margins? What customer groups do we target for growth? Working with the management team we then identify the key systems and data sources available so that we can capture the right information for the analysis stage. Finally we present this analysis back to the management team and validate the findings.

Let's look at two client examples:

Example 1

Our client, a traditional wholesaler, was experiencing difficulty in identifying the key issues impacting their margins. Pitcher Partners utilised the information from their accounting systems and imported the various reports produced into Excel for proper analysis. After an allocation of rebates, transport and warehouse costs across the product and customer groups we produced a report identifying key product and customer groups with poor margins. In some cases we had a negative margin before the allocation of head office costs.

Example 2

An online retail client of Pitcher Partners wanted to determine their products and customers that would be most conducive for growth. Various data sources were used including product reports for the online store, customer profiles from web traffic via Google and social media where new product ideas were posed and responses assessed. We ran some reports from Google to identify web traffic and our analysis identified numerous countries with a large number of visitors where our client did not have a presence. By promoting products to people that had a large social media following in these countries we identified an approach and product range for launching into the region.

In both of these examples we extended beyond the reach of the systems in place. It was only through indepth data analysis that we could determine what is really driving the business and how we can drive performance. In doing so, we enable informed decision making by using fact and testing theories, rather than instinct alone. In the next issue of *Contact* we will look at "Big Data" and see that accessing information beyond our accounting system is not just for big business.

Business investment
vs personal wealth creation

By Gavin Debono
Melbourne

Wealth creation paths require careful planning, commitment and ongoing attention. For many, the sole focus is to invest all their energies and cash into the business, so that it strengthens and grows and secures its longevity for future generations. While admirable and effective, it may not always be the most appropriate strategy to adopt.

The key is to be conscious that building wealth should not always be through one medium – the business – and you need to plan and be proactive in building your overall personal wealth. With this in mind, what are the considerations?

Why:

Many business owners see their retirement nest egg being the proceeds realised from sale of the business. This is fraught with danger as it has, at its core, the assumption there will be a buyer willing to pay full value for the business at the time the business owner is ready to sell.

Australia's aging population is well documented, and this encompasses the age profile of business owners. Further, there are indications of a lack of inclination by the younger generation to acquire a business. The message from all of this is clear, in the next decade we are going to see the significant shift of wealth from one generation to the next and it is likely that supply will outstrip demand. The result will be lower prices paid for businesses and perhaps longer time periods to sell. Business succession planning is a topic for another day, but the point here is that having all your eggs in the one basket, a potentially illiquid basket, may not give you and your family the retirement you are after.

When:

Business investment and personal wealth creation should be seen as separate competing priorities – both demand your limited resources of cash and time. There is no 'one size fits all' formula for balancing these priorities, which often change over time. Sometimes, during say the establishment or expansion years, it makes good commercial and investment sense to commit a large proportion of time and money into your business. However, at other times, opportunities outside the business may prove more attractive and lucrative, with the potential to add more to the personal wealth coffers.

That being said, developing a plan and beginning to execute it sooner, rather than later, in conjunction with other business endeavors, is logical.

What:

Not a question of what to invest in, but by what means. Different structures have different tax consequences, and the use of an appropriate vehicle can reduce, or at least defer, significant cash outflows.

For example, a share portfolio designed for long-term investment in retirement held within a superannuation fund will provide returns that are subject to a 15% tax rate. If the same share portfolio was held by an individual on the top marginal tax rate inclusive of the Medicare levy they would lose 49% of income generated to the taxman.

However, it should be acknowledged that there are restrictions moving funds into and out of the superannuation environment. Accordingly, other investment vehicles such as a family trust or investment company could be appropriate. This choice may also have tax considerations, so advice should be sought.

But tax should not be the sole driver of structuring a plan. There are numerous other considerations, including asset protection. Putting a ring fence around business and investment pursuits that expose you to third party risks can be an effective strategy to help limit your liability. Consider entity risks, director risks and be careful of loans made to related entities – an insolvency action could bring the assets of these other entities into risk due to these receivable loans.

How:

This is a broad and subjective aspect of wealth creation. It is dependent upon your risk profile, capacity to invest outside the business, age and numerous other factors. This is not the place to dwell on the investment choices, expert advice is needed. But, in parallel to the investment choices, some of the issues to consider in the context of this discussion include:

Insurance: Business risks can be mitigated in various ways, including obtaining appropriate insurance coverage. Whilst not always considered, the same can be said for individuals protecting their private wealth. There are a plethora of policies that can be obtained to cover personal risks. It would be best to utilise the services of an experienced insurance broker to help you understand what the options are.

Liquidity: Many business owners do not derive a regular income from their business, rather a distribution of profits - made either to cover drawings for the year or based on some other predetermined formula. Often this is tax driven, or a function of the mindset that the business and the owner are effectively one. A simple strategy to improve personal cash flow and enable creation of a separate personal investment pool is to ensure at least market remuneration is paid by the business to the business owner for the services they provide. This remuneration could be a combination of salary, superannuation and profit distributions.

Debt: What is an appropriate level of debt for a business? Utilising appropriate debt funding can ensure you do not lock too much of your own cash in the business to the detriment of achieving your personal goals. Consideration should be given to appropriate funding models and then seeking to draw excess cash out of the business.

In conclusion, your business is an important part of your life and your wealth, but it shouldn't be the only part. It is important that your business goals, personal wealth goals, succession planning, retirement planning and estate planning are all considered and all form part of your overall goals and wishes. There are many ways to navigate this minefield, and obtaining the right advice and guidance with the appropriate commerciality is critical to achieving your desired outcomes.

Paying attention – part one

By Assyl Haidar,
Melbourne
Dr. Richard Shrapnel,
Melbourne

Significant tech innovation in the areas of mobile payment and digital currencies are poised to disrupt the way business is done.

When you can tap your wallet, phone or watch to make a payment, is it still worth paying the annual fee of a 'Platinum' card? If you can use a digital currency to securely manage instant transfer of funds in with no forex costs, what role would Letters of Credit still play? What impact does it have on your average transaction value and cash flow if you are able to accept payments from a wider variety of methods and from anywhere in the world?

In addition to offering cost and time savings, technology improvements are also raising the expectations of customers when it comes to ease and speed of transacting. Organisations who leave inefficient, high friction processes in place risk losing business to competitors and miss opportunities to improve their profit performance.

Given the degree and speed of impact across all industries, we will be running a series of articles on the key developments in mobile payments and digital currencies to help you understand and make better decisions for your organisation.

The first part in this series will focus on the most widely used Digital currency, Bitcoin (BTC). While it still has a number of limitations and risks, Bitcoin accounts for 93% of the market and shows the strongest signs of adoption against competing systems.

What is Bitcoin?

A highly secure, all-digital system for transferring value between two or more parties, as you would with legal tender (fiat) money. It is practically frictionless, can easily be used across national borders and is readily convertible into most local currencies. Unlike traditional payment processors like Visa or MasterCard or a currency like the USD, Bitcoin operates as a distributed network. ie. it is a global system, yet not owned by any central authority.

There are strict controls built into the system which limits supply to 21 million Bitcoins. This means there will be no way to 'print' new money once all coins are in circulation (thereby maintaining scarcity). Bitcoins are, however, divisible to 100 million pieces, allowing them to scale up in transaction volumes and also handle micropayments.

There are a number of parts that make up the Bitcoin ecosystem, including Bitcoin exchanges, digital wallet and ATM providers and miners. More recently, services which support Bitcoin transactions have started to emerge, such as insurance for digital wallets and Bitcoin-enabled debit cards.

What problems does it solve?

Although there are many pain points when it comes to accepting electronic payments, the Bitcoin system has three key strengths:

- **Transactions cost much less** (typically below 1% versus 2-3% for credit card and 8% for a global remittance). Even large B2B transactions can be confirmed quickly and at virtually no cost.
- **There are no charge-backs** (transactions cannot be undone, eliminating an expensive issue for merchants).
- **It addresses the issue of 'double-spend'** (When you are given a coin, you know it cannot have also been given to someone else).

Dec 2014, there will be 8 million Bitcoin wallets and 100,000 merchants that will accept them. More importantly, we are starting to see this adoption extending beyond online retailers to bricks and mortar merchants.

Vend, a provider of Point of Sale (POS) systems in Australia and New Zealand has just announced a partnership with DC POS that will enable its merchants to accept Bitcoin as easily as any other payment type.

This follows a similar announcement by Braintree to offer similar support in the US and now Europe (Braintree was acquired for US$800 million in 2013 by PayPal, an Ebay subsidiary).

However, Bitcoin stands to impact well beyond retail to escrow, money transfer/ATM outsourcing, credit card/payment processing, forex and even security exchanges. The estimated savings of Bitcoin being widely adopted across these areas is as high as US$247 billion.

The Bottom Line

Digital currencies, including Bitcoin, are still at a nascent stage with a range of regulatory and adoption issues yet to be resolved. This makes it especially important to understand and manage the risks associated with price fluctuation and local tax implications.

That said, Bitcoin already represents a significant development in the area of global payments and it would be wise to assume that the status quo of less efficient, more expensive payment tools will be increasingly challenged and consider the impacts and opportunities this represents for your organisation.

To discuss any questions you have on Bitcoin and how you can leverage Digital tools, trends and channels to grow your business , you can contact Assyl Haidar at Pitcher Partners Melbourne on assyl.haidar@pitcher.com.au or via Twitter @assylh.

In the next article in this series, we will look at how Bitcoin transactions actually occur and explore its ecosystem of service providers that enable buying, storing and spending these coins.

16% Drop in the share of cash within all domestic payment transactions by 2018 (from 59% in 2013 to 43% in 2018).

200k US retail outlets working with Apple's payment platform by the end of September 2014, with Australians likely to have access in early 2015.

800% Year-on-year increase in the number of Bitcoin wallets as at March 2014.

89m US dollars of global Bitcoin transactions per day.

Source: The Australian Payments Clearing Association research.

Investors beware

The hidden impacts of Basel III (Part 2)

By Adam Stanley
Melbourne

In the last edition we discussed the impact of Basel III on investors who have traditionally held some funds in term deposits. In this edition we consider the broader impact on debt securities, specifically bond markets.

The Liquidity Coverage Ratio (LCR) introduced under Basel III requires Approved Deposit-taking Institutions (ADIs) to hold high-quality liquid assets (HQLA) to cover 30 days net cash outflows from deposit withdrawals and credit drawdowns in the event of a liquidity shock. The Basel Committee definition of HQLA includes a range of assets such as corporate and covered bonds, registered mortgage-backed securities (RMBS) and certain equities. Unfortunately, in Australia, APRA has indicated only Australian government and semi-government bonds will satisfy the liquidity standard.

With the need to maintain minimum levels of high quality liquid assets, demand for Australian government bonds is likely to increase. With a limited supply of sovereign bonds and a growing pool of investors demanding them, there is a possibility that investors will be crowded out by ADIs and offshore investors. The crowding out effect may lead fund managers and private investors to increase exposure to other fixed income securities, such as hybrid securities or corporate bonds.

Governments may see this as an opportunity to fund major infrastructure projects through the issuance of government bonds. Infrastructure bonds may become an important component of a diversified portfolio as investors shift away from term deposits in pursuit of higher returns and greater liquidity. As a result, funding through Public Private Partnerships (PPPs) may grow in importance within the Australian landscape (See Figure 1).

These factors, combined with a greater focus on 'matched funding' by ADIs, is likely to lead to a reluctance by ADIs to fund long term corporate debt. This shift may become the stimulus for the relatively small Australian corporate bond market to grow. It is very possible that we will see an increase in the number of smaller regular issuances of bonds by corporate entities as they tap the market to finance specific projects.

Since the GFC we have seen a significant increase in the capital raised by corporate issuance into highly liquid offshore markets where there has been a ready supply of investors seeking the perceived stability of Australian corporates. This contrasts with the issuance into the Australian market where corporate bond levels have remained relatively constant (See Figure 2).

With the potential for a greater pool of Australian investors and increased costs of long-dated currency swaps, we may see a number of corporates switch their debt funding to the domestic market, either through the placement of corporate bonds or through hybrid securities.

ADIs have traditionally played a role in the financing of long-term projects such as infrastructure projects. There is a growing expectation that ADIs will limit their funding to the shorter construction phase, with a variety of deposit products used to match the timing of the development phase. The longer term operational phase will need to be financed by other means.

In the next issue of *Contact*, we feature the final instalment on Basel III impacts as they pertain to borrowings, shares and investment strategies.

Figure 1: Ownership of Australian government's securities ($ billion)

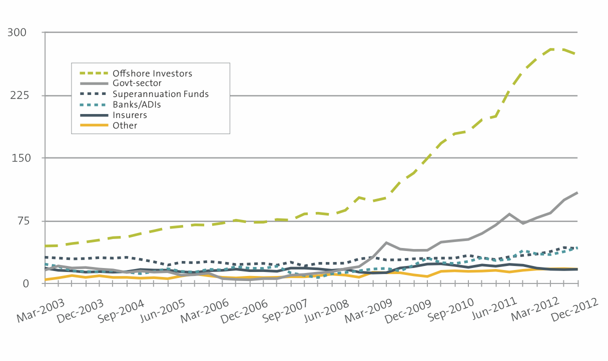
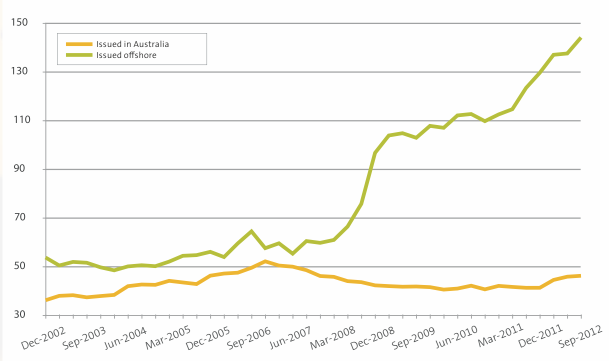


Figure 2: Outstanding debt securities issued by Australian corporates ($billions)



Innovate to create

By David Knowles,
Melbourne

The ‘entrepreneurial approach’ to growth

Innovation is a source of advantage when competing in a global economy. Although we tend to think of innovation as a new product, you can innovate with a new process, method, business model, partnership or route to market.

In fact every aspect of a business operation is a candidate for innovation.

Innovation can be radical or incremental. Radical innovation involves finding an entirely new way to do something while incremental innovation is driven by consistent and regular improvements in products and services. A key strategy at Pitcher Partners has been to seek out opportunities for both incremental and radical innovations that help the firm achieve its primary goal to create value for the entrepreneurs it supports.

The commitment to developing this entrepreneurial approach and innovative capacity is reflected within Pitcher Partners through its collaborative venture with the University of Adelaide, the Pitcher Partners Institute of Entrepreneurship and Innovation (PPIEI), established in 2011. Earlier this year, PPIEI, delivered a course “Creating Wealth through Internationalisation”, among the first of its kind as acknowledged by the University of Adelaide’s Entrepreneurship, Commercialisation and Innovation team.

Already we are seeing direct benefits to clients from the PPIEI program. Supporting entrepreneurs on their journey towards evaluating and executing on growth opportunities has been at the centre of the Pitcher Partners’ client value-creation model. With the global centre of activity shifting towards the east and a multitude of opportunities opening for businesses in Asian markets, the firm has adopted an innovative approach towards helping clients seize global opportunities.

Many Australian SMEs lack the scale, experience and specific skills needed to capitalise on these global opportunities. Thinking innovatively about possible strategic alliances and joint venture opportunities could be the first step towards building capability to serve emerging new opportunities in overseas markets.

Leveraging our own experience in internationalising our service offerings, Pitcher Partners has developed a capability to assist Australian entrepreneurs in international markets. Central to this capability is the development of an ecosystem of highly contextual, relevant and trusted relationships in local and international markets. These relationships can assist with accelerated market access, investment and operational risk mitigation, partner identification, cultural adaptations and sourcing foreign capital.

SMEs operating in sectors faced with decline, such as the Australian automotive sector, now require the benefit of creative and innovative thinking to inject sustainability into existing business models. Organisations backed by entrepreneurial management teams and world leading technologies can be future proofed by linking into collaborative networks that access global supply chains. Executing these strategies requires a new mind-set that programs delivered by PPIEI help cultivate.

Walking the walk with the entrepreneurs as they fulfil their global growth agenda has also led to active participation on Government-led trade missions, strengthening relationships with international industry bodies and advocacy on behalf of our clients.

In recent years Pitcher Partners has participated in trade missions to China, Singapore, India, Malaysia, Indonesia and Thailand, to understand first-hand the opportunity and barriers faced by our clients.

Being able to navigate the regulatory, cultural, political and social environment within which foreign entities operate is crucial for commercial success. To help our clients develop their knowledge base and networks, Pitcher Partners hosts regular information sessions, open to staff and clients.

Australia is poised for significant growth in the Asian Century, but unless organisational leadership adopts a more strategic and innovative approach to commercialising international opportunities, local SMEs run the risk of losing out to increasingly competitive foreign players.

For more information about PPIEI contact **David Knowles** on (03) 8610 5146 or go to www.pitcher.com.au.

Case Study

A long-standing client of Pitcher Partners in the automotive aftermarket supply chain wanted to secure its future viability through strategic growth strategies. Pitcher Partners assisted the client establish overseas subsidiaries to service the Asian and American markets, and is in the process of setting up an Eastern European operation. To maximise the success of these operations, the client has leveraged our affiliation with the Baker Tilly International network and drawn on the strong relationships and alliances we have formed in the countries in which they operate.

Today, the client has wholesale, retail and export channels all around the world and a network of almost 50 branded stores, 19 of which are company owned and 28 operated independently under license. We continue to partner them and provide a range of services to support their growth aspirations.

Real time innovator, Philip Jackson

CLIENT PROFILE

By Carl Millington
Sydney

Philip Jackson, a globally recognised entrepreneur, identified a black hole in the sports market, and through innovation and collaboration, has successfully bridged this gap to create a revolution in sports performance analysis.

Through his company Sportstec, Jackson's software and technology are the universal leader in real-time performance analysis, and service the world's most elite teams across the globe, spanning 40 countries. The proof is in the pudding with 18 of the 32 FIFA World Cup Brazil 2014 team's utilising Jackson's technology and 10 of those teams progressing to the finals.

Jackson understands the importance of market expansion, having successfully diversified his product offering to penetrate new markets such as health, education and training. It is this ability to think ahead that has cemented Jackson's international standing in his field.

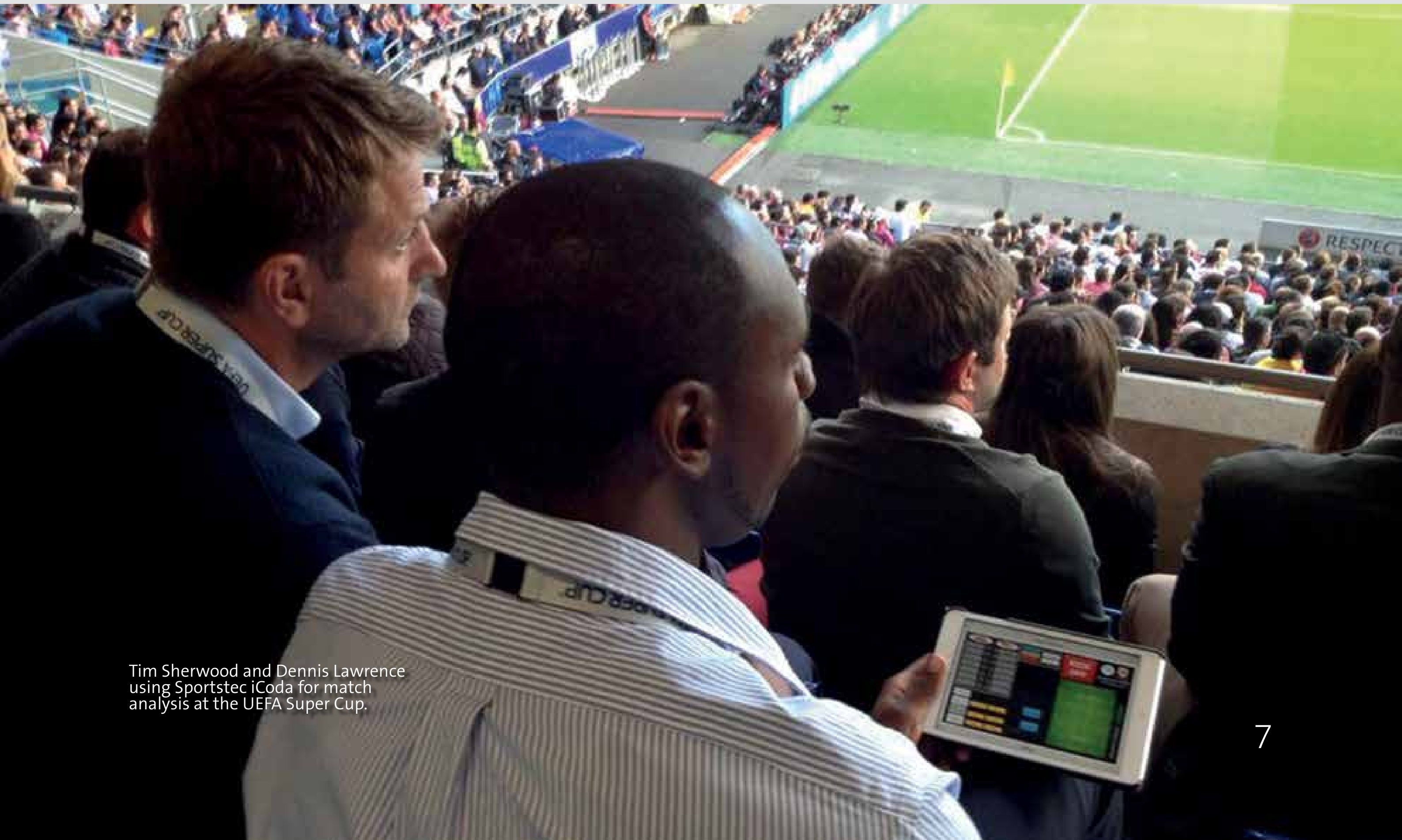
In recognition of his leadership and innovative thinking, Jackson has won numerous awards and accolades, most notably, being named by Apple among the top 30 people/companies worldwide to be innovators and pioneers, and having had a profound impact. This award acknowledges Jackson as leading the way in sports, an honour reflective of his passion for innovation and outstanding vision and commitment to providing the best outcomes for his clients.

He continues to seize new opportunities to empower better performance through the creation of intelligent tools and complete analysis software. His vision is so profound it is changing the way coaches work, and increasing players' performance to continually maximise their potential.

So what is next for this sporting performance giant? The simple answer is to take Sportstec to new technology-based platforms. Currently, Sportstec programs rely on devices that support fast processing of information, so are only available through the Apple network. However, he is already turning his mind to other platforms to ensure his technology is available as widely as possible.

He strives to partner with like-minded companies that are limited only by their own imaginations - individuals that never rest on their laurels and continue to forge their own paths of success and achievement.

Jackson understands to remain a world leader and stay ahead of the game, he needs to expand the Sportstec market and will tackle this business problem with the same single-minded dedication that has underpinned his success to date.



Tim Sherwood and Dennis Lawrence using Sportstec iCoda for match analysis at the UEFA Super Cup.

What's **New**

For comments on this edition or if you wish to be removed from the Contact mailing list please email us at **editor@pitcher.com.au**. You can view Contact electronically at **www.pitcher.com.au/Contact-Newsletter**.

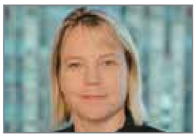
Appointments

It's that time of year again, when new partners are announced and we take this opportunity to congratulate the following on their admission to partnerships:

Daniel Bredenkamp, *Business Recovery and Insolvency*, Perth

Andrew Clugston, *Business Advisory and Assurance*, Melbourne

Renee O'Driscoll, *Business Recovery and Insolvency*, Perth



Adele Townsend, *Tax Consulting*, Brisbane

Cole Wilkinson, *Private Clients*, Brisbane

We are also pleased to announce the following Client Director/Principal appointments:

James Baker, *Transaction Services*

Simon Johnson, *Transaction Services*

Wade Ballantyne, *Business Recovery and Insolvency*

Ben Green, *Business Recovery and Insolvency*

Damian Pearce, *Business Recovery and Insolvency*

Levent Barlas, *IT Consulting*

Hugh Kelly, *IT Consulting*

Aletta Boshoff, *Business Advisory and Assurance*

Andrew Castleman, *Business Consulting*

Marcus Damen, *Investment Services*

Gavin Favelle, *Tax Consulting*

Eleanor Moffat, *Tax*

Jordan Jeffer, *Solutions*

Jordan Kennedy, *Private Clients*

Reuben Miller, *Private Clients*

Alison Wood, *Private Clients*

Carolyn Edwards, *Private Clients*

Shane Hines, *Private Clients*

Congratulations

To Pitcher Partners' client McCorkells and their restaurant Brae, on being awarded *Good Food Guide 2015* Restaurant of the Year in its first year of opening. The restaurant located in Birregurra near Colac, also received three hats and was named best new and best regional restaurant in the *Gourmet Traveller* awards last week.

The entrance to Brae. Photo: Colin Page

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