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inperspective

INFORMING BUSINESS

Building on luck and trust

Border Express

Managing generational change

Acquisitions - how not to fail

Rules for referrals

Life coaches - do they really work?

Welcome to the June 2006 issue of InPerspective.

We have a great range of stories in this issue and we are especially grateful to our customers Border Express, Nortruss, Menzies Group of Companies, Paragon Printing and Koops Martin for generously giving their time to share their business experiences, challenges and triumphs.

This issue also features a number of articles relevant to family businesses including 'managing generational change' and provides an insight into our strategic alignment with Family Business Australia.

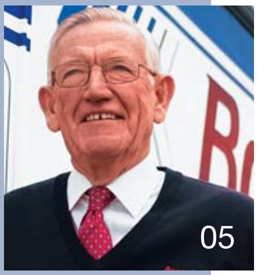
I had the pleasure of presenting the Family Business Australia Victorian awards at the Gala Cocktail Evening on 11 May in Melbourne and extend my congratulations to all winners (as listed on page 18).

In early May we saw the Reserve Bank of Australia increase the official cash rate for the sixth time since May 2002 – the result of mounting price pressures caused mainly by higher oil and fuel prices and the strong economic stimulus from the ongoing commodity price boom. We are yet to see the effect of this on business confidence, the impact is likely to be partially offset from a consumers perspective by the changes to personal income tax announced in May's Federal Budget. If you are interested in keeping up to date with economic movements you can visit www.anz.com or subscribe to receive our regular economic publications.

I hope you enjoy the stories in this issue of InPerspective, and if you have any comments please forward them to inperspective@anz.com ■

Neil

Neil Shilbury
Managing Director
ANZ Corporate Banking



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Managing generational change

One of the toughest decisions facing family business owners is how to hand their business on. Some 80% of these companies have no plans at all for succession, according to Graham Connolly, Chairman of Sydney-based Family and Private Business Advisors Group.

The result is that family businesses are often bought for cash at knockdown prices, reorganised then sold at a huge profit, none of which goes to the original owners. "It breaks your heart," says Connolly, "and it's all because the families who owned them had no succession plan."

Why are owners often reluctant to come to terms with the future? Fear is usually the cause, says Martin Tobin, third-generation chief executive of funeral business Tobin Brothers in Melbourne and an advisor to the business network organisation Family Business Australia. It can be fear of an empty retirement, fear that successors will fail (or that they'll succeed) or fear of allowing in outside equity.

How should owners cross the succession minefield? Connolly and Tobin give these pointers for professionalising family businesses and managing generational change:

Be honest with yourself: Are you in business to employ family members and maintain the legacy or to make a reasonable return? "If you're honest, that normally tells you the right way to go." says Tobin.

Improve communications: It's essential everyone in the family is on the same page. Tobin suggests two increasingly popular ways of doing this:

1) A formally organised 'family council' or forum to ensure stakeholders are informed about what's happening in the company even if they're not actively involved at board or senior management level.

2) Drawing up a formal document agreeing how business should be conducted within the family, covering areas like remuneration policy, career development policy, and giving succession planning guidelines.

"Probably the critical one from a succession point of view is entry criteria for family members." says Tobin. "If you're a sophisticated financial organisation you'll want tertiary education. In a blue-collar environment you might insist on trade certificates. We require at least two years experience in another organisation as well as post secondary education."

Build broader management techniques: Family businesses are constantly outgrowing the ability of the entrepreneurial founder to manage them, says Connolly. "Don't kid yourself you're taking a strategic interest if all you're doing is applying accounting principles instead of management techniques: what are your criteria for evaluating your CEO's performance, for example?"

It involves more than dollars, Connolly adds. It's about people skills, ability to educate others and team building – areas many accountants are not geared to understand. "And it's the human issues that determine success."

Hire an external director: Any business that has sales of over, say, $10 million, can afford to have an external director on the board. The value of an outside person is that they're able to be entirely objective and what this brings to the executive group can far outweigh any cost involved.

Consider professionalising management: "This can be a gutsy call," says Martin Tobin. "You're often bucking 100 years of tradition, but professionalising ensures succession planning is permanently on the radar."

A board, professionalised management, a business plan and regular financial reporting can ensure a business achieves good returns. If owners decide to sell, a professionalised company is far more attractive.

As you evolve, keep the right balance: If you're too family orientated you won't be commercial enough to succeed, says Tobin. Likewise if you're too commercially reckless you may ignore your competitive advantage and disintegrate.

"Certainly in our industry, funeral services, we have an advantage by hiring ourselves out as family owned compared with competitors listed on the stock exchange. Family businesses can be incredibly successful if they get the balance right."■

Spending money to make it

In 1996, Mel Dalgleish was no stranger to competition – he had represented Australia in basketball at two Olympic Games. Now he was ready to embrace a new challenge: to buy out a business partner and seize sole ownership of a Canberra-based company, Paragon Printers.

As the Internet age loomed, printing, it seemed to Dalgleish, was on the cusp of great change. Success would come to businesses prepared to explore the breadth of the new technological panorama and offer clients more than paper and ink. "I realised," he says, "that if we didn't go down the line of a complete service package we'd be lost."

Time has verified the prescience of that belief. With the help of timely capital injections, his group turns over $20 million a year and employs close to 100 people. "People come to us with a dream and say 'here is my cookbook; how do I distribute it, how do I sell it, how do I design it, and how do I get it on the Internet so people can see it?' We do it all."

Paragon's subsidiaries include a publishing company that edits magazines for partners, sells ad space, then prints the completed product. Its other businesses span design, promotional and information management companies and in-house pick-n-pack and fulfilment services. The aim, Dalgleish says, is always to surmount client expectations.

Quality is obviously vital to that end, and is one reason Paragon employs an individual full-time to focus on quality assurance, research and development. Obviously too, a broad service package must be supported by a genuine client focus. "My larger clients have my home number," says Dalgleish. "It makes them feel comfortable that they can go straight to the top, any time of day."

Business and finance manager Michael Turner stresses the importance of avoiding adversarial relationships. Differences of opinion with clients inevitably arise, Turner says, but Paragon's people discuss and resolve issues with them as partners, never adversaries.

The company's holistic strategy translates to wins all round. One client – a national organisation that sells health information products nationwide to pharmacies – had a labour-intensive and inefficient distribution network. After using the Paragon Knowledge Bank information system to streamline supply, it found it could expand business while employing one, not three, employees on distribution. With print, postage and delivery in Paragon's hands, it could then focus on product development, and its business is booming.

Paragon's success is symptomatic of Dalgleish's faith in the adage you must spend money to make it. In an industry like printing, companies that fail to keep abreast of technological change risk stagnation, he says.

["My larger clients have my home number," says Dalgleish. "It makes them feel comfortable that they can go straight to the top, any time of day."]

On one occasion when his margins were under pressure, Dalgleish met with representatives of Heidelberg – the printing machine manufacturer – to see what cost savings would result from installing expensive new equipment. He decided to make the investment and it soon paid off. "When margins start to fall it's often because you haven't continued to reinvest in equipment and training." he observes.

His advice for other entrepreneurs? Don't build structures in your business simply to cope with your problems today. Build them to solve your problems in five years time.

Why Paragon Printers and its subsidiaries have succeeded:

- A comprehensive service package
- Genuine focus on quality, clients and accessibility
- Clients are seen as partners not adversaries
- Preparedness to reinvest. ■

Building on luck and trust

In 1981 – the year Max Luff turned 50 – he decided to start his own freight transport company.

It was a risk at his age, the former school teacher realised, but he knew the industry well. He'd already spent twenty years working as general manager of a transport business in Albury-Wodonga, New South Wales.

At first his own Albury-based company, Border Express, was modest in scale. Luff had six leased trucks, two drivers and just one customer. Now it's one of the largest freight transport businesses in Australia with over 550 employees, 230 full-time subcontractors, a blue-chip client list and revenue this year expected to top $130 million. The company operates depots in every capital and owns property in each one except Perth and Canberra.

How did Max do it? "I was lucky." he says. And when pressed he adds he built on luck by being willing to take risks, having a vision and developing trust in his relationships with customers and staff.

Family has played a big part in his success. After gaining qualifications and experience independently, Luff's four sons joined him in Border Express one-by-one through the 1980s and '90s. Geoff, the eldest, manages the Albury head office while Grant handles administration for the group as well as accounting, IT, compliance and training. Mark oversees the national interstate business and the youngest, John, manages the Sydney operation.

They make a formidable team, having built a culture in which customers come first and growth is well managed. Clients range from paper and paint groups Norske Skog and Wattyl to automotive and hardware outfit Bosch and home storage company Willow.

"It's critical we stay in touch and have good relationships with customers, especially for the rare occasion a delivery goes astray." explains Luff. "We get feedback that our people have smiles in their voices and are quick to have a laugh, but most importantly that loads reach their destinations on time and in good order.

They're the basics for us: understanding what we do and doing it well."

This philosophy is complemented by a strong brand with impressive sites and well-maintained vehicles and equipment. The standard of the depots alone works effectively as a marketing force, Max says. These principles combine to ensure that the company thrives even in the face of heavyweight competition from organisations like Toll Express – the biggest competitor – and second-tier carriers like Bon McArthur.

Not averse to making a mistake, Luff has at times aggressively grown the business. In the mid '90s, for example, he realised that while its structure was sound, which gave him confidence, the family had become dependent on the company, which made him worried. "I decided then that the Albury market was too small for us." he says.

So in 1998 he took a calculated gamble, buying two transport companies in Victoria and Canberra. He applied his operating principles to these and their revenues are now three times that of Albury.

Willingness to take risks has paid off in other ways. In 1982 a friend asked Luff if he would put money into Finemores Transport, then coming out of receivership as a private company. Max did, though he couldn't really afford it at that time. His $200,000 investment was repaid many times when Finemores was floated.

Growth has inevitably been accompanied by financial pressures. A recent investment in warehouse space in Sydney has burned a substantial amount of cash while last year Border Express completed a $7-million purchase of four hectares of land for a warehouse alongside the new Woolworths Distribution Centre in Wodonga. The warehouse doesn't yet have a customer, but Max is confident it'll be a success because it's strategically placed.

Luff and his sons manage challenges through a strategy of "never betting the house" along with conservative gearing and good banking arrangements. At the same time seeking and listening to the input of stakeholders and colleagues always results in more measured and considered risk, he says. "Consulting widely can affect the impact any decision will have on the business, immediately and over time."

Luff has consistently channelled resources into infrastructure, plant and equipment, IT systems, training and people.

Trust in customer and staff relationships has been crucial. In fact that's how Luff acquired his first customer. "In 1981 Moore Business Systems walked in my door to say they'd dealt with me for years and were happy with me. I went from no business to doing their national distribution overnight."

His management style is non-aggressive and inclusive and consensual rather than autocratic. He prefers the word 'colleagues' to 'staff' and can't remember a time his sons or the rest of the executive team argued in a heated way.

What of the future? Recently Max and his sons were approached by merchant bankers with a proposal to float the company, but rejected the idea. "Our balance sheet is strong and finance is readily available." Max says.

And the plan is to keep the company in family hands well into the future. Max concedes that in about 15 years time when his boys are in their late 50s to early 60s and their families are growing up, that may change. His grandchildren, the third generation, might decide to move on and do their own thing. "I'll be about 90 by then and you can't control it from the grave, but in the meantime we intend to run our own race."

The standard of the depots alone works effectively as a marketing force.

Transport company Border Express has grown exponentially thanks to:

- Willingness to take risks without "betting the house"
- Reinvesting in the business, especially in IT
- Consulting widely with stakeholders
- Consensual management. ■

How not to fail with acquisitions

The pressure on CEOs to grow their companies is unrelenting and for many that will mean making an acquisition. Yet research by global management consultants Bain and Company indicates that 70% of acquisitions fail to increase shareholder value.

What's an executive to do? We asked David Tonuri, Head of ANZ Capital and a veteran of scores of acquisitions, for guidelines on how to be among the 30% who do succeed.

First: build a clear commercial case

"There's absolutely no substitute for this," says Tonuri. "Growth for growth's sake is dangerous. Ask: why does this make the company bigger, better and ultimately more valuable for shareholders? Independent research shows many acquisitions can be value-destructive."

This can usually be linked back to investment fundamentals being wrongly formulated from the beginning. Financial models can be a pitfall. "It's vital that commercial rationale leads the financial analysis rather than the other way round." says Tonuri.

A spreadsheet can give any desired output depending on inputs, but being clear about the reason for two companies coming together is always a sensible starting position. Financial analysis should test the robustness of the commercial rationale.

Second: don't just plan the acquisition, plan the integration

Well-executed acquisitions often fail because too little thought goes into the actual integration, says Tonuri. There's always only room for one CEO, one CFO, one head of operations and one head of sales, and many complexities arise from such people issues.

Tonuri frequently finds an organisational chart has been crafted to keep a particular individual happy. Acquisitions should start with an assessment of the structure the *company* needs, never what individuals need.

As an example of a complex structural issue, he cites Kailis and France's acquisition of Australian Convenience Foods. The headquarters of Kailis and France was in Perth while that of Australian Convenience Foods was in Melbourne. Where should the new company be head quartered?

Similar issues that may influence the direction of the company are: who should be chief executive, what should be the team that sits around the chief executive, where should key executives be located? "That's often significant when two companies come together." says Tonuri.

As most of Kailis and France's employees and manufacturing operations were in Perth, it was chosen as the headquarters.

Third: have a detailed follow-through plan

This is about actually delivering the increased value the acquisition was aimed at in the first place. "Exactly how is the company going to grow and improve?" asks Tonuri. "When we invest in a company, we formulate a plan that outlines their business strategy for the next three to five years in sufficient detail to be meaningful."

The plan must be owned by executives and shouldn't be imposed. "Our involvement extends to setting the right frameworks. It's not about us coming up with the answers but asking the right questions."

> "Acquisitions should start with an assessment of the structure the *company* needs, never what individuals need."

Fourth: communicate directly, internally and externally

The last thing employees want is word of a merger or acquisition reaching them by unofficial channels. They want to hear it directly from senior managers and that applies to explaining the benefits to suppliers and customers too. "If two close competitors come together, a customer often feels threatened." says Tonuri. "If not handled appropriately that customer can seek other avenues of supply, and they often do."

Fifth: even if you make it to the magic 30%, expect everything to take longer and cost more than expected.

In 90% of acquisitions, says Tonuri, there's an overestimation of the benefits and an underestimation of the costs, and that's irrespective of the amount of work that goes into it. "Things always follow unanticipated trajectories, so it's imperative to allow a degree of contingency." ■

A smart sea change

It's a common feeling among city people who grew up in the country – the desire to quit the crowds and traffic jams and return to a more relaxed existence.

Very few, however, build a $50-million business in the process. Rolf Koops and Sandra Martin in that sense are a remarkable couple. In 1990, when the pair of city lawyers decided they wanted to return to Sandra's home town of Coffs Harbour, New South Wales, they opted to apply the business model and processes of a major firm to their small practice.

In the intervening years Koops Martin has grown into a diversified professional services company employing over 400 people and offering financial planning, accounting, tax and superannuation, funds management, mortgage broking and private equity alongside legal services.

How did they do it? Essentially by pooling resources. Usually individual professional advisers compete for primary relationships with clients and for areas of overlap in legal, tax, financial planning and accounting work. Koops and Martin built an integrated business in which clients can access advisers in each of those areas.

The model is seldom seen in regional areas, Koops points out. In a centre like Coffs Harbour there would typically be three to five lawyers per practice, and an accounting firm would have three or four accountants and financial planners. But each would maintain separate overheads: premises, office systems, equipment, staff, receptionists and secretaries.

> "In our model we get economic efficiencies as well as delivering a streamlined service." says Koops.

Their first step, combining their law practice with a financial planning offering was risky, he acknowledges. "Fortunately in our law practice we'd established relationships of trust that could be carried over to the planning practice," says Koops. "It didn't *always* translate, but it created, at minimum, the potential for a relationship."

Thanks largely to such links the company expanded to offer accounting services next, then mortgage lending. After introducing appropriate processes and hiring extra personnel, Koops Martin was able to invest in property and, later, private equity.

Today their investment arm, LKM Capital, has assets of $120 million under management and LKM's portfolio offerings are diverse. Residential and commercial developments include offices and retirement villages while a part of the private equity portfolio is a services company that provides systems for monitoring the operation and performance of poker machines in 400 venues in Queensland.

Not surprisingly, building a business like theirs hasn't been easy. In 1993, for instance, recession hit the property market which caused

Rolf and Sandra anxiety – even panic – because Koops Martin had geared up due to rapid growth.

"The market fell in a hole," says Koops. "We had a limited overdraft and our cash resources were drying up. We extended our overdraft facilities and were forced to cut back hours and lay a few people off. It was a tense time."

But with the help of a drive to get more work from established clients in the legal practice, they generated more jobs. They also won vital new clients. Within three months the company had turned the cash squeeze around.

Cash flow has presented challenges even during periods of strong growth. "When we reached turnover of $4 million to $5 million a month spread over multiple business units, we really needed to understand our cash flow, and that took time. We used tools to assist in analysing it and to ensure we had ongoing funding."

The group's approach to growth has been aimed at steady, sustainable expansion. Meeting efficiency targets has been a challenge but remains a key part of the way the company operates.

Marketing has arguably been the most complicated and difficult aspect of running the business, Koops concedes. In fact it's an area he admits they've not entirely mastered. It's a familiar conundrum: they constantly seek ways to improve their marketing efficiency and effectiveness while trying to identify appropriate target markets and get across a professional image without spending too much money at the same time.

Much of their current marketing effort involves engagement with the community – with the Chambers of Commerce and service clubs and serving on local committees. "There are a limited number of these organisations in a smaller town and a limited number of people who've got the skills to serve on them," says Koops. "If you're out there and available you can potentially be on several boards and committees at the same time."

The couple feel justifiable pride in having created a model for regional professional services that translates to reasonable prices and seamless delivery of services to customers.

To ensure they continue to do so they focus time and resources on attracting and keeping good people and maintaining good systems and processes. They have developed a strategic plan that includes further organic growth and seeking new opportunities.

"We see ourselves as having just started," says Koops. "I'm 45 and most of our managers and staff are in their 40s. We have a long-term commitment not only to the region but to expanding each of our businesses. In the next five years we plan to grow assets under management to over $1 billion, which for a regional firm is really substantial."

Rolf and Sandra enjoy a healthy balance between work and family. Sandra doesn't work full time any more and they always make time for their children.

"I work no more than a 40-hour week," says Rolf. "Sometimes I have to travel for a few days a month, but generally we lead a very balanced, outdoorsy lifestyle. That's why we chose to live in Coffs Harbour!" ■

‘Invest in skills – now’

When he heard about a $100,000 salary being offered for a metalworker in a regional area of Australia recently, and that there were no takers, Julian Teicher realised it was graphic evidence of the nation’s skills shortage.

Teicher, Head of the Department of Management at Monash University and author of eight books on workplace and industrial relations, didn’t need convincing anyway. He’s been seeing the warning signs for years.

While the Federal Government has overseen a 50% increase in apprenticeship numbers and a 25% rise in expenditure in vocational education and training between 1998 and 2003, the increases have been mainly in the areas of clerical, sales and service. In the same period Teicher has seen a decline in training for ‘hard’ industries like agricultural, mining and construction.

As many employers attest, the problem is acute in traditional trades like electrical and metalworking. If you’ve struggled to secure a visit from an electrician, data from the University of Western Sydney suggest things may get worse. During the decade from 1993 to 2003 trade training rates declined 16%, the most severely affected sectors being metals, electrical and electronics.

Employers have been generally slow to take up the training burden because they lack incentives to do so. A trade apprenticeship, typically a four-year undertaking, is a significant commitment whereas a non-trade apprenticeship is finished in less than two years.

Australia’s ageing population is another factor affecting skills availability that will impact all industries. As the boomer generation (born 1946 to 1961) retires, about 10% fewer people of working age will be in the pool of workers, according to Australian Bureau of Statistics’ projections. That means employers will need to work even harder to attract and keep skilled workers.

What can be done? One solution is for the government to provide better subsidies to employers for trades apprenticeships, suggests Teicher. At micro level, businesses can do more to retain and develop skilled people, and they can start by simply valuing all employees equally, he says.

Many organisations split their workforces into those who are ‘disposable’ and those perceived to be crucial to the future of the business. In Teicher’s view that’s not sensible, not least because of the costs of replacing any staff member. Companies need to value all workers across the board.

Culturally, Australians are poor at recognising merit and giving praise and encouragement, he says. “Executives need to be more aware of simple human relations. It matters to people that the MD remembers they had a child last year or that their kid is going to school this month. It’s surprising how often this is overlooked at senior management level.”

Management also often absents itself from work places, yet fostering community in the work place engenders a sense of responsibility, obligation, a thirst for work, he adds. People need to know they’re doing a good job and contributing. What’s more they expect it. A generational shift means expectations in this area are greater than ever and if people are treated badly they’ll seek opportunities to move on.

Another area in which employers often fall down is failing to communicate what the organisation stands for and its goals. While job design and performance-related payment systems are obviously important, senior managers should clearly articulate the value of jobs and the individual’s contribution to the organisation in relation to its’ goals, Prof Teicher says.

> “Executives need to be more aware of **simple human relations.** It matters to people that the **MD remembers** they had a child last year or that their kid is going to school this month.

“There’s much employers can do to change the image of traditional trades by valuing those roles more highly in dollar and human terms, investing in training positions and creating strong career paths. Australia’s future is not in low-skilled, low-paid work. We need to be investing in skills – now.” ■

Will the recent interest rate rise be the Last in the Cycle?

In early May the Reserve Bank of Australia increased the cash rate by 25bps to 5.75%, the sixth increase in this tightening cycle which began in May 2002. The rationale for the increase was that recent economic developments have increased the likelihood of price pressures breaching the RBA comfort zone. Global growth has remained stronger and commodity prices have continued to rise, delivering further income gains to Australia; world oil prices and domestic fuel prices have reached new highs, further increasing domestic cost pressures; stronger data suggests domestic demand began the year on a stronger note; and credit statistics suggest that interest rates were not constraining the demand for finance from either businesses or households.

There are risks in this latest move. Dwelling construction has been softening and this latest move will delay the recovery in this sector. Retail spending had lifted a little in the first months of this year, but will inevitably be negatively impacted by recent high fuel prices, an impact which will be compounded by a further erosion of the household budget from the interest rate rise. Recent strength in the labour market was partly the result of the Commonwealth Games, and we expect to see some deterioration over the next few months. Large sections of the manufacturing industry continue to struggle against the headwinds of intense offshore competition and the high A$, with domestic motor vehicle manufacturers facing the additional impost of declining demand as a consequence of high fuel prices. And there is not currently an inflation problem; although headline inflation is at the top of - but not above - the top of the target band, all measures of core inflation remain comfortably within or below the band.

We do not expect the RBA to follow with another rate rise in the short term. Nevertheless, the RBA remains alert to inflationary risks and it is too early to definitively call an end to the current tightening cycle. Factors which could prompt another rate increase would be a further rise in global oil prices; a fall in the Australian dollar; a sharp acceleration in Australian economic activity; or an increase in wages growth.

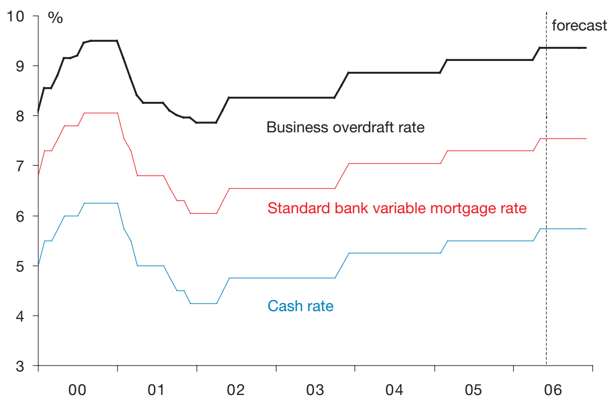
The economic impact of the Federal Budget will also be closely monitored by the RBA. The 2006-07 Budget has again benefited from windfall gains from the ongoing resources boom which have boosted the cash available to the Government over the four-year forward estimates period by $51bn. Of this, the Government has 'saved' $5½bn (in the form of slightly higher budget surpluses) and 'spent' $46bn through tax cuts and spending initiatives. This raises concerns about whether this additional stimulus will be offset by higher interest rates from the Reserve Bank.

Reserve Bank Governor Ian Macfarlane has noted that he sees little difficulty for the Reserve Bank in terms of managing the impact on demand as long as the underlying Budget surplus is around 1% of GDP. The projected underlying surplus in 2005-06 is 1.5% of GDP and in 2006-07 is 1.1% of GDP. These surpluses are comfortably within the recent historical zone and should not figure prominently in Reserve Bank deliberations on interest rates. However they certainly do nothing to reduce the likelihood of another rate rise.

Our base case is that there is no need for further interest rate increases. Having said that, the future direction of interest rates is now clearly data dependant, and there is need for vigilance. ■

Tony Pearson
Head of Australian Economics, ANZ

Interest rates nearing a peak



Source: RBA

Open, honest
and growing

Want to keep staff loyal and committed? Give them a strong vested interest in the business, be open about your balance sheet and show them that if the going gets tough, you're prepared to get your hands dirty like everyone else.

That's part of Brock Simon's mantra for success. The Managing Director of Darwin-based building supplier Nortruss keeps his 'excellent' people – some of whom have been with the company for 25 years – by giving them profit-sharing opportunities and being transparent about the company's financial performance. "We sit our managers down to let them know what we're making, what our overheads are and what we're going to do." he says.

Many companies are reluctant to do that because they instinctively don't want people to know too much about their business, Simon concedes. While his general staff don't necessarily see all figures, they know what the bottom line is, particularly the overheads on which they have a direct effect. "That motivates them to turn that light or air conditioner off at night if they get the chance."

The formula is working, because Nortruss is expanding with a vengeance. Having bought its opposition in Darwin, it is acquiring another company in Broome and hitting the acquisition trail across the northwest. Today the employee complement is nearing 100 and the company has a $20-million turnover.

Last year, Nortruss management negotiated a buyout from the family who had owned the business for 34 years. Simon, formerly general manager, couldn't imagine buying out a multi-million-dollar company at first, but with the promise of joint investment from ANZ Capital, the idea firmed. It took four months to negotiate an equitable share price and 60 days of due diligence before the deal was done.

Simon works hard at keeping an open leadership style and relies on employees to come up with ideas and provide solutions. This results in workforce commitment of the kind that got the company through some difficult times after the introduction of GST, when some employees had to be let go and the others did their own cleaning and mowed lawns.

"They understood what had to be done," says Simon. "Darwin is a pioneering town and it's part of the culture. If a person has to get on a forklift, whether it's me or someone else, we'll do it. It doesn't matter who you are. We don't have demarcation at all in those sorts of areas."

Brock Simon has learned other lessons along the way, one of which is that it's essential to diversify. For him that doesn't mean learning new kinds of business, it means widening your base. "We're good at being building suppliers; we do what we know best and keep it simple." he says. "The business we're buying in Broome is a mini-Nortruss. It has the same principles, showroom and manufacturing structure."

> "Physically walk around. Smell the place all the time. Make sure you're aware of what's around you."

What advice does Simon have for other business leaders? “Don’t get complicated. Never deviate from the basics – the bottom line and balance sheet.”

The company deals strictly with builders and construction firms, having built a reputation in the trade that it’s technically strong and can solve problems. To ensure marketing efforts target only potential customers, Nortruss doesn’t advertise on TV or in newspapers. Instead it produces a catalogue that tells the trade what it does and what it offers.

It also offers a total package to builders, supplying not only trusses and wall frames, but roofing, wall and floor packages as well as the ancillaries that go into a building like doors, nuts and bolts.

Along with a diversified base and tight focus, Simon sees his customer service (slogan: ‘we care, it’s your guarantee’) and high staff quality in a town that can be transient at times as a clear market advantage. “None of our competitors has the back-up that our company has in terms of technical expertise and advice.” he says.

A team of seven managers handles all aspects of the business. For assistance with short and long-term strategic plans Simon relies on accountants KPMG. To help formulate long-term strategy Nortruss retains a consultant to look at the business from the outside in. “Sometimes you don’t see the whole picture from inside; he’s done good work helping us to understand where we should be going.”

What advice does Simon have for other business leaders? “Don’t get complicated. Never deviate from the basics – the bottom line and balance sheet. Don’t get upset if there’s a market change, keep those basic principles going and persevere.”

He’s also a strong believer in management by walking about. “Physically walk around, don’t trust the computer. You know, smell the place all the time. Make sure you’re aware of what’s around you.”

He strives to keep his life balanced though admits it can be a struggle. “I’m a mad keen rugby man and chair the Friends of Rugby in Darwin. We’ve got the hottest sevens in the world up there. I enjoy fishing. I’ve got a lovely wife who’s also busy and we encourage each other in our businesses.”

“And,” he adds, “I like a cold beer and good mates.” ■

Nortruss Building Supplies is expanding across the North by:

- Building strong staff commitment with incentives and an open management style
- Diversifying its base
- Keeping a tight focus on what it does best
- Providing not just supplies but a complete service
- Keeping an unwavering eye on business basics.

Rules for referrals

Winston Marsh was walking along Collins Street, Melbourne, when he stopped to look in the window of a Montblanc pen store. As Marsh watched, a shop assistant donned a pair of white gloves before walking to a cabinet and selecting a pen, which he then carefully laid on a square of velvet in front of a customer.

Marsh, a marketing consultant, conference speaker and expert on generating business-to-business referrals, realised he was witnessing a skilful exercise in selling. "A $2,000 Montblanc pen fulfils the same function as a 20-cent biro," he says. "The real difference is perception."

All organisations have the opportunity to look at how they serve existing clients and add what Marsh calls 'white gloves moments' to that service. "The white gloves tell a customer the company's offerings are special, and later the customer will tell others about the experience."

'Wowing' a client with a metaphorical white glove can produce a glut of referrals. Yet many organisations fail to try. Even fewer implement a referral system, which represents by far the easiest and most productive way to generate business, says Marsh. (A recent British survey showed that 80% of companies found word-of-mouth referrals to be the most effective form of gaining new customers.)

It's extraordinary, Marsh believes, that many CEOs will readily assign a million dollars to an advertising campaign but won't consider a strategy to generate referrals. "If you went out and bought a thousand of your clients a thousand-dollar gift and said 'please introduce me to someone who might give me more business,' your success would be huge."

There are three fail safe ways to generate referrals, says Marsh:

Ask:

One survey has shown that on average only one in 100 businesses, large and small, actually ask clients for referrals. This can be as simple as saying: "incidentally, is there someone else you know who'd appreciate what we've done for you?"

Creating a culture that encourages such requests must start at the top. "If staff are never encouraged or have no way of reporting the referrals they've got, they'll know management doesn't consider it important." Marsh says.

Delight customers:

Deliver first-rate service and support always. And company people involved in new transactions should contact their clients afterwards, every time. "Whether you're selling a power station or photograph, a two-minute call after the deal can deliver a customer for life." Marsh says.

In addition, Marsh suggests ringing those who've sought a quote but haven't bought from you to say, "we appreciate you have found someone else. If we can help with anything in the future, please contact us."

"The reaction of the potential client? Wow!"

Have a system:

Systemise the process of regularly letting staff and clients know you need referrals and that there'll be a reward when they introduce someone to you.

Recognition is just as effective. "As Napoleon said, men will die for a medal," says Marsh. "Management should also make it clear to staff what kind of referrals they're after, as a recommendation to a non-ideal client is unlikely to create business value."

Rewards can depend on the amount of business involved and can range from vouchers and movie tickets to weekends in a five-star hotel. Occasionally clients may feel uncomfortable about receiving such largesse. Marsh suggests a response like: "any time you refer business to us you're saving us on our marketing expenses. We'd like to share some of that with you."

All of this may seem common sense, Marsh concludes, and that's precisely what good marketing is. "But don't tell too many people or it will do me out of a job." ■

Is your personal financial situation receiving the same level of attention as your business?

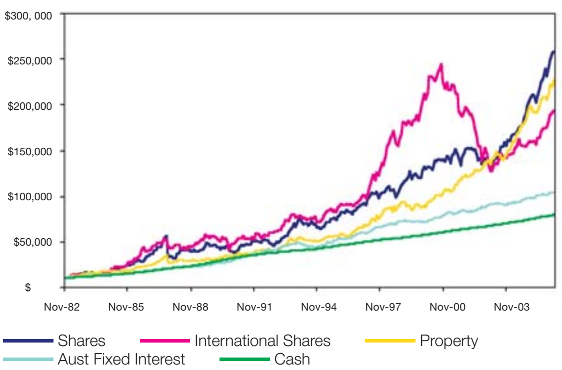
For many business owners, personal finances are often tied to the business in the form of equity.

This presents both challenges and opportunities for business owners seeking an investment strategy to meet their existing and future needs. This is especially relevant if the business is a major part of an investment strategy for wealth creation and planning for retirement.

Looking beyond your business to create wealth for you and your family

Investing outside the business brings a diversification to your overall wealth creation strategy. An appropriately constructed portfolio with exposure to various asset classes can complement the role your business is playing in providing income for day-to-day expenses as well as meeting longer-term commitments.

Performance of Major Investment Types (November 1982 – February 2006)



Source: ANZ Private Bank[1]

Borrowing to build a portfolio

Borrowing can strengthen investment opportunities when the right amount of borrowing, appropriate investments and the borrowing vehicle matches personal circumstances. Some gearing facilities are specific to particular investments. A Home Equity Loan for example uses the equity in a home for gearing into investments.

Alternatively a protected equity strategy can protect the value of large share investments, for potentially no capital outlay. You can borrow up to 100% of the protected value of the shareholding without exposure to the risk of a margin call, as may be the case with a margin loan facility.

Superannuation and retirement

While your business is likely to be playing a major role in meeting your financial goals for retirement, superannuation is one of the most tax effective ways to boost your retirement savings. Although there are contributions taxes, significant tax efficiencies may be achieved as investment income and capital gains from superannuation earnings are effectively taxed at the low rate of 15% and 10% respectively[2].

A self managed superannuation fund is generally regarded to be a highly tax effective structure. You choose your own investments, right down to the individual shares and other investments that you want to hold in your fund.

There are specific tax benefits available to self managed superannuation funds that may not be available to the same extent through a public offer fund and the underlying investments in your own self managed superannuation fund do not have to be sold upon retirement.

Business owners may be able to claim personal superannuation contributions as a tax deduction of up to $5,000 and 75% deductible thereafter up to the age based limits (for the 2005-06 income year):

- Under age 35: $17,804
- Age 35-49: $52,414
- Age 50-69 $132,450

The importance of estate planning

Estate planning is more than just ensuring that you have a will. Estate planning is particularly important in family businesses, and should be a vital consideration in any business succession plan.

Also for consideration are the tax consequences for your estate in the event of your death. In the event of illness or death, it is important to ensure your assets will be transferred according to your wishes, in the most tax effective manner. There are tax consequences from death including Capital Gains Tax (CGT) on deceased estates and taxation of superannuation death benefits.

Seeking the right structure to fit your individual needs can provide greater opportunities for wealth creation. ■

To arrange an obligation free appointment with an ANZ Private Banker, call us today:

NSW/ACT	02 9226 6827	VIC/TAS	03 9273 5888
QLD	07 3228 5513	WA	08 9323 8007
SA/NT	08 8218 8900		

[1] $10,000 invested in November 1982. Australian Shares: S&P All Ordinaries Accumulation Index, International Shares: MSCI World Accumulation Index in Australian Dollars with Dividends Reinvested, Australian Listed Property: S&P ASX Listed Property Accumulation Index, Australian Fixed Interest: Commonwealth Bank Bond Accumulation Index, Cash: 90 Day Bank Bill.

[2] Capital gains within a superannuation fund are taxed at a maximum rate of 10% provided investments within the fund have been owned by the fund for at least 12 months.

Cash flow is KING!

Leadership is practised not so much in words as in attitude and action, and the only unforgivable sin in business is to run out of cash.

These rules were espoused by Harold Geneen but they could have been written especially for Rod Menzies. Indeed the Managing Director of the Menzies Group of Companies is an avowed follower of the philosophies of Geneen, who grew America's IT&T Corporation into a multi-billion-dollar conglomerate in the '70s.

Rod Menzies' uncompromising approach to cash flow and financial and operational accountability is echoed in the teachings of his hero and has served him well in 38 years at the coalface.

His group is the third largest contract cleaning services provider in Australia, employing 4,500 people and with sales of $200 million a year. "That's a lot of mops and buckets." Rod says.

As an extension of Rod's passion for art, the Menzies Group also owns Deutscher-Menzies and Lawson-Menzies Auction Houses which together control more than 50% of the Australian art auction market. His hobby interests include vineyards, wines and horse racing.

Such disparate pursuits may seem odd – even paradoxical – to some, but adherence to fundamentals will bring success to any enterprise, Menzies insists. "What drives a business is key," he says. "Is it sales, technology, methods or products? We analyse and plan, showing operational and financial discipline and rewarding stakeholders and players who make it all possible."

The value entrepreneurs and senior advisors add to a company must be based on net present value – the present value of future cash flows, Menzies says. "When we do a budget forecast the revenue is an act of faith and the costs are an act of reality. We *always* bear that in mind."

A zero trade debtors policy may be one reason he's has never had a problem with managing growth, though he's encountered his share of trouble along the way.

In 1999, after he was awarded a second five-year contract to clean NSW Government Schools, school cleaners went on state-wide strike for several days over work hours. Rod and his senior group faced tough negotiations involving the government, union and principal/teacher associations. But by being resolute while making some compromises, the group achieved an outcome with which he was happy, and the company recently won the contract for another five years. "A lesser organisation might have been paralysed by fear of financial failure and loss of reputation in that situation," Rod says. "It's during crises that true leadership emerges."

Each profit centre in the group has a Chief Operating Officer. Managers account monthly for the annual plan and KPIs at entity level and weekly as a minimum at operating levels of each business centre. Forward planning involves a threefold process including one-year-out financial planning, business planning with an operating plan spanning two to three years, and strategic planning with a three to five year horizon.

Areas Menzies believes are neglected in Australia are margins, which he augments wherever possible, and management reporting in a cost volume profit format. It's one of Rod's most important aids, helping him to build into the budget whatever he has to do to boost margins and revenue.

Menzies plans to continue expanding while sticking to a leadership style he acknowledges can be confronting. "It's my way or the highway," he says, laughing, "but it's a style enjoined upon any organisation that follows Harold Geneen's textbook, as I do."

Menzies Group of Companies stays in the black through:

- Financial and operational integrity
- A zero trade-debtors policy
- Using the net present value method in capital budgeting. ■

Life coaches:

do they really work?

Can someone whose specialty is human behaviour really coach a CEO to help him reach his goals more effectively?

Emphatically, yes, says Dr Steven Segal who teaches at the Macquarie Graduate School of Management in Sydney.

"Good coaching is about enabling people to observe their own behaviour, the mindsets that underpin it, so they can correct that behaviour when necessary." says Segal who is, among his other roles, a 'coach's coach,' mentoring other coaches.

Segal explains the effective coach's role like this: most of us are prisoners of our own instincts. An effective life coach frees us from instinctive behaviour and give us *choices,* so we can react to a situation in the most effective way possible – with brains rather than gut.

He points to Nelson Mandela as showing the power of a carefully chosen response to any situation. When Mandela was in jail, says Segal, he was permitted to receive one letter per month from his wife. His jailers would taunt him with it, showing it to him then withholding it, trying to provoke a reaction.

Mandela didn't respond as they expected. "He stood back from his emotions, maintained composure and didn't try to get the letters. He let it go, and through charisma and personality got what he wanted in the end."

Executives like everyone else tend to be reactive and defensive and blame situations for their predicaments, rather than *choosing,* in every situation, how to respond.

Coaching can be especially useful when people shift from technical to executive positions. Segal gives the example of 'Michelle,' an executive who, because of her technical and analytical abilities, had climbed rapidly in her organisation. She had an MBA and had done courses in leadership, but when she tried to manage people it was in the same detached, analytical way she dealt with technical problems. Resentment was rife in her department.

The directors didn't want to lose her, but knew they didn't have the skills to help her see what she didn't see about herself, explains Segal.

"We got her to look at leadership again, this time in the context of her own on-the-job experiences. It was amazing what opened up for her in the leadership literature. She began to understand the importance of relationships in leadership and the need to shift her own assumptions, behaviour and feelings."

Getting executives to accept their failings is not easy, Segal admits. "That's why it's crucial for a coach to work with the vulnerability of another person and develop what's called in the jargon a 'holding environment'. We must make people secure so they can see what they were blind to in themselves."

How does coaching work in a practical sense? Do coaches follow you round all day? In some cases, yes, the coach shadows the executive for a defined period.

More indirect forms of coaching can also be effective. One method is for executives to seek feedback about themselves or use feedback they've already received. The coach then helps them understand it and work through it.

Segal concedes that some scepticism about life coaches is justified. To be truly effective, he feels coaches need to have gone through coaching themselves so they have an experience of the process they're engaging in.

If CEOs decide a life coach would help them or their colleagues, how do they find a good one? Rather than seek out individuals, look to reputable institutions that offer coaching, like university business schools or psychology departments.

Finally, he says, don't expect an immediate personal transformation. "It takes time to learn that in every situation – no matter what – you can *choose* how to respond. But that's a goal worth waiting for." ■

ANZ's strategic alignment with Family Business Australia

Australian family businesses make up 80% of Australian businesses and contribute over $3.6 trillion to the Australian economy. This important business sector has unique and challenging issues.

FBA
Family Business Australia

A recent Survey of Family Business needs conducted by KPMG, Deakin University and Family Business Australia (FBA) in 2005 indicated that 'Balancing short-term and long-term business decisions' is the number one family issue within family businesses, followed by 'maintaining loyalty of non-family members' and 'availability of willing and able successors'.

Furthermore Australia's ageing population is placing increased pressure on family business owners (with the average age of the owner between 50 and 59) to consider the future of their business and their individual lifestyle goals. Therefore succession planning is becoming a critical issue for these businesses to satisfy family expectations and ambitions. It also has wide reaching implications for the economy.

To help support the needs of family businesses, FBA was established in 1998 following the merger of the Family Business Council and the Foundation for Family and Private Business. As a national, member-based, not-for-profit organisation for family business owners and their professional advisers, FBA's Charter is to provide an independent Advisory service, by helping family businesses understand and resolve their issues by offering them opportunities to:

- Develop effective strategies for both their business and family life
- Prepare workable succession plans
- Understand and manage conflict resolution and negotiation
- Communicate more effectively and support each other
- Build relationships within the family business network
- Plan for life after the family business

> "At ANZ we are uniquely positioned to assist family businesses with succession and growth management.

FBA is governed by a Board of Directors from across Australia, comprising representatives from family business and education. With unique expertise in supporting family business issues, ANZ has entered into a strategic alignment with FBA.

According to David Tonuri, Head of ANZ Capital, "Supporting the needs of family business is an important issue for ANZ. It is vital that the wider business community recognises the challenges and requirements of the family business sector, especially in relation to succession planning." ANZ Capital is a division of ANZ that specialises in providing funding for succession related transactions for family businesses.

"At ANZ we are uniquely positioned to assist family businesses with succession and growth management. Via our ANZ Capital expertise, we are pleased to offer assistance to FBA members through forums that discuss issues such as managing growth, governance, strategy and ownership change. And we are also delighted that some of our customers are willing to share their experiences at the FBA forums."

According to Philippa Taylor, CEO of FBA "This is an important strategic alignment and we are thrilled to have ANZ as a partner in helping us support family businesses around Australia."

FBA, with the support of its stakeholders, runs events with family business guest speakers, interactive workshops, family business forums, an awards program, an Australia-wide family business network and a national conference conducted annually in different Australian locations. It also has forums for issues relevant to the next generation of family business owners. If you would like to join FBA, please visit the FBA website at www.fambiz.com.au

Congratulations to the 2006 FBA award winners –

VIC: Colorific, Aged Care Service Group Pty Ltd, Pickering Transport Group; TAS: Lark Distillery, Hazell Bros; NSW & ACT: Popes Electrical & Data Supplies, UBEECO Packaging Solutions, Baker Motors, SNP Security; SA: Acquista Investments Pty Ltd, Coopers Brewery Ltd; QLD: Goodman Private Wealth Advisers, The Motorama Group, Ballandean Estate Wines; WA: Bell-Vista Fruit & Veg. Co. Pty Ltd, Statewide Oil Distributors, Galvin Engineering. ■

What would you do if capital wasn't a constraint?

For Peter James and Mario Marini, the idea of taking ownership of South Australia's largest privately held laundry service (International Linen Service) – the business they had collectively been working in for over 17 years, seemed impossible.

That was, until they spoke to ANZ.

ANZ provided Peter and Mario with an opportunity to lead a Management Buy Out of International Linen Service (ILS) which enabled the pair to become business owners. Importantly for Peter, already a minor shareholder, ANZ provided him the opportunity to take strategic control and lead the business through the next phase of its life cycle.

ANZ's team of leading financial strategists have expertise that you don't traditionally expect from bankers and can help with succession planning, exit strategies, financial strategies and governance.

In recognition of ANZ's innovative capital solutions, ANZ has been awarded the CFO Magazine – Business Bank of the Year 2005 Award.

To further explore the possibilities for your business, speak to your ANZ Relationship Manager or contact an ANZ Capital Specialist today.

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Pictured: Peter James and Mario Marini from International Linen Service.

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