

Business Briefing

Advice for business owners

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Tough times ahead

There is no denying that the next twelve months will be demanding for most, if not all, business owners. Use KPIs to steer your business through.

We have put together a checklist of the key points we believe any business, no matter what its size, should be addressing to ensure survival in these uncertain economic conditions. This article focuses on one specific area: knowing and monitoring your key performance indicators (KPIs).

KPIs give a business indications of success or failure. Many businesses measure these on a monthly or quarterly basis. This timeframe is usually far too long. Core KPIs need to be monitored daily and with the sophistication of modern computer systems, this is feasible for many businesses.

So which KPIs do you need?

Cash banked – "cash is king" as we have said in many previous issues of this newsletter. Daily cash collection must be monitored against a daily budget, and cumulatively against a cumulative budget to manage cash flow. Simple though this seems, many businesses fail to adopt this most basic measure.

Cash in the bank – if you borrow from a bank and you run close to your limits, even if only occasionally, measure this daily. Breaching any bank covenant by exceeding limits or failing to meet repayment deadlines makes future borrowing not only harder but also more expensive.

Sales leads generated – sales-focused businesses know how much they have generated on a daily basis, and react accordingly. If you know whether sales targets are being met, or not, you can react quickly to the market to plug the shortfalls with special offers, volume discounts etc.

Orders fulfilled – if you take orders and fail to fulfil them on time, customers will cancel and buy elsewhere. In tough times, customer loyalty can fall away as more suppliers chase fewer orders.

Following on from order fulfilment is the need to manage stock. Daily stock turnover figures identify not only the potential "stock-out" positions, but also slow-moving goods. In a credit crunch you need to be able to supply goods on demand and offload slow-moving stock as quickly as possible. Slow-moving



stock wastes bank credit facilities and lack of stock in demand loses sales opportunity.

Debtor days – selling the goods is one thing, getting paid is quite another. Daily monitoring of debt and active credit control keeps the cash flowing.

Gross profit – in tough times, businesses come under pressure to reduce their margins and it is critical to monitor gross profit constantly. It is not always possible to do this daily, but at the very least it should be measured every month. If you only look at your management accounts once a quarter, it might be too late to reverse the damage. At the sales order level you must look at the gross margin on a transaction by transaction basis for larger sales.

Most good accounting systems can be used to generate this information immediately and feed it to a "dashboard" of key data. However, you need to keep your accounting records up to date.

If you are uncertain how best to obtain this data or even how to benchmark your own KPIs against your competitors, Moore Stephens can help. If you would like a copy of our Tough Times checklist or would like someone to talk to you about managing your business through the economic crisis, please call your usual Moore Stephens contact or email marketing@moorestephens.com.

Companies Act update

A number of further changes are coming into force under the Companies Act 2006.

Firstly, there are new time limits for filing accounts for reporting periods beginning on or after 6 April 2008. Private companies will have nine months rather than 10, and public companies six months. Companies that miss their deadline will face higher penalties than before. The penalties increase with the degree of lateness, reaching £1,500 for private companies filing more than six months late, and £7,500 for public companies. These double for second and subsequent late filings.

Another change – a simplification – is that you just need to file by the end of the appropriate month i.e. by 31 March if your private company reporting period ends on 30 June. You won't be penalised for failing to file on 30 March – what used to be called the "corresponding" date.

A more significant change for some is that medium-sized groups now have to produce group accounts. However, small groups are still exempt from this requirement. The limits have been increased, so if you were medium-sized previously, it is possible you may now be deemed "small" and so could remain exempt. For the record, small groups are those which meet at least two out of three of the following criteria: turnover less than £6.5m net (or £7.8m gross), balance sheet less than £3.36m net (or £3.9m gross) and employee numbers under 50.

Good timing for EMIs

Enterprise Management Incentives (EMIs) are the most flexible form of tax-efficient share options. With the current depressed value of businesses, now is a good time to think about introducing them.

Although the current economic climate provides many challenges for business, it also creates opportunities – introducing an EMI scheme now could bring benefits for both staff and the company.

Employees benefit from the attractive tax breaks. Individual eligible employees can hold unexercised EMI options up to a total value of £120,000. No tax charge arises when the option is granted and, provided that the exercise price is not less than market value at the date of grant (and it is exercised within 10 years) no tax charge arises when the option is exercised.

The exercise of the option can be subject to performance conditions if appropriate, so that the objectives of the employee are aligned with those of the company. The employee is rewarded if the company does well.

The company granting the options has to satisfy a number of conditions. For example, it must be independent, have only qualifying subsidiaries, gross consolidated assets must not exceed £30m, and the number of fulltime equivalent group employees must be less than 250. In addition, a qualifying trade has to be carried on wholly or mainly in the UK. While most trades qualify, some – such as dealing in land, banking and leasing – are excluded.



Why does the company benefit? Firstly, EMIs encourage employee loyalty and commitment. Secondly, the employer company can claim a tax deduction equal to the difference between the market value of the shares at the date of exercise and the exercise price. So not only are EMI options attractive from a tax perspective for employees, they are also attractive for employers.

The administrative burden is comparatively less than that for other types of share option schemes as the rules do not have to be approved by HMRC. There is, however, a requirement to notify the grant of options within 92 days and an annual reporting requirement.

To find out more about how EMIs might work for you, please get in touch.

Opportunity alert

There's a lot of doom and gloom about the economy, but that could mean there are acquisition opportunities. Is this the time to buy?

The answer depends on a number of factors. A sound deal requires the right asset or right company, bought at the right price with appropriate funding.

Some assets are attracting the interest of investors, whether wealthy individuals and families, private equity backers, Middle Eastern sovereign wealth funds or corporates. Such assets include commercial properties with quality covenants, such as an office block housing a government agency. Niche businesses, such as well-managed boutique hotels, are also of interest, being property-backed and seen as offering a long-term viable business. House builders are also being targeted, because of the UK's long-term need for more housing.

Many deals involve distressed sales. However, unless vendors are forced to sell, many have higher hopes for the value of their business than buyers are prepared to pay. A year ago deals were being done at prices equivalent to 8 times Earnings before interest, tax, depreciation, and amortisation (EBITDA). Now the going

rate is closer to 5 or 6 times EBITDA. On the plus side, current buyers can find relative bargains – but only if vendors are prepared to lower their expectations.

Determining what is the "right" price can be tricky. Will market valuations fall further? Some buyers are adopting a wait and see approach, just in case.

Finally, funding may have an impact. The best-placed buyers are those with their own cash. Otherwise, funding deals can be difficult, though not impossible. Private equity backers are open to opportunities, though they are highly cautious and supporting only the best propositions.

If you would like to investigate whether this could be a good time for you to buy, please get in touch. Moore Stephens can actively search for deal opportunities, or advise on potential transactions already being considered.



How to sleep well at night

Are niggling personal finance questions keeping you awake at night? There is one effective way to solve the problem.

No matter how tired you feel, sometimes your brain kicks into life when all you want is sleep. An annoying little voice starts asking: Are my savings safe in the bank? Will I have enough income in retirement to enjoy life? Should I be doing something about my current investments?

The best way to silence that voice is to take action and review your situation.

Starting with savings, the good news is that anyone with up to £50,000 in a UK bank shouldn't need to worry. The Financial Services Compensation Scheme guarantees to reimburse up to £50,000 per person for bank deposits. (It also provides some protection for unit trust investors and for pension and life assurance customers.) There is also a compensation scheme covering Irish banks, for sums up to €100,000, on top of assurances given by the Irish government.

Finding the best return on a savings account does take some shopping around. Anyone with substantial amounts of cash should speak to a Moore Stephens financial adviser. There are a number of opportunities for short to medium-term investments.

Retirement planning is an understandable concern for many. With the dramatic fall in equity values, potential

pension incomes have been slashed. Whether you are planning to retire in the next few years or not, you may need to rethink your current level of pension contributions. Higher contributions may be needed to achieve the lifestyle in retirement you envisage. If you have some time to go before retiring, low current equity values actually make it an attractive time to make pension contributions.

In terms of investment planning, it's always sensible to conduct periodic reviews of your portfolio, taking into account your risk tolerance and lifestyle plans. However, you shouldn't just change tack because, for example, interest rates have hit your returns on cash savings. Investing in property or riskier equities may still not be appropriate for you.

There are some opportunities in the current environment. This could be a good time to review your mortgage or find better deals on loans. But if you do have any worries, deal with them in daylight and look forward to undisturbed nights.

Employers' online reminder

At the moment "small" employers – those with less than 50 employees – do not have to file employment-related information to the taxman online.

If you are a small employer, be aware that under current government proposals you will be required to file your 2009/10 Employer Annual Return online. And from April 2011 the Revenue says small employers are likely to have to start sending in-year starter and leaver information online as well (forms P45 and P46).

Affected employers need to make sure they are prepared for the change. In order to file online, you either have to use proprietary software, which comes with a cost, or use the Revenue's website, which is free, but not always as easy to use as the tax authorities would like to have us think.

There will be penalties for those who fail to comply, though not immediately. HMRC has said that for the first three quarters of the 2009/10 tax year, employers who send in paper returns will be reminded of the need to file online. However, after December 2009 penalties will be charged. If in any doubt about what the online filing changes mean for you and what you need to do to prepare, please get in touch. Ask your business adviser for the best approach to suit your business model.

Wise options

Many smaller businesses are owned and run by just two or three people. What happens if one of you dies?

The deceased's shares would usually pass to a spouse or other relative under their will. The company would then have a (presumably) substantial shareholder who is not involved in the business. Sometimes, depending on circumstances and personalities, this can cause problems in making business decisions going forward.

One immediate solution is for the remaining shareholders (or the company) to buy the shares from the deceased's estate, but whether they are able to do this will depend on the value of those shares and their own personal finances – whether the money is available. Plus, they are reliant on the executors/legatee agreeing to sell.

So how can you ensure that the estate has to sell the shares, and that there is money to buy them?

The first issue can be addressed by the use of options triggered by certain events. In other words, if a particular event happens, such as a shareholder dying, then the remaining shareholders have an automatic option to buy those shares at the current value.



Likewise, there would also be an option to sell, so that the estate could be sure of realising the investment.

The financing question can be solved by life assurance. You need to be careful about who pays the premiums, and who receives the money in the event of death. But with careful planning this can be arranged so no unexpected tax costs arise.

Who to contact

For more information, contact your usual Moore Stephens partner, or log on to www.moorestephens.co.uk

Profile: Steve Williams



Steve Williams, a senior manager in the Moore Stephens IT assurance team, foresees growing IT threats for businesses. Even so, he retains his sense of humour.

Before he started designing, implementing, operating and auditing IT controls, Steve spent four years at Loughborough University being a space scientist and playing rugby.

He dismisses the space

science as "number crunching on a study of Aurora Borealis," but refuses to be so dismissive about the rugby.

Steve joined Moore Stephens last July, bringing extensive experience as a trained IT auditor and security consultant. He is highly aware of the potential threats which exist to IT security and data integrity. "Such threats arise from a variety of sources", he says, "ranging from poor monitoring of staff access to personal email, to the lack of clear and transparent responsibility throughout the firm for information security, and the failure to audit third party suppliers who have access to the firm's customer data." Criminals are always finding new ways to steal. In one hotel Steve visited, security staff had discovered a device positioned behind the checkout desk was capturing customers' credit card data.

The threat facing businesses is growing, Steve believes. Firstly, economic pressures are driving organisations to cut costs, which can lead to weakened controls. Secondly, organised gangs of cyber-criminals have emerged, exploiting IT and internet control weaknesses. "Together this amounts to a serious change in the threat landscape," Steve says.

However, businesses can protect themselves. Steve and his team provide an IT healthcheck; a high level review of an organisation's IT functions and operations. This can provide assurance on areas being managed effectively, and identify any issues that need further attention. "It's a cost-effective way of enabling any major weaknesses to be identified upfront," Steve says. "Tailored work can then be conducted to make sure risks are addressed."

Steve was born in a South Wales mining village, but now lives in Kent with his wife and family. He describes his hobbies as "two very small children", and his interests as "two very small children." He is a keen sports fan, and admits that his real passion in life, the thing for which he evinces "undying love", is Welsh rugby. He is "inconsolable" when the national team loses. Join the club.

IT: virtually improved

Server virtualisation enables businesses to improve IT efficiency and cut costs. Could you benefit?

Traditionally, businesses beyond 25 or so users have tended to pile up server hardware to manage their systems and databases. With the need for business continuity the pressure to further increase hardware assets has grown, resulting in a plethora of hardware to handle databases, document storage, domain controllers, print servers, applications servers, backups and so on. Unfortunately such servers only use around 10% of their processing ability – inefficient to say the least.

Virtualisation changes all that. Quite simply, virtualisation makes it possible to stack up to eight virtual servers on a single physical server enabling it to carry out all their tasks without any degradation of performance and boosting processor utilisation to 90%.

There are several benefits from server virtualisation. Firstly, fewer servers take up less space (as do the fewer business continuity servers). They require less energy to run them, less air conditioning to cool them, and less time and resources are needed to service them. Above all, however, virtualisation assists in the provision of uninterrupted systems availability since processes running on failing equipment can be moved to other units in a matter of minutes.

Recognising these advantages, Moore Stephens LLP is in the process of introducing server Virtualisation itself. Other businesses could benefit too.