

Business Focus



Business news for busy people

Edition 12 - August 2008

NEW REFERENCE SHEETS

These reference sheets and more are available from our website. We will be adding more reference sheets to our online library from time to time.

- Energise the Enterprise
- Business Planning in Uncertain Times
- SME Guide to the Garnaut Report
- Salaries – is the Pressure Off?
- What is Your Business Worth?

SERIES COLOUR GUIDE

● START ● RUN ● GROW ● MOVING ON ● FINANCE

REFERENCE SHEET WEBSITE

www.bendigobank.com.au/business/businessfocus/library/

FEATURE STORY

Salaries – Is the pressure off?

By: Nicola Cowie

For many businesses the end of the financial year is often followed by a round of performance reviews and salary negotiations with employees. While it is rarely a process enjoyed by either employer or employee, this year may be more difficult than usual. Employees are feeling the pressure of higher living costs caused in part by higher petrol prices and interest rates, but they are also aware of a cooling job market. On the other side of the desk, business owners are getting mixed messages about forecasts for the Australian economy, employment and inflation. So how do you blend all of the emotional sensitivities, business requirements and general uncertainty into a single number and call it a fair salary? For many employees their salary is perhaps

the most important number in their lives. Perhaps it is given too much importance. Individuals deduce from their salary, their worth to the organisation and their relative standing among their friends and colleagues. Salary also determines what they can afford, and by implication how their families are going to live. Because of this, salary negotiations carry with them a great deal more sensitivity than negotiating any other cost incurred by the business. This year employees are also concerned that their current salary is buying them less than it did a year ago, and they are keen to have this addressed, even though they understand this has nothing to do with their employer.

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REGULAR

Business Outlook

BUSINESS SNAPSHOT

| | | |
|------------------------|-------------|--------|
| Overall Economy (GDP): | (Q1 +0.6%) | ▲ 3.8% |
| Inflation (CPI): | (Q2 +1.5%) | ▲ 4.5% |
| Unemployment: | (May) | 4.27% |
| Retail Sales: | (Feb -1.0%) | ▼ 0.6% |

Percentage is Annual Rate of Change.
Data are latest figures as published by Australian Bureau of Statistics.

For more up to date Business and Market trends and analysis, visit your local Bendigo Bank branch and speak to your Branch Manager.

The latest phase of the global credit crunch has proved to be just as damaging as previous waves of pessimism, and this time is more broadly based in its impact. Stress in the US housing market and most US banks has permeated through to the global economy (and Australia) by hitting equity markets, credit spreads and business and consumer confidence.

This combined with the shock of a significantly higher oil price has pushed inflation up at a time when demand is beginning to slow- a damaging combination.

The Australian economy is showing clear signs of a moderation in demand- the housing sector is slowing, business confidence has fallen to its lowest quarterly level since the 1991 recession, and while the unemployment rate remains at historically low levels there are signs employment growth is slowing. This explains why the RBA is clearly stating monetary settings are sufficiently restrictive at present, despite core inflation running at 4.4%, just a tick lower than the headline CPI rate. In response to higher funding costs and the persistent cash to bills spread Australian banks have continued to pass on the higher cost of credit to consumers, and this is flowing through to the broader economy.

Taking all of this into account there is a high probability that the RBA will maintain official

cash rates at 7.25% for the balance of 2008, and the yield curve is starting to reflect an easing cycle possibly emerging in H1 2009. With the Reserve Bank of New Zealand cutting rates last week and signs that Europe and the UK may be following the US into either a recession or a deep contraction, the global landscape is very pessimistic. Equity markets have been on the back foot, the All Ordinaries Index falling to 4880 before a modest recovery, with resources stocks the only segment showing some signs of resilience. Meanwhile the Aussie Dollar has receded a little from the new post-float record high of .9851 in mid July, leaving the short term outlook unclear but the longer term uptrend intact.

David Robertson
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For most SME businesses, salaries represent a major component of their expenses. Like their employees, they have already experienced significant increases in costs through price rises in fuel, materials, (particularly food inputs), and interest rates. With many businesses absorbing these costs, they are already facing reduced margins and profits and are hoping to keep salary increases to a minimum.

Thus what is always a sensitive negotiation has an extra level of expectation and tension this time around. The same external factors are putting pressure on both employers and employees, but although both parties know that the other is under external pressure, each is looking to the other for assistance in relieving that pressure. Something has to give. But what are the options?

Option One – Increase salaries and pass the cost on to clients

This is the option most feared by the Federal Treasury. This is because if enough businesses do it, it has only one outcome – inflation (see the reference sheet on inflation for more information). It is also a risky strategy for individual businesses. Ironically, the only time it works for a business is when everybody else does it. Quite simply if you are the only business that puts up your prices, you are handing your competitors a price advantage. If you lose business as a result, then you will either need to cut capacity (retrench staff) or cut

costs (reduce salaries). Neither of these options is likely to appeal to staff, and even after you have taken these corrective measures there is no guarantee you will get back the customers you will almost certainly have lost by increasing prices.

Option Two – Increase salaries and absorb the cost

This option is only achievable for businesses with high margins or low salary costs. It provides some welcome relief to employees and customers alike. It has been an option favoured by many businesses in recent times, however the number of businesses that can still afford this option is reducing. The biggest issue remains that salaries are easy to increase and difficult to reduce, while the opposite is true of the price for products and services.

Option Three – Don't increase salaries

This option is an attractive one for businesses looking to contain a major business expense as a means of shoring up falling margins. The risks of this strategy are twofold: a negative impact on employee morale and potentially the loss of key staff. This is the case any time a business does not increase salaries, however in an inflationary environment the risks are greater as the financial pressure experienced by the employees may increase the importance of salary for the

individual. At this point Australia may or may not enter into a period of inflation, however some individuals are already feeling financial pressure. What a business needs to weigh up is whether that financial pressure will be enough to prompt the employee to seek alternative employment and also the probability of them being employed.

Option Four – Increase salaries selectively

This option has the attraction of minimising cost increases without losing key staff. It is primarily based on not increasing salaries, with exceptions made for key employees who are likely to be able to obtain employment elsewhere at a higher salary. This option addresses the risk of losing key staff, but runs the risk of creating tension within teams and the departure of non-key staff. The major downside is that it sends a message to the majority of staff that they are less important than some of their peers; a message which is bound to generate resentment.

Conclusion

Salaries are currently at a cross road. Although the near-full employment situation remains, the number of job advertisements as well as business and consumer confidence is falling. Up until March, average salaries had generally been increasing, primarily underpinned by competitive pressure. With the competitive pressure easing in the broader market, it would be expected that this easing would result in a softening of salaries. What remains to be seen is whether Australian businesses choose to enforce this option. It may be that a sufficient number of businesses consider inflation to be inevitable, and subsequently make it so.

Salary Pressure is in transition, while market forces are easing, employees are keen for significant increases to offset increases in their cost of living.

Nicola Cowie is a freelance journalist

EVENTS

Victoria's Small Business Festival: Energise Enterprise 08



At Bendigo Bank we've always gone out of our way to support small business – the lifeblood of our communities.

This support stems from a recognition that seamstresses, accountants, butchers, grocers, cafes, gardeners, plumbers and other small, specialist businesses are vital to the fabric of our towns and suburbs.

That's why at Bendigo Bank we're proud to sponsor Energise Enterprise 08. The Victorian small business festival is a fantastic opportunity for business owners to network and learn new strategies to develop their business.

Running throughout August and coordinated by the Victorian Government, the festival consists of an extensive program of events staged in regional, suburban and metropolitan Victoria to provide ideas and information. Last year, more than 26,000 small to medium business operators participated in the festival.

You can find the full Energise Enterprise 08 event guide:

In person:

At your nearest Victorian branch of Bendigo Bank

On the phone:

From Small Business Victoria on 132 215

Online:

At www.business.vic.gov.au/energise



Highlights of the festival include:

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|--------------------|------------------------------|---|
| 28 July – 5 August | Small Business Heroes | A free photographic exhibition featuring small business operators under 30 years of age. |
| 7 August | Pitchfest 08 | Designed to connect innovative business ventures with development capital. |
| 10 August | LifeStyle Market | Small business operators from the home services industry showcase their products and services to the public. |
| 13, 20 & 27 August | Webinars | Three online seminars and forums discussing cash flow management, risk management planning and protection of intellectual capital. |
| 11, 14 & 22 August | The Panel Series | Panels of speakers will provide information and ideas on hospitality, finance and manufacturing. |
| 16 & 21 August | Speed Networking Events | Business networking on a mass scale. |
| 28 August | Small Business BIG Marketing | Designed for SMEs to learn about all aspects of the marketing including direct marketing, e-marketing, promotions and advertising. |
| 28 August | Business Exchange 08 | This unique one day event offers SMEs the opportunity to engage with leading industry figures to identify new commercial linkages. A must for growing businesses. |

Fast Facts about small business in Victoria

At June 2007 there were 482,883 small businesses in Victoria, representing 25% of the national total and 96% of all businesses in Victoria.

- The top five business sectors for small business were:
 - Property and business services (25.8%)
 - Construction (15.9%)
 - Retail (10.8%)
 - Agriculture, forestry and fishing (10.1%)
 - Finance and insurance (7.3%)
- They had an annual growth rate of 2.7%
- 28.4% were based in regional Victoria

- Nearly 62% are home-based
- 32% are operated by women
- 29% of Victoria's small business operators are born overseas
- 61% do not employ staff
- 27% have between 1-4 employees
- 12% have 5-19 employees
- There 3,550 small merchandise exporters in Victoria (4,761 in NSW)
- The key concerns for small business operators are finding quality staff, lack of work or sales, cash flow, the economic climate and bureaucracy.

ARTICLE

What is your business really worth?

By David Bird

At this time of year most businesses have a profit and loss statement, tax return and balance sheet for the end of the previous financial year. Technically the balance sheet represents the value of the business. However, when it comes time to actual sell the business, it is the profit and loss statement that may be more relevant.

Australian private business ownership is in a state of transition. In 2003 nearly half of privately owned businesses in Australia were owned by the baby boomer generation, all of whom are due to retire by 2013. We are now half way through that transition period and the volume of businesses listed for sale in Australia continues to grow. This is keeping prices subdued, as reflected in the chart. Note that the prices in the June 07 Quarter

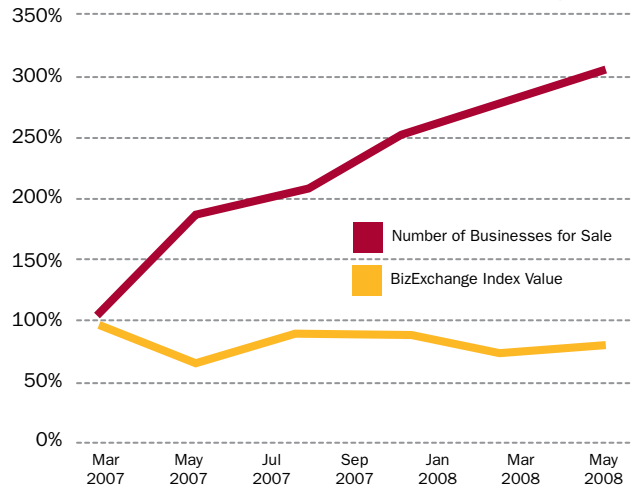
were significantly affected by the June 30 2007 deadline for large lump sum superannuation contributions.

There is also a fundamental change in market sentiment in relation to the future value of businesses, evident in a widespread and fundamental downgrade in pricing expectations.

Refer to What is your business really worth? fact sheet for more information.

Volumes and Values Trend

Source: BizExchange.com.au



ARTICLE

SME quick guide to the Garnaut report

By James Thomson



It's clear from Garnaut's review that the Australian economy and society will be in big trouble if it fails to curb greenhouse gas emissions, but figuring out exactly what the report means for your business is not easy. To help, we've compiled a quick guide that will give you some early answers to some of the big questions around the Garnaut report.

In a nutshell the report sets out to do two things. First, it warns how bad things could get by the end of the century if Australia does nothing on climate change – the Murray-Darling Basin would be almost barren, the Great Barrier Reef would be destroyed; skiing in Australia would be a thing of the past, Australia's annual economic output would decline by 4.8% and real wages would be slashed by 7.8%.

Second – and most importantly for business – Garnaut recommends the establishment of an emissions trading scheme (ETS) by 2010. The scheme will involve organisations that produce greenhouse gasses being forced to buy carbon permits.

He recommends that half of the money collected from selling carbon permits should be used to compensate low-income households, about 30% of the proceeds should go to help energy-intensive, export-exposed industries and about 20% should be spent on research, development and commercialisation of low-emission technologies.

While most small businesses will be exempt from direct participation in the ETS, there is no doubt that a wide variety of costs – particularly electricity, gas and petrol – will rise substantially. There will also be more pressure on all companies to demonstrate sustainable work practices.

Refer to the reference sheet SME quick guide to the Garnaut report for more information.

For more Business Focus Reference Sheets visit:

www.bendigobank.com.au/business

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