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DUCKETTS
 TRUSTED ADVISORS

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 Newsletter

New Year special. Ready for another interesting year.

Tax

Yes, it's that time of the year again. I know I don't need to remind you, but personal tax is payable by the end of January. Any tax unpaid by the end of February attracts a 5% surcharge. If in (any) doubt, ask Sara on sara@chrisduckett.co.uk

That also means that there is only 2 months to go to the next tax year end. Generic tax planning hasn't got any more imaginative since last year. We're still talking pensions and equipment purchases. 100% first year allowances for computer kit expire (after 3 glorious years).

Whilst I wouldn't dream of giving this advice, those with sensible stock market investments might consider a spot of "bed & breakfasting" to realise capital losses. Beware - this is easy to get wrong. The losses can be carried forward to offset future profits, which (presumably) will arise when the stock market bounces back. If I knew when this was going to be, I'd be a wealthy man.

More Hamel on innovation

I ran a feature on Gary "Innovation" Hamel in last month's newsletter only to find that he had just published an article in Fast Company magazine. The full article is certainly worth reading

(www.fastcompany.com/online/65/innovation.html),

although his central point is essentially simple: if prices are static and most businesses are focussed on cutting costs, the only approach available is to bring in new products or services – to be innovative. The problem is that innovation is not something that big organisations do well. Innovation upsets the nice tidy pattern of work that everybody gets used to. It's non-organised. For example, Japanese electronics giant Sony has a huge research capability. Yet its most profitable product, the Playstation, was developed by an enthusiast who was prepared to cross departmental boundaries. He did it in spite of Sony.

The same thing certainly happens at our end of the market. Once you've been trained in a particular industry, that's how you see the world. 98% of issues are taken as read leaving only 2% for innovation. That's why it feels so hard to do anything innovative. But at least we don't have layers of middle management to fight with.

Hamel's "Unpacking the business model" worksheet is still particularly useful and available from david@chrisduckett.co.uk

House market crash

It's in Accountancy magazine, so it must be right. Let me précis the conclusions of this article for you:

The market will continue to rise gently for the first half of the year before crashing by 30% at the end of the summer. Sell now, rent for 12 months and put all of your money on the stock market (for the really brave/reckless).

This may well be a self-fulfilling prophecy as all other house owners have access to similar pronouncements from like-minded economists. I understand the author has now appeared on television. Copy of the article from Kath.

Mind you, the guy in the Mail on Sunday says that we won't get a crash, cause interest rates are low and it's the monthly payment that counts. Does anybody have a good joke about how many economists it takes to change a light bulb?

"Hot Groups" by Jean Lipman-Blumen and Harold J Leavitt

Don't get too excited by the title. This book is actually about high performing teams. And there are some good general management points, such as the results of a fifty year survey which show that managers:

- work relentlessly, at an extraordinary pace, day in and day out
- deal with 20 or 30 issues a day
- work in real time, often with limited and unreliable information
- work ridiculously long hours for forty years before retiring to play golf/die

Doesn't sound like much fun, does it?

"Batteries included" by Nigel Barlow

This is all about customer service, which has undoubtedly improved over the last 20 years, but is still extraordinarily variable. Barlow's split of people involved in service into the walking dead, spectators, cynics and players partly explains why this is so and is also very funny. The premise of business development is that better levels of service support higher prices. 'Better' equates to efficient, but more personalised service. Treat customers as you would friends. Respect their privacy and anticipate their needs. As (by definition) accountants don't have friends, this could be tricky.

Civil service rules

If you consider self-employment to be stressful, how would you rate the ultimate civil service job as (Soviet Union) state executioner? Tools of the trade being a revolver (to actually perform the task – single shot to the head) plus a bucket of perfume for the smell and a bucket of vodka for the nerves. No overtime, no unsociable hours and you get to meet (briefly) lots of new people.

Guide to Aim Tax Benefits

Anybody who finds it too hard to lose money on the main stock market may be interested in investing in the Alternative Investment Market (AIM). You could do worse than read this booklet which details the tax benefits, bearing in mind that tax relief on losses is a poor substitute for taxable gains.

www.londonstockexchange.com/aim

What d'ya know?

The usual definition of business insanity is to keep doing the same thing and expect a different result each time. Corporate insanity aside, are you really sure that you have indeed learnt from your mistakes? There are 3 text book approaches:

- Peer assists
Other people in your business may well have completed a project similar to the one you're about to undertake. Ask specific questions and you will get an invaluable head start. Of course, you need to be aware that somebody else has done this job before you.
- After action reviews
Equivalent to the military debriefing. Take 15 minutes at the end of each event to ask 4 stock questions
 - what was supposed to happen?
 - what did actually happen?
 - why is there a difference?
 - what can we learn from this and do differently next time?

If you've ever wondered why (in war films) the mission debriefing is held immediately the plane lands, it's apparently to get to the facts before they can be rationalised by the brain.
- Retrospectives
This is usually a more elaborate post mortem (learning after doing) with the emphasis on producing a formal report. The inclination to apportion blame needs to be strenuously resisted.

Whilst (as a small business) I swear by debriefings, peer assists can produce

spectacular savings in larger, more spread out businesses. The classic example is in the oil industry where 2 day peer assists have been known to save \$9m on refinery turnarounds. Application of these simple techniques at BP is considered to have saved at least \$260m in 1998.

Reduced to clear

Traditionally, business valuations are only ever performed if the business is to be sold or split up (for any reason) and this tends to associate valuation with termination. However, if you accept the notion that the point of being in business is to create value (rather than staying out of your spouse's way), then you should be monitoring the change in value of your business. I suggest a valuation every other year would do the trick. Whilst the true measure of value is what somebody is prepared to pay, there are plenty of methods of arriving at valuations. They even have "Business Valuators" in the States. Hard assets (like machinery) are easy enough to value, so the real challenge is to value goodwill, an asset that very rarely gets onto a balance sheet.

Goodwill is a particularly vague term that covers a whole series of factors and is essentially the capacity to make profits in the future. So, future profits are determined by the quality of:

- Customers
- systems and processes
- workforce
- products and innovation

This list may seem familiar as these are the same 4 items that need to be managed to improve business performance and therefore appear on the "balanced scorecard". Business is more a test of stamina than anything else and focusing on changes in value (as opposed to short term profit) helps to keep perspective. Needless to say, we are looking to roll out valuations (at least for larger businesses) as matter of routine. If you're really keen, David "Valuator"(or should it be "Terminator") Lloyd would be pleased to get a valuation underway for you.

2002: a bad hair year for the profession?

The New Year period always produces a continuous stream of reviews of the events of last year and who am I to fight the trend? Enron and corporate greed has clearly been the biggest story in the accountancy world for quite some time and every commentator has used it as proof that their particular view is right. Even Bulmers got a half page blow-by-blow listing (in 'Accountancy') of all the accounting adjustments its had to make. I'm also bemused by the media realisation that the directors of large corporations are there for the money (and nothing else). On qualification as an accountant, you have a basic choice: stay in the profession and make a reasonable, low risk living or go out into industry to make your fortune (at permanent risk of redundancy). Which is why accountants in practice are generally unimaginative, risk-averse types, whilst those in industry are considerably racier.

A story from my days in big company audit in the late 80s should show that nothing has changed:

We (a team of 15) were working at a listed company that operated a chain of 600 retail shops. The profit had been proclaimed at the year end at £20m and we had confirmed that this was about right. In truth, nobody had an accurate idea as the accounting systems were not up to it. The client kept 600 manual cash books – one for each store. After weeks of audit work, we'd got to the day before the final announcement with a profit of bang on £20m. However, the rules of the game force you to exceed the interim announcement, so we were £300k or so short. The chief accountant came up with the bright idea of including paper bags (held at the shops) in the stock figure. 600 branches. £100 of paper bags at each branch (way too high, of course). £0.6m on the bottom line and job done. Naturally, we found a provision for £300k to get back to where we needed to be. The real irony was that the share price actually fell when the announcement was made as the market had discounted the result anyway. This wasn't 'creative accounting' and it certainly wasn't illegal, or even unprofessional – just a bit of everyday profit fudging with monopoly numbers.

I'm not (really) suggesting that the audit is pointless for big businesses, just for small

ones. All this fuss has held back the introduction of the biggest single relaxation in red tape – the raising of the audit limit to a turnover of £4.8m. As I've never met anybody who actually knows what an audit entails, I'm convinced that nobody will miss it. My New Year wish is that they get on and raise that limit. £10m would be really nice.



Leaving a legacy

Whilst directors of very big businesses may only be there for the money, this is certainly not universally the case. The above audit story relates to a business that was grown, by the chairman, from a single shop (with manual cash book). His ambition was to get to 1,000 branches before he sold out, and this he duly achieved. The money was irrelevant as he had no wife or children (proper workaholic), just a stable of Jaguars to support. [Incidentally, the Jaguar is *the* trophy car for the Midlands businessman. Whilst you can only drive one at a time, you can always be photographed with the whole collection. Southerners, women and finance directors inexplicably prefer Teutonic reliability.]

Naturally, the chain still bears the chairman's name. Having achieved his dream, I doubt he lived happily ever after.

Speak to me

Just in case anybody was wondering, I did indeed get the Dragon Speech Recognition software for Christmas. It seems pretty good, although it won't make the tea.

Disclaimer

'Having read newsletter, confidently repeat the following until self-entranced, "I feel sexy, I am sexy, I feel so sexy, I am so sexy, I feel so dam sexy, I am so damn sexy".

This newsletter contains information which, when applied correctly, may induce unpredictable behavioral responses from anybody in your intimate vicinity, including yourself. Nobody at Chris Duckett Ltd will be held responsible for any radical alterations to your personal sphere of actions which may result. Always apply care.'

Courtesy of www.barefootdoctorglobal.com. Who said business was boring?



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