

Why the self-employed are not preparing for retirement

Well over a quarter of all self-employed Australians have no superannuation, recently released research by the Association of Superannuation Funds in Australia (ASFA) reveals.

According to the report, the gap between the retirement savings of Australia's self-employed and salary and wage earners is significant. The retirement picture painted by the report for many self-employed is dim with around half currently receiving some Age Pension when they retire, with 30 per cent on the full Age Pension. In addition, the average income of the recently retired self-employed is only \$24,500 a year, well below what is needed to support a comfortable retirement.

While the self-employed sector makes up over 10 per cent of the paid labour force, it has relatively low levels of superannuation. Around 28 per cent of the self-employed sector has no superannuation, while a further 53 per cent has super balances of less than \$40,000. And, despite tax incentives, only around one in four self-employed people will make a tax deductible super contribution in any given year.

So why is it that so many of those choosing to be their own boss aren't looking after their future? A common problem is that many self-employed people believe (either deliberately or by default) that if they invest everything in their business, the business will be their superannuation. For this strategy to be a success it assumes that you have a clear succession path and that when it comes time to sell or succession the business, you will readily be able to extract your capital. However, many self-employed businesses are so tightly linked to the owner that they cannot be sold. In addition, with the baby boomer generation of business owners reaching retirement age, selling is becoming much harder with demand dwindling. As a result, the businesses that sell are those performing in the top quartile of their sector.

But not everyone who is self-employed ignores super. The report also found that "those self-employed with higher than average superannuation savings tend to be more generally well-prepared with their other finances. This sub-sector usually has higher than average business net worth, more investment properties, and higher holdings of shares, and other investments, outside superannuation."

In other words, many people in the sector embrace their finances in a holistic way. Your business is an asset like any other and those who manage their business in this way, in conjunction with other investments, succeed. *Continued over the page....*

Quote of the month

Nearly all men can stand adversity, but if you want to test a man's character, give him power.

Abraham Lincoln

Starbucks: knowing when it's time to close shop

"Starbucks Coffee International, a wholly-owned subsidiary of Starbucks Coffee Company today announced plans to restructure its business in Australia through a geographical refocus on three core cities and surrounding areas: Brisbane, Melbourne and Sydney. This decision will result in the closure of 61 locations throughout the country by August 3, 2008."

The decision announced on 29 July to close 73% of the Australian stores was just a part of a broader strategy by Starbucks to 'transform' the underperforming business. The first closures, announced at the end of January, spoke of 100 store closures and a sharp curtailing of the US store openings after the company posted what the New York Times dubbed "anaemic growth" of just 1% in its new stores (opened less than 12 months); the worst quarterly performance in the company's history.

At the same time, Howard Schultz (previously Starbucks CEO and chairman of the Board) was reappointed as CEO to lead the company's transformation. Schultz started in the company as Director of Operations and Marketing in 1982 when Starbucks had only four stores. In 1987, he purchased Starbucks, driving its growth and expansion. In 1992, Starbucks became the first specialty coffee company in the US to go public.

By 1 July, the transformation process targeted a total of 600 store closures and 12,000 jobs (Starbucks had some 7,200 company operated stores across the US), severely pairing back its rapid expansion. Reports show that approximately 70% of all store closures in the US had been open for less than 3 years.

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Starbucks: knowing when it's time to close shop *continued*

It's not unusual to see rapidly expanding businesses return to core principles during economic tough times. For Starbucks, the US consumer's appetite for pricy lattes dropped as times got tougher, and so did Starbucks' profit. Starbucks suffered with its share price plummeting by 40% in 2007. The company posted a net loss for the June quarter of \$6.7 million (which incorporates the costs associated to the closures estimated to be up to \$348USD million including severance pay).

But it wasn't just the rapid expansion of Starbucks that came under fire; the breadth of the product range introduced over the last few years was also blamed. As part of the transformation process, Schultz has sought to reignite its relationship with its customers by introducing loyalty programs and other initiatives and return to core brand values, and deliver products that more closely match what target consumers want (rather than attempting to be all things to all people). Even the smell of the Starbucks' stores came under fire with the decision to drop the breakfast sandwich range because it was interfering with the aroma of the coffee.

The Starbucks example raises a question about knowing when to pull back, or close underperforming operations. Here are a few rules from the Starbucks' experience that apply to all businesses:

1. **Can you really afford to carry a loss to achieve growth?** Many companies provision for loss to aggressively pursue market share. However, many also fall into the trap of overestimating the positive and being consumed by the loss. Focussing purely on sales revenue is a common trap but if the product, service (or store) is not producing a profit, then you need to look seriously at why you are supporting it. If the cost is outweighed by the strategic advantage, cull and cull hard.
2. **Symbiotic or parasitic: what areas deliver the best results?** New products and initiatives always carry risk and the potential of reward. Existing products invariably have a life cycle that will undermine even the best performers over time. It's important - particularly as times get tougher and there is a potential for revenue to decline - to assess the profitability of what you sell and identify underperformers. The problem often becomes one of identifying the point at which a product has passed the 'point of no return'.
3. **Bloating the product choice and range.** When times are good it's common for business operators to expand their range to take advantage of the excess cash in the economy. If consumers tighten their belts, premium priced items are often difficult to sustain if you do not have a dedicated niche market. In addition, an expanded range (particularly where premium products overlay a market driven off core products) can subtly alienate your customer base. If the premium market collapses, it's important to ensure that the core market is protected.

If you have not completed a profitability analysis across your business operations for a while, talk to us today about recession proofing your business.

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From 1 July 2007, the self-employed gained access to two new superannuation benefits that make investing in superannuation more enticing. These are:

Full deduction for contributions - Most self-employed people are to claim a full deduction for contributions they make to their super until age 75; and

Access to the superannuation co-contribution - The super co-contribution was extended to include the self-employed, providing you satisfy the eligibility criteria. This requires that 10% or more of your total income (not reduced for business deductions) is earned from eligible employment, carrying on a business or a combination of both. Also, for the 2007/2008 income year, your total income needs to be below \$28,980 to receive the full co-contribution and a maximum of \$58,980 (the co-contribution tapers between \$28,980 and \$58,980). Under the co-contribution scheme the government provides \$1.50 for every \$1 of personal super contributions up to a maximum of \$1500.

You can read a copy of ASFA's report, [The Self-Employed and Saving for Retirement](#), on their website.

A succession plan is about understanding how to maximise the potential of the investment you have made in your business and knowing how to extract that value when you are ready. For assistance with mapping your business future and how your business fits into your overall investment strategy, talk to us today.