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Marketing spend is an investment!

A good deal of publicity is dedicated to the global annual survey of the world's most valuable brands. Creating demand for a product or service leads to increased sales as consumers get comfortable with it. Once they see it is good quality and delivers on its promised benefits (e.g. Coca Cola does quench your thirst!), they will repurchase the good or service. As sales grow, so you can raise the price and improve your profitability. Branding companies see marketing spend as an investment – in the same way as they see buying a new warehouse.

Strengthen your balance sheet

It's also now a common and recognised practice to treat your brands as assets which strengthens your balance sheet. Note also that you can raise additional finance on the strength of your brands.

Register your trademark

Although the common law to a certain extent protects your brands from being copied by competitors, it is worth registering trademarks to protect your brand name, logo and slogans. It is far easier to enforce compliance if your trademark is infringed and to claim damages for the losses you incur.

Further, it enhances brand building as the trade mark gives you more assurance of protection from having your means of identifying your product or service copied. Having a trademark will help if you decide to export your product or service as it is much easier to register a foreign trademark if you already have one in South Africa.

Trademarks are registered for ten years and can be renewed. You can thus protect your brands indefinitely.

Avoid reputational damage!

Current thinking in risk analysis is that one of the biggest risks to a business is for it to suffer reputational damage. Protecting your brands is one way to prevent the risk of reputational damage.

Don't forget the potential power and value of your brands!

DIRECTORS: THE NEW MOVE TO "SOLVENCY" AND "LIQUIDITY" ….. CONTROL YOUR RISK!

Revised Rules in the New Companies Act

The "Old Act" (the Companies Act of 1973) focused on capital maintenance and emphasised the importance of not diluting share capital. This was a protection to other parties such as creditors, as it was intended to ensure business solvency. A raft of regulations was included in the Old Act to underpin the infrastructure around the capital maintenance model. For example, shares could not be issued at a discount and numerous capital accounts (such as share premium and capital redemption reserves) were created.

As is usual with cumbersome rules, people look to find ways to bypass them. Issuing shares for R1 with a loan account of R100,000 became the norm as it effectively overcame all the capital maintenance rules. It completely undermined the Old Act as it led to under-capitalised companies.

Another problem with the Old Act was it did not allow share buybacks although they became globally accepted in the early 1990's.

Piecemeal legislation was enacted (for example, share buybacks were allowed from 1999 and liquidity and solvency tests were introduced in three instances) but it became evident that the capital maintenance model did not work.

The new Companies Act overcomes this by requiring, in certain circumstances, liquidity and solvency tests and by making directors personally liable for certain of their actions.

What are solvency and liquidity tests?

"**Solvency**" tests whether a business' assets are exceeded by its liabilities. Clearly if a company owes more than its assets, it is potentially in serious trouble.

"**Liquidity**" tests if a company can ensure it has enough cash to pay its liabilities for the next 12 months.

The two are different. For example, a company's liabilities may exceed its assets but the market value of its assets may exceed the book value (financial statements record assets at cost less depreciation) – for example, it may have a building shown at a depreciated cost of say R1 million when the market value is actually R2 million. In this case, the insolvency is technical and the business can continue trading- *it passes the solvency test*.

A company's assets could comfortably exceed its liabilities but it may still face cash flow problems. Assume for example that most of its assets are debtors (R1 million) who pay the business 60 days after they are invoiced, but creditors (R500,000) need to be paid 30 days after invoice. At the end of month 1, the company has not collected its debtors (they still have 30 days to pay) but must pay creditors half a million rand. *In this case, the company would fail the liquidity test*.

How and when must solvency and liquidity tests be performed?

Directors and senior managers perform the solvency and liquidity tests. They need to focus carefully when doing these tests. The Act lays down guidelines:

- They must be based on the company's financial records.
- The test looks 12 months out, so the directors need to consider all eventualities in that period.
- Directors need to satisfy themselves that the company will be able to pay its debts in this period and that liabilities fairly valued will not exceed assets fairly valued.

Liquidity and solvency tests must be performed before:

- The provision of financial assistance to third parties for the acquisition of the company's own shares
- Loans or other financial assistance are given to related parties, including subsidiary companies, holding companies and directors
- Dividends or other distributions are made to shareholders including the issue of capitalisation shares and share buy-backs
- Merging with another company.

Some of these activities are relatively common – especially paying dividends and making, intercompany loans – so it is vital that directors and senior managers take careful note of this.

Warning!

This is quite a daunting task and *directors are held personally liable if the business does go insolvent in the 12 month period and it could reasonably be established that the directors could have foreseen this*.

AUDIT FIRMS TO OFFER B-BBEE CERTIFICATION?

One of the by-products of the new Companies Act is that small firms still end up having an audit done despite the fact that their Public Interest Score (see June 2011 newsletter) is below the required threshold. This is because most banks are still requiring an audit if their customer wants to raise finance. In these cases, audit firms can face resentment from clients through no fault of their own.

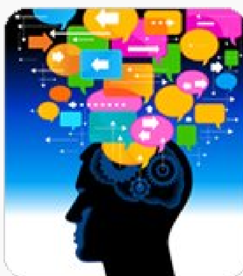
Another trend facing businesses is that Broad-Based Black Economic Empowerment (B-BBEE) requirements are increasingly filtering down to smaller businesses. This means paying for a verification certificate from a B-BBEE Verification Agency. *If you don't get this certification, it could mean losing out on business to your competition!*

The synergies and the savings

At the moment, auditors and accounting officers can provide certificates for exempted micro enterprises - however many audit firms are now likely in future to engage also in full BEE verification services. The synergies are there – a lot of the work required for a BEE certificate is already covered in the audit field work. This would save businesses time as it combines two processes into one. It should also result in a cost saving to these entities.

By combining their audit and or limited review services with a B-BBEE certificate, audit firms will be adding value to their clients.

FINANCE 101: HOW IMPORTANT IS INFORMATION TECHNOLOGY TO YOU? 7 QUESTIONS TO ASK YOURSELF



Technology has become one of the main drivers in society and, of course, within business. Just think how, in the last twenty years, e-mail, the Internet, iPads, smartphones and Windows amongst others have become integral parts of our lives.

Yet how much do we think of this in our business? Do we critically look at the role IT plays in our business and do we look at the controls and risks we require to successfully run IT?

The King commission considered IT so central to business that a whole chapter of the King Report is dedicated to it.

IT in your business

There are two main issues :-

- Firstly, IT is seen as an “enabler” for our business - in other words, we can use it to grow our business (for example Amazon has used the Internet to globalise their distribution). Thus, when setting our strategic policy, we should be considering the use of technology as part of our framework.
- The second and more well-known issue is how to control and maximise something as embedded in our business?

7 key questions.....

Turning to the second issue, how do we get the best out of IT? A good starting point is to ask yourself these key questions:-

1. Do we know and understand what IT does for our business?
2. Do we measure the return and benefits from IT investment?
3. Is IT on the agenda when senior management meet?
4. Do we know that key controls are in place, such as EFT banking?
5. What amount of potentially wasteful expenditure do we incur?
6. How secure is our information, particularly confidential information such as employee records and salaries?
7. Is our data organised in such a way that we can easily access it and use it to improve the business?

.....and quantifying your risk

Equally as important is to quantify the risk inherent in IT:

- Firstly, we should consider what sort of risk profile we are prepared to accept when we invest in IT.
- Then we need to mitigate the risks around our IT systems.
- It is also important to protect our information from hacking and theft.
- Back-ups and being able to quickly recover from disasters such as fire must also be planned for.

For some reason, many people shy away from IT as it is all “geek language” and difficult to understand. As with all aspects of business proper management and governance principles should apply – proper decision making principles and clear accountability needs to be the cornerstone of IT policy.

Have a Great April!

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