

A GUIDE
TO HELP
BUSINESS TRADIES
GET



By Kim Radok



CREDIT MATTERS

Financial Risk Management is Good Management

ABOUT THE AUTHOR – KIM RADOK

With 45 years in the workplace, Kim has been a bank officer, debt collector, a national credit manager, consultant, lecturer, public speaker and business owner.

He has qualifications in credit management, fraud investigation and adult education.

This guide may be downloaded to your mobile phone and/or printed for easy reference.

Please share this knowledge with other tradespeople also considering going in to business for themselves.

INDEX	Page
INTRODUCTION	3
BEFORE STARTING YOUR BUSINESS	4
IT IS BETTER TO SPEND THE TIME AND MONEY UPFRONT	5
UNDERSTANDING YOUR STRENGTHS AND WEAKNESSES	5
INSURANCE	6
TO BORROW OR PAY CASH FOR YOUR BUSINESS ASSETS?	6
Director or Personal Guarantees and Indemnities	7
HAVING DECIDED YOU STILL WANT TO GO IN TO BUSINESS	
– OBTAIN THE TOOLS OF BUSINESS	8
Terms and Conditions	8
An Order or Project Pad	8
A Change of Quote Pad	9
Backup Files with Paper and Digital Formats	9
Protecting Your Assets and Tools – the PPSR	10
UNDERSTANDING THE BUSINESS ENVIRONMENT TODAY	10
Family, Friends and Fraudsters	11
The Part Completed Project or Job	11
Always Obtain Written Authorisation or a Purchase Order	12
Raise an Invoice Quickly and Follow Up Promptly	12
The Legal or Official Looking Letter	13
Protecting Your Reputation	13
CONCLUSION	14

INTRODUCTION

If you are a tradie contemplating going out on your own, or currently working in your own business, I suggest it is important to understand the key factors in running a successful business.

My definition of a tradie is anybody who uses their hands and supplies a manual service such as builder, electrician, painter, plumber, gardener, landscape gardener, plasterer, carpenter, tiler, carpet layer, brick layer, etc.

A tradie may work on his/her own, or with a small workforce, or be a sub contractor.

This guide is NOT a manual on how to run your business on a day-to-day basis, or how to achieve your goals. It has been prepared with the intention of introducing you to the key factors required in running a successful business. You are entitled to operate your business and create processes that suit you as your business grows.

There is no guarantee of success in any business. However, history shows by understanding the key factors of business, you will have a greater chance of success. It is by understanding these key factors, which allows your business to stand out from other business tradies. History is littered with examples of business failures because owners did not understand and failed to implement these key factors in their business.

Many business tradies lose money to devious customers who are either outright dishonest or who can find ways of not paying. Unfortunately for many tradies, many of their customers come from the most difficult customer groups; *building/construction*, which has a dreadful history of non-payment and by *consumers* who are the most protected and regulated, of all customer groups.

Another way of looking at running a business is to think about when ships leave harbour and head off to sea. Even with the best captain, crew and maintenance programs, there is never a guarantee that the ship will reach the next port. When the captain and the crew are less able, and/or the ship poorly maintained, their chances of survival are further reduced.

Furthermore, when a tradie goes in to business they wear two hats, the first as a businessperson and the second as a professional tradie. To wear both hats successfully, the business tradie needs to have the tools and knowledge to succeed.

You may not be aware of a number of the topics mentioned in this guide. Therefore, explanations are simple and brief so as to not overload you with information. I have also tried to write in plain English to help you understand what this information means for the success of your business.

I cannot emphasise enough, *going in to business is not without risk*. Furthermore, you are risking all your money, assets, and your emotional wellbeing when you go in to business.

The purpose of this guide is to help you minimise risk. It can be downloaded to your phone so you can carry it with you on the job as a support if you encounter an unfamiliar problem.

BEFORE STARTING YOUR BUSINESS

Prior to starting a business, it is important to identify and create the correct business structure to protect you, your assets and your business.

It is wise to have an ACN, (Australian Company Number) which means you have a trading entity, which usually has Pty Limited, or Proprietary Limited (Pty. Ltd.) following the name of the business. Trading under your own name as a sole trader, or only a business name is less desirable. For example, if your business fails, an ACN trading entity, which is a separate trading entity, can help to keep the assets of your business separate from your personal assets.

Working under an ABN (Australian Business Number) is not recommended for many reasons. One reason is that if your business is ever sued, none of your personal assets are protected.

Developing a good business relationship with an accountant, solicitor and credit or accounts receivable professional, bookkeeper or insurance agent is important. These professionals should be able to answer any questions you have about running a business in their respective fields of expertise.

Preferably you will approach professionals in each category, which have been suggested by trusted acquaintances. It is always best to speak and meet with several professionals to see which ones you are most comfortable with and best suits your needs.

Operating a business is not for the faint-hearted, no matter what you read about the successful few who started with \$10.00, a credit card and/or a great idea. These winners are few and far between as many businesses fail within the first 5 years.

You rarely read about the people who have lost their business. After all, who enjoys reading about failure? In reality however, these are the very people you should be speaking with in order to try and understand the pitfalls of business. Hopefully after listening to their stories, you will learn to avoid making many of the same mistakes.

IT IS BETTER TO SPEND THE TIME AND MONEY UPFRONT

There is a quote by Evelyn Waugh which says, “If a thing’s worth doing at all, it is worth doing it well”

These are wise words when building your business. A business needs good foundations to survive, just like building a house where solid foundations are essential. A good example on building a house with solid foundations is the children’s story of the Three Little Pigs.

Building solid foundations for your business may sound costly in time and money. However, business history reveals it is better to spend money on building a solid business at the start.

Over the long term, spending money and time to repair mistakes and chase non-collectable invoices will be far more costly.

Another fact is, many of your competitors will not spend the time and money to operate properly to protect their businesses. This is a false and risky strategy by them in an attempt to save money. If your competitors should lose their business because they are not prepared to build a business properly, this is sad for them. However, from a commercial perspective, it is good news for you.

UNDERSTANDING YOUR STRENGTHS AND WEAKNESSES

Once you have an understanding of the factors involved in running a business, it is also important to understand your personal strengths and weaknesses. None of us are perfect and we all bring our strengths and weakness in to our business.

In business, it is essential to do what you are good at and enjoy the most, whilst employing other people to complete the tasks you are not good at and don’t enjoy.

Your strength may be doing the “hands on work” aspect of your business. Therefore, any time spent doing what you are not good at, means you are losing work, money and the pleasure of being your own boss.

By understanding your individual strengths, you can set up your business to maximise your strengths and minimise your weaknesses. My weakness was in bookkeeping. Once I employed a bookkeeper, I saved time, made more money and enjoyed working in my business again.

Employing the right people for the right job, also provides peace of mind. There is nothing worse than wasting time doing something badly that you hate doing.

INSURANCE

Insurance is a necessary evil for the business tradie. You may be unhappy with the price of premiums. However, should you need to submit a claim, insurance can become your best friend.

As a business tradie, your work involves risk and possible injury, so income protection is a must have in case you are unable to work.

Insuring your tools and motor vehicles is essential, because you cannot work without tools and the means to get to work or to carry your tools and supplies.

You can obtain an insurance policy with a cheaper upfront price by going direct to an insurance company or going online. As in all things, you only get what you pay for and when a claim is required you are on your own with all the accompanying stress.

I suggest you consider going to a reputable insurance broker who has been referred by a trusted acquaintance. It is also equally important to know if the broker has supported them or a friend when a claim was made. The advantage of a broker is they can help you avoid a lot of wasted time and stress if a claim is required. It is a lonely, stressful and time-consuming job making a claim on your own, and any savings gained from going direct are soon lost.

Another form of insurance for your tools, motor vehicles and other business assets, is the PPSR, which is mentioned later. Registration of your business assets under the PPSR in layman's terms, allows a business tradie to have a registered mortgage over their tools, motor vehicles and trailers. This type of mortgage has only become available in the last few years to help tradies and other business people protect their assets. It would be a shame to waste this protective measure.

The registration of a mortgage over your business assets is just like the bank taking a mortgage over your home for a home loan.

In this case, you the business tradie are the bank, protecting your business assets.

TO BORROW OR PAY CASH FOR YOUR BUSINESS ASSETS?

Unfortunately, I accept many tradies starting out in business might not have the necessary cash, and require finance to start their business properly.

The truth is however; it is always best to pay upfront to avoid paying interest when starting your business and to avoid going in to debt if at all possible.

There are several reasons to avoid debt, including the following.

- 1 You have no record of sales and do not know if you will earn enough to pay your operating expenses, have a profit to live off and pay back the debt, plus interest.
- 2 Any money borrowed is not your money and therefore belongs to somebody else. They will want their money back, plus the interest.
- 3 Whilst the interest paid is an expense, as my first accountant said, the ATO will only allow you to claim one third of the cost back as a tax deduction. Your business will still need to fund the other two thirds of the interest cost.
- 4 It is no good blaming others, or the business environment if you cannot pay your debts. It is always your responsibility. In addition, there are laws which will hold you to your responsibilities.

You may obtain credit through a credit facility offered by your suppliers. If you are granted a credit facility, make sure you pay your accounts promptly. The last thing you need is to be classed as a poor payer.

Director or Personal Guarantees and Indemnities

Whilst talking about finance, as a business owner, you need to understand the basic concepts about Director or Personal Guarantees and Indemnities.

I suggest, due to the many issues involved, you ALWAYS consult your solicitor BEFORE signing any sort of guarantee or agreeing to any Indemnity. Especially in the business setting, signing Guarantees that you do not understand can become very costly and may cripple your business's future success.

Likewise, if you ask a customer to sign a guarantee, make sure you have a process where you have done everything possible to ensure the customer understood the Guarantee and it was signed properly. Taking a guarantee only protects your business if it is completed properly and the customer has the assets to pay you if the guarantee is required.

HAVING DECIDED YOU STILL WANT TO GO IN TO BUSINESS – OBTAIN THE TOOLS OF BUSINESS

You will already have the tools of your trade. However, you may not have the tools to run a business. Now is the time for you to stock up on your business tools, these include the following.

Terms and Conditions

Before you set up your website or prepare any working documentation such as an order pad, you need terms and conditions to protect your business. These terms and conditions MUST be suitable for your particular business.

Note, it is important that if you have a website, your terms and conditions must also appear on the website, not just as part of your order and quotation pads.

Legislative changes to contract requirements involving insolvency and the ability to charge for costs etc., occur frequently. With every change, there are traps for the unwary. It is strongly recommended you periodically check that your terms of trade and conditions are still valid. A good time to review these would be when you need to print a new set of order books, reviewing your business strategies or taking on new customer groups.

Working with a lawyer who specialises in commercial issues and disputes to prepare the best terms and conditions for your business is essential.

Some business people will copy another business's terms and conditions in an attempt to save money. This is a very dangerous practice as you have no way of knowing whether the terms copied from the other business are out of date, or unsuitable for your business. In any case it is high risk and inevitably, a waste of time and money in the long term.

An Order or Project Pad

A professionally prepared order pad, with the right sort of terms and conditions, which are applicable for your business and structured correctly, is worth dollars in the bank.

In addition, there is less stress when selling your services, especially if you are hesitant to stand-up for your rights. There is nothing more frightening for some business tradies than to insist they want to be paid and when they want to be paid.

A properly signed off order, helps to avoid a lot of problems later as it should clearly set out the scope of the job, products and services to be provided, payment deadlines and dispute measures.

The days of preparing a quote on a scrap of paper or the back of an envelop are long gone. Proper evidence in writing is now essential to protect the rights of your business.

A Change of Quote Pad

Whenever the customer wants to change the dimensions of a job part way through a project, do not make any changes, or do the work, until new paperwork has been prepared and signed off.

Too many business tradies get caught out by their customers who ask “... can you just do this little extra job” or “I have decided this change is now required” etc. Inevitably, when there is no paperwork to confirm if the change was authorised, the additional costs or issues, which may affect time overruns etc., can leave the tradie out of pocket.

Remember, you are running a business. You are not running a charity. Of course, if it is a very small change with minimum lost time or cost, you may decide to do the extra work free of charge, as a good strategy for future business. However, always be careful, because the number and cost of small changes can creep up, as some customers are very good at asking for these small changes during the job.

Backup Files with Paper and Digital Formats

I cannot stress enough, the importance of backing up your working information in both digital and paper formats. This information will include the preparation of quotes, changes to quotes and changes once the work has commenced etc.

I suggest you keep all records for at least 12 months after the completion of the work, as a minimum.

This information is essential for debt collection of unpaid invoices, or a defence against unfair claims or in the case of disputes.

Protecting Your Assets and Tools – the PPSR

All tradies should seek to understand the basics of the PPSR Legislation. In layman's terms, this legislation provides business tradies with an opportunity to place a mortgage over their business assets. It is another form of insurance if your business fails or your assets are left on a property where that business owner (your customer) becomes insolvent.

This legislation is far too complex to explain in this guide and you will need to approach a commercial lawyer, or an organisation that specialises in helping tradies protect their assets via PPSR Legislation.

As an initial guide you can visit <https://www.ppsr.gov.au> to gain a basic idea on the concepts of this legislation. Again, it is suggested that a professional should be consulted to help you protect your business assets.

UNDERSTANDING THE BUSINESS ENVIRONMENT TODAY

Business has always involved an element of risk, even in the good times. Today however, we live in complex times where a multitude of issues, not all good, are facing the business tradie on a daily basis.

I believe it is fair to say, the next recession is not far away, although nobody can tell you exactly when it will be declared. It is not only myself, which believes this state of affairs. You would be wise to assume it is likely to happen sooner rather than later. Any further delay will be a bonus.

In addition, when you do not get paid upfront, you are in fact spending your money on somebody else. In other words, as explained earlier, you are spending your money to provide the customer with what they want, in the hope they will pay you later.

Today, your customers have many ways to avoid paying the business tradie. I could give you many examples and explain why, although it is far too time consuming to put simply in this guide. I will say however, the customer today has more rights than you and your business.

Finally, we know that when bad times occur, people steal to survive. In good times; people steal because they can. Other people will steal all the time because they are better at stealing than business people are at protecting their money.

Family, Friends and Fraudsters

Family and friends can rip you off just as quickly as a fraudster or other customers. In time you may learn from experience how customers and fraudsters operate to avoid paying you.

The hardest person to spot who may not pay you, are your family and friends. You only have to speak with experienced tradies who have been in business for a few years. They will tell you stories and help you understand what I mean.

You may have also heard stories from within your own family or from other families of how one family member ripped off other family members.

In business and in life, you will find people will do some terrible things to other people because of money. Family and friends unfortunately, are no different.

The Part Completed Project or Job

Irrespective of whether we are in good or bad times, a business tradie may be asked to take over a job which has not been completed. Take care when being asked to complete another tradie's project.

I suggest you never take over a part-completed job or project without completing due diligence on the work already done. What I mean is; there was a reason why the job was not completed. That reason is usually because of a lack of money or bad workmanship. Asking the customer why the job is only part completed, may not result in a truthful answer.

In either case, I suggest you work out the time it will take to inspect the previous work and then charge an upfront fee, *payable before doing the inspection*. The reason for this strategy is to ensure you:

- get paid for your professional review of the current state of the work;
- understand the complexity and time required of completing the work and to prepare a properly costed quote;
- find out if the customer has the money to do the work and is not just after free work;
- protect your professional reputation, time and money against any problem customers and/or previously completed shoddy work.

Always Obtain Written Authorisation or a Purchase Order

NEVER, I repeat, **never** start a job or pay for any goods or services until the customer provides written authorisation.

When working with a larger business, it is preferable to obtain a purchase order or another form of written authorisation to start a project, or change any current work not covered by the original job order.

In addition, ask the question or seek written evidence that person is actually authorised to sign off on the work required, or any changes to the work first agreed upon. It is not unusual for larger businesses to try and fob off business tradies by saying the person authorising the work or change of work, was not authorised to do so.

Raise an Invoice Quickly and Follow Up Promptly

Do not delay in raising an invoice. Whether you raise a paper or digital invoice, raise it quickly and send it correctly to the customer in the format demanded by the customer.

Sending invoices late and incorrectly gives your customer an excuse not to pay you promptly.

Once sent, review to see the invoice is paid within agreed terms.

If the invoice is not paid, you need to follow up promptly. Whether you make the contact or somebody else (unrelated to you) is immaterial. There are times when it is far better to have an unrelated person make contact for the unpaid invoice because they are not emotionally involved as is the business tradie and their family.

Besides, if you are following up on unpaid invoices which you hate doing, you are also not doing what you are good at; earning money.

The Legal or Official Looking Letter

Occasionally, you will receive a legal letter or official correspondence from a lawyer, insolvency administrator or government agency or the ATO etc. NEVER ignore the letter or put it aside to read later. Be brave and open it and read the contents.

Having opened the letter ask for help if do not understand the contents. Don't be bashful, there will always be assistance available, if you ask for it. At the end of the day, you don't know what you don't know. Therefore, you should never be embarrassed about asking for help to protect your business.

Avoidance is the best way to get in to trouble for no good reason. Most matters can be dealt with relatively easily if you confront the matters mentioned in the letter early rather than later. It is when you ignore the letters, or don't understand their contents, that you run into the most and often unnecessary trouble.

Protecting Your Reputation

Everything in this guide is designed to help you protect your business assets, the survival of your business and good reputation. Reputation along with cash and the quality of your work, are the keystones of business survival and growth.

The easiest thing to lose in business is your reputation. The hardest thing to recover is your good reputation.

By consciously working on keeping your assets safe, delivering quality work and protecting your reputation, you have the potential to survive for the long term and maximise your profits.

CONCLUSION

Building a business is not without risk. The business tradie needs to prepare themselves properly to run a business. The key to surviving in business for the short and long-term, is to spend the time and money at the very beginning. It is also wise to remember the example at the beginning of this guide about ships going to sea. When a ship leaves port, there is never a guarantee the ship will end up safely at its destination.

A business tradie that has built their business with strong foundations and support from the appropriate business professionals, has started in the right way. The next step is to have the right business tools and learn how to run a business on a day-to-day basis. Finally, you have to understand the economic climate in which you are operating and the games people play to avoid paying you. Get these factors right, and success is possible.

When going in to a business, you are risking your future, money and wellbeing. Therefore, it is worth taking the time and money to build your business properly. At the end of the day, Evelyn Waugh's quote "If a thing's worth doing at all, it is worth doing it well" makes sense.

If you want to know more, you can always visit www.creditmatters.com.au or contact Kim at kim@creditmatters.com.au



48 Guinevere Parade, Glen Waverley,

Victoria 3150 Australia

Ph: +61 3 9886 6707

info@creditmatters.com.au

www.creditmatters.com.au