



Are the stinking rich called such because while making their fortunes they actually made some stinkers on the way? We look at the top 10 mistakes the rich make.

Latest research reveals that under the Labor IR plan, business owners will be reticent about firing staff, and also reluctant to hire.

A recent case confirms that employers that turn a blind eye to workplace bullying could be making an expensive mistake.

We also look at the trigger points that will send the taxman scurrying to your door.

And as always we present a range of entrepreneurs who have made the right moves, and also their own mistakes, along the way.

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Best wishes,  
Amanda Gome



# 10 big rich mistakes

*Believe it or not, our richest entrepreneurs have actually made some mistakes on their way to fame and fortune – and some of them are doo-seys. Here are the top 10.*

## TOP STORY

**Tuesday, 28 August 2007**

**By James Bennett**

Last month SmartCompany bought you 10 secrets of the stinking rich. Now it's time to take a look at the other side of the coin. Believe it not, occasionally Australia's richest men and women do make mistakes – here are 10 of their worst.

### Falling out with business partners

Arguments between business partners, family and friends can have huge personal and financial costs. Co-founders of industrial and construction group Transfield, Carlo Salteri and Franco Belgiorno-Nettis, went their separate ways after falling out over succession issues in 1997. This also led to a further falling-out between Franco and his eldest son



Marco Belgiorno-Zegna. The net wealth of the Belgiorno-Nettis family fell as a result of the spats, and it was forced to sell parts of its empire to repay debts arising from the settlement with Belgiorno-Zegna. The family's wealth has since recovered to about \$800 million.

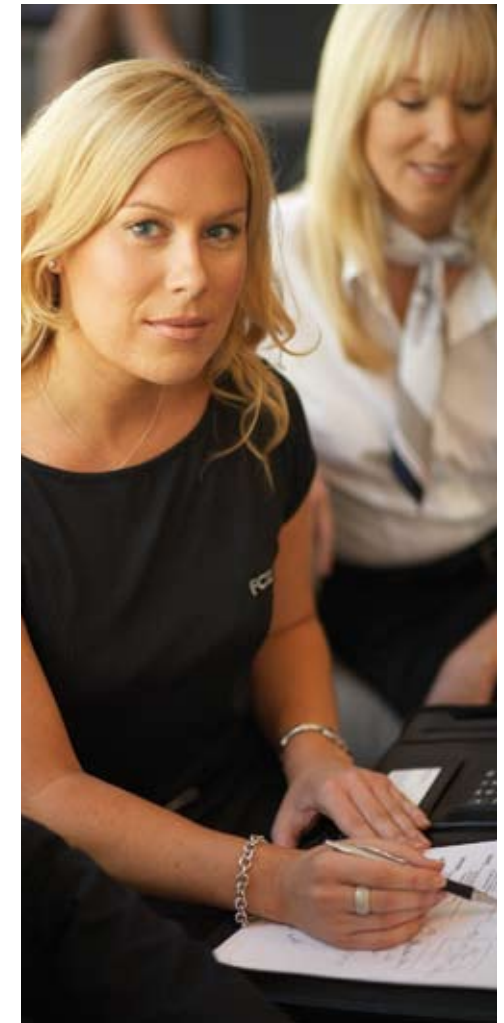
### Taking on too much debt

Borrowing too much money at the wrong time has bought many of our most successful entrepreneurs undone. In the 1980s, debt claimed scores of business people who had

borrowed big when asset prices were high, only to see asset prices collapse and interest rates rise. John Elliott, Bob Ansett and Alan Bond were among the most high-profile victims. With interest rates currently on the way up after a golden economic period, it will be interesting to see if any modern entrepreneurs will find themselves in a similar position.

### Not diversifying

While most of Australia's richest business people start with one business, they are clever enough to safeguard their fortunes by diversifying. Australia's great family fortunes, such as those of the Smorgon, Myer and Liberman families, have spread their money across a number of industries and investments. Rag traders the Gazal family and Daniel Chen have seen their fortune shrink in recent years as the Australian clothing sector has contracted. They have few other assets to fall back on.



### Failing to read the market

The rich have an uncanny knack for knowing exactly what the market is going to do. But they don't always get it right. Many traditionally conservative entrepreneurs, including Kerry Packer and the Smorgon and Liberman families, misread the "tech wreck" of 2000 and lost money. Perth resources industry veteran Gordon Martin thought the market would love oil company Coogee Resources, but was forced to pull the float earlier this year. John Kinghorn floated his company RAMS Home Loans at exactly the wrong time this year, as the United States sub-prime crisis hit. The value of his 25% stake has more than halved, although he did pocket \$650 million in the float.

### Having too much pride

Rich people can afford to indulge their passions, but sometimes it can be very costly indeed. Kerry Stokes spent about \$200 million fighting News Corporation, Publishing & Broadcasting Limited and Telstra over the collapse of his C7 pay-television channel, only to lose his case in the Federal Court. Now he is report-

edly considering an appeal. Stokes is worth \$2.7 billion, so the legal action is hardly likely to make him broke, but spending 10% of your fortune on what to many looks like a lost cause shows how expensive pride can be.

### Expanding too quickly

It's a common business mistake. A company is growing quickly through rising sales and acquisitions when suddenly the problems start – the infrastructure (usually people, IT or accounting systems) can't cope. Rupert Murdoch's acquisition spree in the 1980s drove News Corporation into trouble. The Roberts family, which founded construction giant Multiplex, took on too many projects and its share price collapsed. Food retailer John David is another whose empire crashed after too much growth.

### Getting divorced

Nothing shrinks a fortune like divorce. One year you're worth \$300 million and on top of the world. A year (and a lot of lawyers later) you've got a new spouse and a \$100 million hole in your bank account. Greg Norman's former wife Laura

## The death of a business leader can have disastrous consequences if proper succession plans are not in place ... if you can't live forever, at least leave a clear will

demanding half of his \$270 million fortune during their recent divorce; the Great White Shark is reported to have settled for about \$110 million. Money may not buy love, but unhappiness is definitely expensive.

### Getting in trouble with the law

Ending up the wrong side of the law can destroy reputations and fortunes. Alan Bond and Laurie Connell, two of Perth's high-flying 1980s businessmen, ended up in jail and lost millions. Rene Rivken and Steve Vizard's reputations were badly damaged by convictions for insider trading. In the last 12 months, Macarthur Coal founder Ken Talbot has become embroiled in corruption allegations.

Shares in the company fell when he stepped down as chief executive.

### Going public

Floating a company has made many Australian business people fabulously rich in the past few years – just ask Kerr Neilson of Platinum Asset management, whose fortune increased by more than \$1 billion when his company floated in May. But the autocratic style of many business people is not necessarily suited to public companies. Brett Blundy privatised his Brazin after watching its share price sag 30% in 2005-06. Lloyd Williams privatised property developer Hudson Conway in 2000 and Bob Ell privatised his property company Leda in 1990.

### Dying

The death of a business leader can have disastrous consequences if proper succession plans are not in place. The best example is the battle for Lang Hancock's estate, which erupted into a bitter fight between his wife Rose Porteous and daughter Gina Rinehart that took more than a decade to sort out. So if you can't live forever, at least leave a clear will. \*

# Marketing intelligence

*Devnet specialises in email marketing – using customer information gathered by companies to tailor messages that will cut through the ‘noise’.*

## ENTREPRENEUR ONLINE

Tuesday, 28 August 2007

By Amanda Gome

Craig Deveson was working as a business consultant before the dotcom crash and saw how the market was changing. In 2003, aged 36, he set up Devnet to offer ‘real online marketing solutions for business’. Since then, Devnet has expanded out of Brisbane to add a Melbourne office, and in 2006-07 posted revenue of \$2.2 million.

Craig says he would love to take some questions online. Just email [feedback@smartcompany.com.au](mailto:feedback@smartcompany.com.au).

### Amanda Gome: What niche did you see when you started the company?

Craig Deveson: I was providing business consulting during the dotcom crash and saw firsthand that the



Craig Deveson: Focused on driving the business objectives of our clients

market had changed. Before the crash companies would invest in the future potential of technology but after [the crash] they were looking for tangible results from their investments. IT companies at the time were constantly over-promising about what their technology could deliver. I thought that if we could offer real online marketing solutions to business then we could

make a place for ourselves in the market.

### What is your business model and why is it clever/different?

Devnet provides marketing solutions including Web 2.0 solutions, which focus on business outcomes.

Our model is a combination of business-oriented consulting and program or campaign development. This is very different to other technology or marketing vendors because we are focused on driving the business objectives of our clients.

We are also focused on including reporting for businesses that are investing online. Most IT departments currently collect data on what they are doing online but this is not turned into marketing intelligence for senior business users. We use Web 2.0 marketing intelligence that enhances the customer experience for current and future campaigns.

This is growing in popularity as people stop just focusing on unique visitors and page impressions and start drilling down into all the mar-



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Believe it or not,  
I used to be a hand model.

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BIG IDEAS FOR SMALL AND MEDIUM BUSINESS

ket intelligence they're getting so they can know far more about their customers.

**What strategic mistake did you make when growing?**

Like most small businesses, I was working in the business rather than on the business. Recently we added an experienced businessman to our board to help grow the company. Having experienced the positive change this has made in the business and to me as a professional, my regret is that I did not take this step 12 months ago.

**How do you find new customers?**

We use our online marketing strategies, for example SEO and SEM: a quarter of customers come from them.

But as with all service companies, you need more than those internet strategies. You need other tools such as PR, seminars: a mix of traditional and non-traditional means. We also use targeted marketing to attract businesses or organisations that we can develop long-term relationships with.

**How is marketing online changing?**

Customers are suffering from infor-

**Consumers receive so much information online ... it can be hard for them to find the key messages. Online marketing is changing because of this**

mation overload. Online marketing is also suffering from lack of 'cut through' because of so much 'noise'. In practical terms, this means that consumers receive so much information online through websites, blogs, email, etc, that it can be hard for them to find the key messages that relate to them. Online marketing is changing because of this. We offer our clients greater targeting and relevance so that trusted relationships are developed and fostered.

**What makes a clever online marketing campaign?**

Online marketing that is clear about benefits that are relevant to the individual consumer. I think some online

advertising can be too clever so that while the consumer appreciates it for its visual or creative flair, they lose sight of the message it is trying to communicate.

**One of your specialties is email marketing. What is its future?**

Email is an increasingly popular tool for business marketers. The DMA (Direct Marketing Association) report on B2B marketing and email marketing indicates that email is a preferred B2B business tool. The future is more integration of email into marketing campaigns, greater interactivity and targeting of messages.

To get this level of personalisation, businesses are required to invest more time in profiling their market. Also there are some interesting technologies being developed by Yahoo and others to create trusted mail sender IDs so legitimate email can pass through. These efforts will increase the use and acceptance of email as a communication tool.

SMS as a technology will be overtaken by email on mobile phones for business users and eventually consumers. The majority of new mobiles have web browsers integrated, so

*The Lounge. Business not as usual.*



with new 3G networks, email may replace SMS for business to consumer communications. There has also been talk of how businesses can target consumers by location. Wireless networks can track where you are and then offer you local information and services.

**What are three mistakes people make with email marketing?**

1. Because it is generally cheaper and easier to implement than other marketing media, many customers don't pay it the respect it deserves. More time is put into direct mail pieces for example even though the same rules apply for success, such as good creative, offer, timing and data lists. Email is seen as two-dimensional, where you just mail merge online and hope for the best rather than engage a creative agency to deliver a well thought-out campaign.

2. Email is one of the best tools for getting feedback on your campaign success. Many businesses using email marketing do not have a continued process of learning from previous campaigns. Continuous improvement is possible when campaign report-

**It will be interesting to see how employers utilise the D-generation: kids that have only lived a digital life**

ing is used and you constantly refine your offer, message, etc.

3. Email marketing can be misunderstood as spam by some business users. Devnet uses the latest permission marketing, which delivers results. Most businesses do not profile and segment their database so they offer the same generic information to everyone. One of the benefits of email marketing is the ability to customise information and to target customers with information that is relevant and of genuine interest to them.

**What was your near-death experience building the company and what did you learn?**

In our growing stage in the business, we were being inundated with work. We went from having a few small jobs to winning a couple of large projects at same time. It was a stretch to be able to recruit and manage additional staff. I was concerned that it would jeopardise our quality and lose the customers we had worked so hard to gain. When I was able to step back I learnt that there can't be a 'single point of failure' in the business. We made some organisational changes so that one person wouldn't be flooded if we took on multiple large projects at once. We also worked on achieving better work flow, which included allocating more staff to projects.

**What are your long-term goals? Do you plan to sell/float?**

We are currently focused on continuing to develop innovative services and becoming the leading Australian service provider of online marketing and intelligence services. We have plans to float in the future.

**How is your industry changing?**

The IT and marketing industry is always changing at such a fast pace. Lack of skilled workers and the inte-

gration of younger workers into the workforce is providing challenges. It will be interesting to see how employers utilise the new D-generation: kids that have only lived a digital life. Our research indicates that with excess digital interaction, people are losing their social skills; this has business and relationship impacts. Mature users seem to be able to better balance online and offline communication. Many younger workers don't know when to just pick up the phone and have a conversation or organise a face-to-face meeting. The lines between work and social use of digital technologies are blurring. Employers are reference-checking candidates via social sites such as Facebook and employees are increasingly using work computers for social activities. \*

# Watch for workplace bullies

*A new Federal Court case confirms that bosses who turn a blind eye to mistreatment of employees are making a very expensive mistake. But what exactly is bullying?*

## LEGAL UPDATE

Tuesday, 28 August 2007

By Peter Vitale

A recent decision of the Full Court of the Federal Court of Australia has highlighted the need for employers to have in place effective measures to eliminate bullying from the workplace.

The court affirmed the decision of a single judge to award a former employee of a merchant bank about \$500,000 in damages for psychological illness caused by bullying.

Peter Nikolich, a private investment adviser, complained to his employer, Goldman Sachs JB Were, about the behaviour of his immediate boss. He said that he was subjected to a series of malicious personal attacks, verbal abuse and insults, and his clients had been reallocated to other colleagues.



In the court he successfully argued that the failure of Goldman Sachs to deal with the complaint quickly and effectively was a breach of the company's own policies and procedures and constituted a breach of his employment contract.

The case highlights that employers must pay attention to any circumstances in their workplace which might constitute bullying of one employee by another or face big penalties.

All of the state occupational health and safety authorities identify bullying as a serious occupational health

and safety issue. Employers who are found not to have taken steps to prevent bullying in the workplace have been subjected to penalties for breaches of the law.

But what exactly is bullying? The definition is often vague. One state authority defines it as: "repeated, unreasonable behaviour directed to an employee or group of employees that creates a risk to health and safety".

The same authority goes on to provide the following examples of the kinds of behaviour that might constitute bullying, including:

- Practical jokes; being sworn at.

- Someone insulting you.
- Being excessively supervised.
- Being constantly criticised.
- Being put down in public.
- Rumours being spread about you.
- Being overloaded with work or not given enough work to do.
- Not getting the information you need to do your job.
- Your personal effects or work equipment being damaged.
- Being threatened with the sack.

Unfortunately, many of the examples sound like things that happen to all of us at some point in our working lives. It is not always bullying.

A few examples drawn from cases decided by the courts, not just in relation specifically to OHS breaches, offer some guidance to employers about what behaviour really needs to be cracked down on.

- A worker who was found guilty of punching and biting an apprentice and hoisting him by his overalls into the air with a crane.

- Intimidating fellow employees by use of verbal abuse and threats of violence.

- Serial racial and sexual vilification, verbal and physical abuse carried out over a period years.
- Verbal abuse and threats of violence and removing the employee's work and reallocating it to another employee.
- Allowing employees to engage in a pattern of behaviour that effectively undermined their supervisor.
- Failing to address a persistently excessive work overload.
- Placing an employee at a work station facing a blank wall with her back to work colleagues.
- Verbally and physically intimidating behaviour by an employee toward a fellow employee who had previously made a complaint about the behaviour of the first employee.
- Using a performance review process to 'squeeze' an employee for an illegitimate reason.

Employers that don't crack down on this sort of behaviour can find themselves in court as a result of a claim of unlawful discrimination that occurs as a result of the bullying behaviour.

They also face claims for constructive dismissal where the conduct has the effect of 'forcing' the

employee to resign, and for damages for personal injury as a result of psychological illness.

**The lesson for employers:**

Care needs to be exercised in treating everything that is called 'bullying' as actually constituting bullying; done properly, legitimate exercise of management authority will not constitute bullying. The how is just as important as the what.

Make sure you have a procedure for dealing with grievances and discipline of employees guilty of bullying.

Be aware that bullying behaviour exposes employers to more extensive risks than breach of OHS laws, including claims for substantial common law damages. \*

# Can growth potential improve your sales value?

*As a business owner, you can see the potential that your company has. Convincing a buyer is a positive step, but winning premium from it is even better.*

**TUESDAY, 28 AUGUST 2007**

**Business for sale**

**By Tom McKaskill**

Growth potential is often growth that the buyer can exploit but which the owner is unlikely or unwilling to exploit. While most business advisers declare that a vendor cannot get paid for growth potential, which the buyer has to achieve, there are ways of extracting a premium on sale from growth potential which has been created by the vendor.

The value of a business is generally held to be the net present value (NPV) of the stream of future net earnings. That is, the projected profits from the business are discounted using a risk factor to arrive at the current value of the investment. This provides an estimate of what a buyer is likely to pay for the business.

That NPV is thus highly dependent on both the estimates of projected future earnings and the discount rate utilised in the calculation. Higher estimates and a lower discount rate will both influence the current value.

Normally, the projected earnings are an extrapolation of previous results, but changes in the business capacity and/or capability, or in the product/market mix, might generate a very different future expectation – and thus a very different valuation.

Buyers will generally accept projections of future revenue where these are based on revenue-generating capabilities already demonstrated by the business. They will, however, be seeking clarification that those revenues are reasonable certain.

But what of growth potential that the existing business is unable to achieve but which the buyer, with



better capabilities or greater capacity, more determination or a willingness to put more energy or hours into the business, might be able to achieve?

Surely the buyer would not be willing to part with some of the increased value generated through their own efforts to the seller? Wrong! There are in fact situations where the seller can get paid for such growth potential.

The key to such a premium lies in two factors. First, the extent to which the seller is able to demonstrate that the buyer will be able to achieve growth potential, and second, having a number of equally able potential buyers compete for the right to undertake such growth. The former is achieved through a clearly articulated plan for growth which is underpinned by good evidence.

The task of the vendor is to show potential buyers how the business can be grown to generate higher

levels of net earnings and that the higher revenues and profits can be reasonably achieved. Providing the vendor has a number of competing bidders, they can trade one off against the other until they get the best price.

This works. I have been able to identify a number of situations where a premium on sale was achieved where the buyer was convinced of the growth potential of the business even where the vendor was not able to extract that growth themselves. The key to such a premium was that the potential growth had a high probability of being exploited by the buyer and that there were several potential buyers bidding for the opportunity. \*

*Tom McKaskill is a successful global serial entrepreneur, educator and author who is a world acknowledged authority on exit strategies and the Richard Pratt Professor of Entrepreneurship, Australian Graduate School of Entrepreneurship, Swinburne University of Technology, Melbourne, Australia.*

# Business owners will hire less under Labor

*Business owners say that Labor's IR policy will stifle growth, a new poll reveals. They see sacking off the agenda, but also say that hiring staff will be more difficult under a Rudd regime.*

## TOP STORY

Thursday, 30 August 2007

By Amanda Gome and Mike Preston

Labor's IR policy will hurt growth, with a third of small and medium businesses more reluctant to hire staff if Labor gets elected, reveals a new poll by SmartCompany.com.au and Roy Morgan Research.

Twenty-three percent of 375 small and medium business owners who make hiring and firing decisions said they will be more reluctant to sack staff if Labor gets elected.

They are also less likely to hire staff: 33% say they will be more reluctant to hire if Labor wins the federal election.

Yesterday in delivering the detail on the industrial relations policy he

will be taking to the next election, Opposition leader Kevin Rudd confirmed that Labor would abolish the unfair dismissal exemption for small business. Labor would only give employers with fewer than 15 workers a right to dismiss an employee within a year of hiring.

The SmartCompany.com.au/Roy Morgan survey, done yesterday and today, shows that business owners hate sacking staff – 47% say it is the worst part of being a business owner.

Nevertheless sacking is a fact of life, with 15% saying they have sacked a staff member in the past three months. Of those who were sacked,



the majority (65%) were not on probation. In fact almost a third of those who had to be sacked were long-term employees.

This reveals that the majority of staff sacked by small and medium business owners are not new employees.

This flies in the face of Labor leader Kevin Rudd's claim that a year is enough time to make an evaluation about whether staff fit into a new business.

The survey also found that business owners sacked staff because of bad attitudes (34%) and lack of skills (24%). About 16% sacked staff

because roles changed and staff couldn't or didn't want to learn new skills, while 13% were sacked because of theft or inappropriate behaviour.

True redundancies accounted for 8% of exits, and staff costing too much resulted in 5% of sackings.

Rudd has long claimed that low unemployment was not tied to Howard's WorkChoices reforms but the survey results suggest that when there is a risk of an unfair dismissal claim being made against them, employers are not only more reluctant to fire but also to hire.

Australian employers are slow to sack staff. But making it even harder for them by re-introducing the risk of unfair dismissal claim is likely to send jobs overseas.

Neil Bolton, chief executive of software developer Recruitment Systems, who has spent six years growing the business and has 15 employees, says: "We are trebling or quadrupling over the next two years and right when we're going to hit this huge expansion we're being thrown an incredibly high risk scenario

where we'll have to be very, very circumspect about hiring.”

Bolton says he has fired about two staff in the last six years. “You don't want to do it, but if you have to, you have to.” But he says he will be concerned about hiring with Labor's IR policy.

“I saw Rudd on TV last night, and hearing the summary today, it was guaranteed that I couldn't take the risk of employing the way I have been employing.”

Instead he will focus on employing overseas in Hong Kong, Auckland and Dubai. He adds: “I didn't really care too much about who got elected. I'm apolitical, but I am sufficiently concerned about this to change my thinking.”

Kosmas Smyrniotis, professor of marketing at RMIT University, who studies fast growth in small and medium businesses, says they are the seed bed of employment, creating a massive amount of jobs.

“One of their favourite sayings is hire slowly, fire fast. Having to carry people who are not performing or have a bad attitude is hugely detrimental to an organisation. These companies have a strong vision and

strategy and they want people who can share their attitudes. If people do not, it spills over into the teams, affects productivity and the bottom line.” \*

# Hit the brakes, and go!

*After taking shareholders on a rough ride, Safe Effect Technologies is turning its fortunes around. It is now preparing to export its fail-safe braking systems especially for heavy-duty vehicles.*

## HOT INNOVATOR

Thursday, 30 August 2007

By Tim Levien

For the first 33 years of his working life Ken Johnsen tried to make cars go. Now he's trying to make them stop.

Apart from the vehicle connection, there is another common thread running through the life of an engineer who once helped run the high-profile Perth-based Orbital Engine Company: he's still trying to find a way to make profits.

Johnsen laughs when the stop/go comparison is pointed out. What else can he do? It's true. He knows it. But he's determined to find a way ahead for the latest challenge in his life as chief executive of one of the smaller companies on the Australian Stock



Ken Johnsen with the SIBS sealed vehicle brake

Exchange, Safe Effect Technologies.

With a share price of less than 4¢, Safe Effect fits into that classic securities industry category known as “penny dreadfuls” – which is pity because the only thing dreadful about the business has been way it's been managed in the past.

Inside Safe Effect, a name that Johnsen detests, is a very clever piece of Australian engineering – a fail-safe vehicle brake that lasts much, much, longer than conventional braking systems, even in the harshest environment.

Major mining companies, including BHP Billiton and Xstrata, are buying the product, which is market-

ed as the Sealed Integrated Braking System because it saves money and might save lives.

But, inside the executive suite it's been a rolling disaster, including one of the longest waits for an announcement in the history of the ASX – two-and-a-half years.

Back in August 2003, the former management team at Safe Effect requested a trading halt in the company's shares “pending an announcement by the company”.

The trading halt was lifted on 5 April 2006 – after Johnsen and a new management team had taken control.

“It's been a pretty rough ride for

the shareholders,” Johnsen told SmartCompany during a visit to the company's astonishingly down-market combined office, factory and warehouse in the inner Perth industrial suburb of Osborne Park.

“We like to think of it as being like the Tardis from Doctor Who,” Johnsen jokes when describing Safe Effect's world headquarters. “We're certainly saving on rent.”

Doing that is important. Safe Effect is getting close to making a profit, but it's not there yet. Sales of the SIBS braking system are rising and costs are coming down. Manufacturing has been shifted to a purpose-built factory in Thailand and annual sales rose from \$1.36 million in 2005-06 to \$2.5 million in the latest financial year.

Johnsen declines a request to share this year's forecast budget with SmartCompany.

“I've been expecting to hit break-even for each of the past six months, but haven't got there yet, so I'm a bit wary on forecasts,” he says.

Before looking at the business

model – and why Johnsen was attracted from a high-flying career which included time as head of research and development at Orbital, head of the company's US operations, and finally as business development manager – it's worth a quick squiz at what should make Safe Effect go (and the vehicles with it fitted stop).

Most vehicle braking systems are open to the environment. Next time you're passing a Porsche (parked on the roadside, obviously) you might notice the very large, red braking system on each wheel.

For most road cars, being exposed to the weather, and conventional road grime, is fine.

In a heavy-duty working environment, such as a mine, wear and tear on brakes is prodigious. Toyota Land Cruisers used by Iluka in some of its pits where garnet is mined require brake pad replacement every three days – garnet, after all, is what some sandpapers are made of.

Even in iron ore and coal mine grit tears into brake linings, and every other part of a vehicle.

The solution, with credit going to a Geelong-based engineer, is a sealed braking system that has the critical

parts immersed in an oil bath. Wear rates are dramatically reduced with Johnsen trundling out a “payback calculator” that claims a \$12,000 SIBS braking system pays for itself in 5.9 months.

But, if it's been around for years (and even featured on a Beyond 2000 television program, which can be seen on the Safe Effect website <[www.safeeffect.com.au](http://www.safeeffect.com.au)> at the top left corner of the home page) why has the business not succeeded?

“Over-promising, and trying to do too much,” is Johnsen's answer.

“The technology is terrific, but when it was launched promises were made that it could be fitted to everything from shopping trolleys to jumbo jets.

“In reality this is a niche product which has a worldwide market in the mining sector, and perhaps a number of other specialist uses, such as garbage trucks, which stop frequently.”

As well as working well in tough environments, the SIBS system can have a “fail-safe” brake device fitted, which means whenever the vehicle stops the brakes automatically go into the “on” position – the opposite of conventional brakes.

## **In reality this is a niche product which has a worldwide market in the mining sector, and perhaps a number of other specialist uses**

With mining company directors petrified of being held responsible for deaths on site (jail terms can be handed down right up to board level under new laws) there is every encouragement for management to be ultra-safe.

For Johnsen, a skilled engineer who has flown close to the top of Australia's corporate tree, the critical question is “what on earth are you doing here?”

The answer is that after 33 years at Orbital (he started there at age 20) he was made “an offer too good to refuse” and accepted retirement – which lasted four days, when he got a call from the people trying to revive Safe Effect.

“It seems they had found my details in the Safe Effect records from when I was at Orbital,” Johnsen said. “I had conducted limited due diligence on the company as it seemed a natural fit with Orbital. But, after looking at the finances, I suggested we wait and pick it up cheaper, later.”

That later for Orbital never came – and Johnsen went.

But, his interest in Safe Effect's technology remained strong even if it didn't in the finances.

The net result was Johnsen leading a major rescue effort, which included buying 50% of the intellectual property that was held by a third party, recapitalising the business in a series of steps that have left the company with a bloated 459.7 million listed shares (hence the share price of just 3.7¢), and the attraction of a new board of directors.

It's the composition of the board, as much as Johnsen in the manager's chair (behind the walls of the Tardis) that adds confidence to a belief that this time Safe Effect might go, rather than lurch to another stop.

Chairing the company is David Humann, a former managing partner for the Asia Pacific region of the big

accounting firm Pricewaterhouse-Coopers, and Professor Malcolm Richmond, a former senior Rio Tinto executive.

A handful of institutional investors have drifted onto the Safe Effect share register, including London-based RAB Capital and Challenger Financial.

Armed with a product that sells in Australia, and is being carried worldwide by its mining company customers, rising sales (45 units a month is break-even), a high-powered board, and growing institutional investor interest, Safe Effect has every chance of getting going – by successfully making its customers stop! \*

# Gold class

*David Gold has experienced huge success and failure. The entrepreneur from LookSmart, Dstore and Azure talks about how he made his millions – and what's next.*

## LUNCH WITH AN ENTREPRENEUR

Thursday, 30 August 2007

By Amanda Gome

**Amanda Gome: David, your most recent success is Azure, which you sold in December last year for \$15 million.**

David Gold: I'm not allowed to disclose that but ...

**Between \$15 and \$20 million?**

It's probably not that inaccurate ...

**OK. So tell us about Azure. It was sort of cutting-edge wireless and you had Lloyd Williams as a shareholder.**

Hudson Conway had a majority shareholding in the business.

**What niche did you see?**



David Gold: Now for Simply Sold

It was right after the market had crashed. People weren't really investing in technology and I was looking around for the opportunities in the technology space.

I looked at high-speed wireless and at the time there were a number of competing technologies and one of them was wifi, which hadn't been backed by any big companies. The only company that had meddled in it a bit was Apple.

**How did you go about educating the market?**

That wasn't dissimilar to my past experience at both at LookSmart and Dstore where we were training people to do things in new and different ways. It's always hard when you're one of the early players in a space. You know, when you have competitors entering into a space, people say it must be really bad for you or bad for your business.

But I actually welcome it because it means that you're not the only ones spreading the concept or getting a message across. Otherwise you're really spending your money, not only educating about your business but trying to educate about the concept as well so...

**How much did a business like yours spend on educating the market?**

With Azure we could see the people getting involved in the space in the US were really consumer focused and that was a heavy marketing spend.

So we decided to adopt a wholesale strategy and build and own the network and then sell access to ISPs

and telcos who then would go out and spend their marketing dollars that would be ... that saved us a lot of money without compromising in terms of the traffic that we could generate.

**And what was the revenue of Azure when you sold it?**

Annualised it was in the \$10 to \$12 million kind of range.

**OK, and how long had it been profitable?**

Well the network had been profitable for some time. The core wifi network that we operated had been profitable probably for about 18 months to two years before that.

**So you were pleased with the price you got?**

Yes.

**You were involved in LookSmart in your early 20s and you probably would have made what, between \$5 to \$10 million from that?**

Somewhere around that amount.

**And then you did Dstore and there was a dotcom bust and that was a spectacular failure in the end wasn't it?**

Sure. Well for investors, yes.

**And then you came back and did Azure. So you've had success, a great learning and then another great success. What did you learn from those two experiences that you applied to Azure?**

They were very different experiences. When I first started LookSmart it was similar to Azure: we had one shareholder that owned a majority of the company and that at the time was Readers Digest.

With Dstore I had over 50 shareholders and many of those were funds made up of many other shareholders, so we actually were a public company even though we weren't listed. It was a very different experience. With Dstore every investor coming on board wanted a board seat so we ended up having to give away a lot of board seats to investors and we ended up with pretty much no one independent other than myself and the chairman, who was Nick Greiner. It wasn't ideal. We had a good mix

of venture capitalists, private investors, strategic investors ... but when the market crashed, none of them were in deep enough to really care enough about the business which is a disadvantage when you have a lot of different shareholders.

**What else did you do differently with Azure?**

Also with Azure I tended to outsource a lot of stuff, whereas with Dstore pretty much everything was inhouse. With Azure, I really wanted to be able to focus on the core of what we were trying to do and rather than deal with organisational politics and a large team and having accounts people and technical people and sales people and business development people and all that, I just wanted a smaller team that could really focus on the core of what we were trying to do and outsource everything else.

That meant I could focus and follow the right strategy and not have to deal with all sorts of organisational issues along the way; that's why I structured Azure like that. I'm not saying that I think that's the right way to do things. I think for me it was at the time, given that with both

**I was really looking with Azure to do something that was out of the media spotlight. It didn't have all the attention**

LookSmart and Dstore, we grew from zero to hundreds of employees within months.

**What a shock.**

Yeah, so you know, I was really looking with Azure to do something that was out of the media spotlight. It didn't have all the attention. It didn't have all the staff requirements and I could really just focus on building a business.

**What else did you learn that actually helped you get the business model right and strategy right?**

People are very important and getting rid of bad people quickly is important. Often you tend to hang

on to people that aren't working out for too long and they can just be a drain in terms of the business not being able to achieve its targets, and on staff morale. Also, hire people who are multi-skilled, that are willing to get their hands dirty and willing to get involved in areas beyond just their expertise. In a smaller company, and certainly in a start up company, you can't have someone that's just focused on finance, or technical or sales. You need people that can adapt to various roles and do various things.

**And how can you pick them in an interview?**

It's a matter of looking at their background and what they've done in the past. I think generally it's pretty easy to see how much someone's willing to get their hands dirty. Assessing people's skills across a broad range of areas is more difficult and you don't always get that right, and that's why I made the comment about getting rid of people that aren't working, quickly.

**You didn't gear Azure up as quickly as Looksmart and Dstore.**

No, but that was also a function of where markets were at. And certainly I learnt about how fickle markets can be. The first six to eight months of Dstore everyone was bugging me about not growing quickly enough ... you're not growing fast enough ... get more market share ... get the brand out there more ... get big fast. All that kind of stuff.

No one was asking about profitability. But as soon as the markets came away, everyone's talking about what's your path to profitability. When are you going to be profitable? What's the business plan to achieve that? Whereas a week earlier it was, you're not going into Asia fast enough. You're not doing acquisitions, as many acquisitions as you should be.

It was just amazing how things changed literally within weeks and we really had to sort of redo our whole business plan because of demands and even from the media. People like you were calling me up. When are you listing, when are listing? Everyone wanted a scoop on when we were going to list and then all of a sudden it totally changed within a short period so it's difficult

because you can't totally insulate yourself from what's going on externally.

I don't think I would really want to get involved in any business that didn't have a clear path to profitability and one of the downsides with tech businesses is that generally they do require heavy upfront investment. You've got to invest in some kind of infrastructure. You're got to invest in R&D, you've got to invest in development of a website or whatever it might be and it is going to take time to recoup those costs.

**Developing a website is not that expensive now.**

It is if you're talking about websites that have high-volume usage and globally focused. We learnt that with Dstore, which cost as much to set up a warehouse and a website as what it cost Amazon.

The difference was that Amazon was targeting hundreds of millions of people and we were targeting a market of 16 million people. Granted, they had more distribution centres than us...

**What was the cost then? What was**

**I don't think I would really want to get involved in any business that didn't have a clear path to profitability**

**the cost of that whole set up?**

Probably in the \$1 to \$2 million range at the time.

**But that wouldn't be anywhere near that now.**

No, but one of the problems that we had was a lot of people complaining the website was slow and we needed multiple servers and multiple sites.

The better websites now are implementing Web 2.0 technologies and before we know it there'll be Web 3.0 technologies. I just don't think it's as trivial as perhaps what a lot of people might think, even just to set up a website.

**So what's next for you?**

I'm involved in a business at the moment called Simply Sold that I own half of, that sort of does eBay consignment stores, so if people want to sell stuff on eBay they can bring them in to one of our stores and we do everything for them and just take a commission and they just get a cheque in the hand.

The core of what our offering really is consumer focused and is targeted at ... we've got retail outlets and people can come into the retailers. We do a lot of work with schools and charity groups – for the Brotherhood of St Laurence, St. Vincent de Paul, etc. It's a good mix.

We get a lot of retailers coming in and at the start they were bringing in stuff they couldn't sell and because they were getting decent prices for it, they've now started to bring in stuff that they do sell on the floor because they're getting better prices or turning over more of it than what they do from their retail frontage, so it's been interesting.

**And where does that leave them? Are they considering shutting their doors and just doing eBay?**

We're looking at actually dealing with

that by setting up a separate sort of consulting business where we can lend our expertise and knowledge that we've learnt through selling now thousands of products on eBay. A lot of them might test us out and once it actually works for them we lose the business because then they'll go down a separate path, so we're actually looking at pricing plays and consulting services to supplement our business so that we don't lose that business longer term.

### **How many employees has Simply Sold got?**

I'm a non-executive but I think it's around the 20 to 30 mark. Through a number of different stores.

### **Just a nice growing business?**

There's four stores around – only in Melbourne and we're about to open in Sydney before the end of the year. We've got multiple stores actually planned there so it's going along quite nicely.

### **And what else have you got on the board?**

I've been looking at a couple of non-technology concepts, retail concepts,

and also been looking at cutting-edge technologies in the semi-conductor space and a couple of other things. I'm still sort of deciding. They're overseas companies I've been looking at, so it's sort of still deciding about how much I want to get involved in stuff, especially stuff outside Australia. We just had our fourth child about three or four months ago so I ...

### **You're 36 and you've had your fourth child?**

I can't be on a plane overseas all the time. I don't think my wife would allow that.

### **But you're fairly addicted to the start-ups?**

Well that's right: the freedom and excitement that comes with it drives me. I think that's what I'm good at and I think I've learnt a lot from being involved in multiple start-ups and I've also come to a conclusion that not every one is going to work and that's why I want to get involved in a few different ones.

**Well, I remember asking Lloyd Williams why he got involved with you in Azure and he said because you'd**

**had such a big failure and he said, This is a young man who learns from failure.**

Thanks and good luck. \*

# When to expect a call from the taxman

*It's as though the taxman has a trigger-point list for putting businesses under the microscope. So what are the triggers?*

## TAX UPDATE

Thursday, 30 August 2007

By Terry Hayes

The tax office has lots on its plate. Millions of taxpayers and millions of tax returns to keep tabs on, as well as making sure lodgements are on time and that tax returns are correct.

The tax office can't do everything all the time, so it prioritises what it does, and establishes a level of risk to different taxpayers and industries based on information and intelligence it gathers. The level of risk determines what the tax office does next – phone a taxpayer, send a letter, or go straight to an audit.

There are a number of issues to look out for that the tax office has flagged for attention concerning micro-businesses – those with annual turnover up to \$2 million.



## Record keeping

The tax office virtually continually reviews business record-keeping practices. Record keeping underpins the tax system, even more so since the introduction of the goods and services tax. But if a business gets it wrong, there will likely be tax consequences, and maybe even penalties.

But the tax office does offer an olive branch here. Where it identifies poor record keeping, it will offer advice to a business and help to improve. Depending on the circumstances, the tax office may schedule another visit to check that practices have improved.

While the offer of help is genuine (and should be considered as such), it is not indefinite. Where the tax office offers help but business owners do not make a genuine attempt to change their practices, and their record keeping remains unsatisfactory, the tax office says it applies a graduated approach to penalties, extending to prosecution for those who consistently fail to meet their obligations.

## Business expenses

The tax office is also examining the records of micro-businesses to determine whether they are correctly

claiming business expenses. This wide-ranging review involves:

- Reviewing and seeking more information from “higher risk” taxpayers about their business expenses so it can determine whether their claims are correct.

- Encouraging voluntary disclosure throughout a review (with potentially much lower tax penalties as a “carrot”), but moving to audits where the tax office considers it necessary to further investigate the deductibility of business expenses claimed.

- Visiting tax agents whose clients have very high business expenses, and reviewing their claims.

- Educating businesses (and their advisers) where the tax office finds a common misunderstanding about the deductibility of business expenses.

## Lodge those returns on time

Not all businesses lodge their tax and related returns on time. And this can hurt a business, not only from the penalties that may subsequently apply, but, perhaps even more importantly, from the black mark such late

lodgement places on the tax compliance history of the business. The taxman has a long memory!

To identify businesses that pose the highest risk of not lodging returns or lodging late, the tax office compares information from its internal and external sources. It then tailors its response to the level of risk and the compliance history of each business. It's a logical approach that a business operator needs to be aware of.

The tax office says it deals with failure to lodge by contacting businesses by letter or phone, undertaking field reviews, making assessments based on information available, or imposing statutory penalties and taking prosecution action.

This year, the tax office will have a particular focus on the following:

- Self-managed superannuation funds.
- Businesses with outstanding tax or superannuation guarantee debts.
- Businesses that fail to lodge on time.
- Business operators with child support obligations – so, don't forget that it's not just income tax or GST that matters.

■ Cash-based businesses that display “conspicuous consumption” – once again, the tax office's data-matching capabilities come to the fore.

■ Businesses identified through major tax office enforcement projects.

Non-lodgement is a big issue, especially when it is considered that in 2006-07 the tax office finalised outstanding lodgements for micro-businesses concerning 82,000 income tax and FBT returns, plus 395,000 activity statements.

### Disposal of assets

In a business context, the disposal of an asset invariably has a tax consequence, but that consequence is not always appreciated by the business owner. In this regard, the tax office plans to increase compliance activity in this area in 2007-08 by reviewing a wider range of transactions by micro-businesses that may result in a capital gain.

These kinds of transactions tend to be relatively infrequent for many small businesses, and the tax office is concerned that micro-businesses are not always aware of the capital gains tax and GST implications.

Therefore, in 2007-08, the tax of-

fice says it will send letters to taxpayers who have:

- Purchased a property during the year, outlining their record-keeping requirements and advising of potential capital gains tax implications.
- Sold a property during the year, explaining the potential capital gains tax implications.

In verifying compliance with the tax laws, the tax office uses data from third parties, such as financial institutions and property registries, matched with return information to identify taxpayers who fail to disclose or significantly under-report a capital gain.

*Terry Hayes is the senior tax writer at Thomson Legal & Regulatory, a leading Australian provider of tax, accounting and legal information solutions.*



# Sporting sector in good shape

*The Sports Grounds and Facilities industry has enjoyed strong growth over the past five years, buoyed by the Rugby World Cup and Commonwealth Games. Now it is expected to slow.*

## INDUSTRY TRENDS

Thursday, 30 August 2007

By Jason Baker

Growth in the \$2.2 billion Sports Grounds and Facilities industry is predicted to slow over the next five years.

Over the past five years, the industry grew by an average 6.3% a year thanks to increased participation in sport following the Rugby World Cup and Commonwealth Games. But as consumers' enthusiasm for sport wanes without the big-event excitement, growth will slow to 2.5% a year over the next five years, to reach industry revenue of \$2.3 billion by 2012.

The growth will come from rising disposable incomes, growing leisure hours, interest in new sports and

health and fitness, and industry consolidation. Over the forecast period, the industry will continue to stage international events such as cricket tests and rugby union internationals.

### Key statistics 2006

Statistic	Value
Industry Revenue	2.2 billion
Revenue Growth (2005 to 2006)	19.3%
Number of Enterprises	1450
Employment	39,258

The biggest sporting earner in Australia is health and fitness (35%) and the biggest business in the Australian market, with 8–8.5% market share, is Fitness First. It started in the UK in 1993 with only one health club. Three years and six clubs later, Fitness First was the first health and fitness company to float on London's Alternative Investment Market (an exchange dedicated to small-cap stocks). It used the capital to expand internationally.

In September 2005, Fitness First became the largest health club group in the world with 424 clubs and 1.1

million members and was acquired by BC Partners, a European private equity group. There are now more than 500 Fitness First clubs worldwide, with about 180 in the UK, 190 in Continental Europe, 60 in Asia and 70 in Australia – serving over 1.2 million members. The Australian part of the business is 85% owned by UK-incorporated Fitness First Plc and 15% owned by Australian managing director Tony de Leede.

In fiscal year to October 2005, Fitness First recorded total revenue of \$169.55 million, and net profit after tax of \$26.58 million. For the year, the company employed about 924 staff and has total assets worth more than \$115 million, largely reflecting its property holdings (clubs tend to be city-based and large), thereby facilitating scale economies.

Australian Rules football is the next biggest earner in the industry, accounting for 14% of revenue.

The Melbourne Cricket Club, with 5.5% market share, is the only other major player in the market. Smaller players include: Macquarie Leisure

Trust Group, which owns tenpin bowling centres; Mirvac Group, which has a 20% stake in Telstra Dome; Melbourne & Olympic Parks Trusts, which operates Melbourne Park and Olympic Park; and Stadium Australia Group, which owns Telstra Stadium.

### Industry outlook

Year	Revenue (\$Am)	Growth (%)
2007	2056.1	-8.0
2008	2111.9	2.7
2009	2187.9	3.6
2010	2249.8	2.8
2011	2288.7	1.7
2012	2319.6	1.4

### Key success factors for operators in the industry

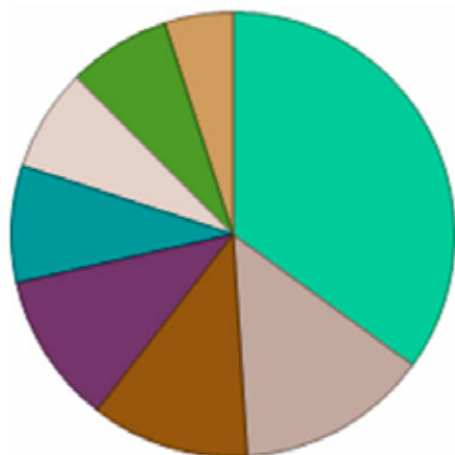
- Carrying out all necessary maintenance to keep facilities in good condition.
- Membership of an industry organisation. Establishments may gain credibility through a relationship with the relevant sporting association or organisation.

- Provision of appropriate facilities. Establishments must have good quality, appropriate facilities to attract customers.
- Having a high profile in the market

nology. Larger industry companies must take advantage of technology to improve performances, consumer experience and value added offerings such as CDs/DVDs of events.

development of large arenas and stadiums is very expensive and highly capital intensive; therefore, superior financial management is essential.

- Effective product promotion. To professionally promote the facilities will ensure greater participation at the specific sporting venue.
- Ability to accommodate environmental requirements. Water restrictions are in place across many areas throughout Australia. Some sporting grounds must adhere to bans related to watering surfaces, which will affect this industry significantly. \*



Product/Services	Share
Health and Fitness Centres	35.0%
Australian Rules Football	14.0%
Other	11.5%
Tennis	11.0%
Rugby Union and Rugby League	8.5%
Football (Soccer)	7.5%
Cricket	7.5%
Golf	5.0%

to attract customers.

- Easy access for clients. Facilities must be accessible physically (to meet disability and safety legislation), geographically (near transport infrastructure) and electronically (so people can use the internet to buy tickets and source basic information).
- Production of premium goods/services. High-quality services provided by trained and qualified staff will attract repeat and new custom.
- Ability to quickly adopt new tech-

- Access to volunteer labour. Not-for-profit establishments in this industry benefit from having access to volunteer labour.
- Optimum capacity utilisation. Operators must make the most of facilities by hiring them out to third-party companies. Better capacity utilisation will lower per-unit costs and allow companies to offer consumers affordable tickets to events.
- Financial position of the company (as against financial structure). The