

# *Can growing confidence, grow value?*

*Private Clients*  
**Private Business**  
**Barometer Pulse**  
*Summer 2011*

*Listening to Australia's  
private businesses*



The *Private Business Barometer Pulse* is available to download at the App store. Search for PwC Australia – Private Clients

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**App Store**

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Acknowledgements

The PwC *Private Business Barometer* surveys Australian-owned private businesses with revenues between approximately A\$10 million to A\$100 million per year. We survey 1000 businesses annually and six months later we take a pulse of the market to highlight trends and movements in business sentiment and performance.

In this edition of the PwC *Private Business Barometer Pulse*, Roy Morgan Research completed online interviews with 335 businesses during October 2011. The interviews were completed with the owner, chief executive officer or senior director of each business surveyed. The survey comprised of set questions across four key areas and topical questions designed to obtain the private business community's views on issues of the moment.

## Welcome to the Summer edition of the PwC Private Business Barometer Pulse.



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We see in the results of the PwC *Private Business Barometer Pulse* that once again, private businesses have been bullish in setting high sales and profit targets. Just over half of businesses met or exceeded their revenue targets over the past six months. Despite this, a large portion of businesses are not confident. This lack of confidence is driven by uncertainty around external factors they feel are out of their control, including the domestic and global economy and political stability.

Nationally, we connected with businesses in Queensland, Victoria and Western Australia to capture their feelings on the economy, the outlook for the future and plans for growth. Whilst many reiterated their lack of confidence in the economy and the uncertainty around external factors, they were also optimistic; seeing opportunity to add value and grow their market share.

One of the interesting points for me has been the shift in how businesses are sourcing future growth. The May edition of the PwC *Private Business Barometer* revealed that more than half of businesses were relying on organic growth as their growth strategy. In this *Pulse* of the market, one third of private businesses are expanding into new product markets to facilitate growth.

Just 32 per cent of businesses are considering major investments in the next 12 months. This is a slight dip from March, when 36 per cent indicated major investments were on the horizon. These results have remained largely static over the past two years, suggesting businesses remain cautious. While just under half of private businesses reported that they haven't encountered recent or longer term difficulties in raising capital, for those that did encounter difficulties, 40 per cent reported cost of funding and 35 per cent reported availability of credit as the main challenges.

Despite their concerns around the stability of the economy, more than half of businesses are looking to recruit people within the next six months.

Interestingly, securing the right talent is no longer the biggest challenge for private businesses. The number one challenge for private businesses is growth, followed by business operations, people and funding. Private businesses told us that at present the three key challenges to growth are low margins and competitive pricing, developing new business and the state of the Australian economy.

With an increasing focus on social media and communicating with mobile devices, we asked private businesses if they have, or plan to make changes to a variety of channels or strategies. Forty four per cent of private businesses said they have increased or revamped their presence on the web and 41 per cent said they are changing the way they communicate with their customers.

The PwC *Private Business Barometer Pulse* is just one of the ways PwC Private Clients supports the health and vitality of Australia's private business community. We hope you find this to be an insightful and useful tool for benchmarking your current performance and outlook for the future.

If you would like to talk to me about your business or the findings discussed in this publication, I would welcome the opportunity to hear from you.

# Business Growth

**Table 1: Success experienced in meeting set revenue targets**

% of Businesses	Barometer									Pulse
	Feb-07	Aug-07	Feb-08	Aug-08	Mar-09	Aug-09	Mar-10	Sep-10	Mar-11	Sep-11
Exceeded targets	28	28	26	24	15	12	31	29	32	25
Met targets	59	58	60	43	39	41	34	32	30	32
Undershot targets	14	15	14	34	46	47	34	37	35	43
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

## Were revenue targets too ambitious?

It is encouraging to see that more than half (57 per cent) of private businesses exceeded or met their revenue targets. Although 43 per cent of private businesses undershot their revenue targets for the past six months, they were bullish in setting very high targets (13 per cent sales and 17 per cent profits). They've continued to set themselves high targets, increasing them yet again, and PwC Private Clients believes that if they undershoot these targets and achieve growth of seven or eight per cent this still bodes well for good performance.

**Table 2: Short and medium term sales/profits targets**

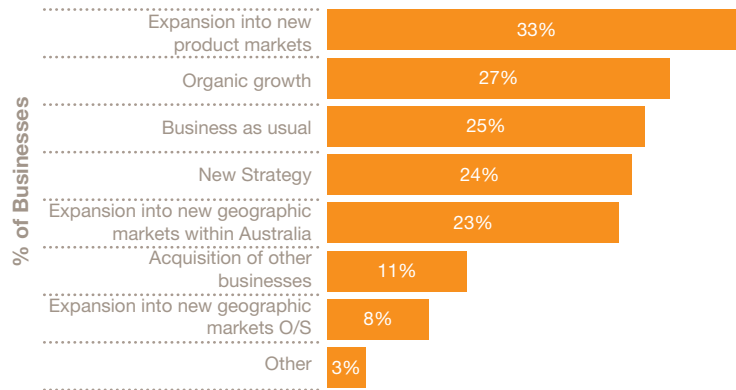
Average % Growth Target	Barometer									Pulse
	Feb-07	Aug-07	Feb-08	Aug-08	Mar-09	Aug-09	Mar-10	Sep-10	Mar-11	Sep-11
<b>Short Term (1 Year)</b>										
Sales	18	18	15	11	6	7	13	15	13	14
Profits	17	17	16	10	7	7	17	20	17	18
<b>Medium Term (3 Years)</b>										
Sales	14	15	14	13	10	12	18	22	23	24
Profits	12	12	14	13	11	14	25	25	23	25

## Optimistic for the medium term but uncertain about the short term

Private businesses reported a short-term profit target of 18 per cent which is an increase from the results of the May edition of the PwC *Private Business Barometer* but not as optimistic as the 20 per cent target set in September 2010. The medium term outlook remains optimistic, and profit targets are the same as March 2011 and September 2010 levels with 25 per cent growth forecast over the next three years.

## **The medium term outlook remains optimistic with 25 per cent growth forecast over the next three years.**

**Figure 1: Growth strategies over the next 12 months**



## **Expansion into new product markets favoured growth strategy**

When considering a future source for growth, 33 per cent of private businesses said they plan to expand into new product markets. In the May 2011 edition of the PwC *Private Business Barometer*, about half of businesses (51 per cent) said they would expand organically. PwC Private Clients believes this is an acknowledgement from private businesses that you must be innovative to achieve growth.

### **How to create growth in your business**

- *Don't rely on organic growth as your growth strategy, explore opportunities to expand domestically or internationally.*
- *Doing what you've always done is not going to help you create growth – you've got to do something different.*
- *Scenario planning is essential – what can you do now to prepare your business for when the market is ready to turn?*
- *Running a business is about controlling what you can and being prepared.*

## Business Growth

To bring these results to life and to gain further insight into how private businesses are feeling, we spoke with businesses in Queensland, Victoria and Western Australia to capture their feelings on the economy, the outlook for the future and plans for growth.

Once again private businesses have been bullish in setting high sales and profit targets. Private businesses are acknowledging that doing what you've always done is not going to help you create growth – you've got to do something different. Private businesses recognise that they can't rely on organic growth as a means to create growth.

As private businesses seek out other growth strategies, many are looking at expanding into new product markets.

“We're aggressively creating new product lines, but at the same time being incredibly careful of our brand distinction and preventing brand dilution,” said Brian Briscoe, owner of Briscoe Search & Consulting, a recruitment specialist in Western Australia.

Some private businesses are looking at strategic acquisitions as a way of expanding their product base.

“Sometimes the easiest way of getting into a new product or market is by making a strategic acquisition in that key area,” said Michael Da Gama Pinto, Senior Associate at Harbert Australia Private Equity.

Now is the ideal time to be looking at the opportunities in the market and taking action, Michael says.

“The balance sheets in the businesses we look at couldn't be stronger at this point in time and most of them have their leverage under control. Growth looks good but there seems to be a disconnect between the fundamentals and I think it's that growth that they are forecasting going forward isn't what they want it to be, so they're hesitant to take action” says Michael.

Tom Strachan, owner of AWX, a company specialising in solving short and long term staffing requirements, agrees that businesses cannot sit back and wait until the market turns, as there are always opportunities. A business needs to reposition or restructure resources to take advantage of those opportunities presented, no matter the market conditions.

“We have been preparing for a fairly flat two speed economy. However, with our diversification we are looking to take advantage of that. Our confidence to perform is high and our strategy is being reinforced as we experience significant growth during these nasty winds.” Tom said.



*We brought private businesses together to bring the findings to life.*

For franchising businesses, one of the challenges achieving growth is finding franchisees and finding locations. Craig Davison, owner of The Outdoor Furniture Specialists, said that for the first time, locations the businesses has sought out over the past few years are now available due to a number of businesses exiting.

“We’re finding opportunity to get into some of these very valuable sites that we were restricted from getting in the past,” Craig said.

The growth in the mining industry has had a flow on effect for private businesses servicing the industry. Private businesses exposed to the sector have taken advantage of the phenomenal growth and are looking to further capitalise on this.

“We have exposure to the mining industry that we get to feed off and we’re certainly looking to expand and capitalise on the capital works that are going on around the country,” Tom said.



*“We have been preparing for a two speed economy and accordingly we’re looking to take advantage of that.”*

Tom Strachan, AWX.

# People

**Table 3: Hiring intentions in the next six months**

% of Businesses	Barometer						Pulse			
	Feb-07	Aug-07	Feb-08	Aug-08	Mar-09	Aug-09	Mar-10	Sep-10	Mar-11	Sep-11
FT or PT							57	57	59	57
FT	37	40	32	20	12	9				
PT	41	45	32	25	9	12				
No	54	50	58	64	41	41	40	39	35	36
Not sure	5	4	7	9	32	31	4	4	6	7
<b>TOTAL</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

## Private businesses planning to hire

The number of private businesses intending to recruit new people within the next six months remains consistent with the *Private Business Barometer* results from March 2011 and September 2010 with 57 per cent stating they intend to hire new staff. The number of businesses not hiring has also remained constant at 36 per cent.

These results indicate that although businesses have concerns about the impact of the economy on their businesses, they are not seeing this as a reason not to recruit people.

Almost all private businesses (93 per cent) expect wage costs to increase over the next twelve months. These results are consistent with the last two editions of the *Private Business Barometer*.

**Table 4: Initiatives to up-skill people**

% of Businesses	Sep-11
Specific job-related training	81
Mentoring	50
Working in other parts of the business	21
Shadowing	10
Working outside the business	1
Other	4
<b>TOTAL</b>	<b>n/a</b>

## On-the-job training favoured by private businesses

Eight out of ten private businesses reported they are doing specific on-the-job training (81 per cent) to up-skill their people, while a further half of businesses were undertaking mentoring (50 per cent). Other initiatives included working in other parts of the business (21 per cent) and shadowing (10 per cent).

### People are the foundation to a successful business

- Share the vision of the business – people need to feel they are part of this and know what they are working towards.
- Provide people with the opportunity to learn new skills – initiatives include mentoring, on-the-job training and shadowing other members of the team.
- Consider investing in systems to ensure your business has the tools it needs to support people in their roles.
- Now is the time to recruit star performers from competitors to ensure your business is prepared for a turn in the market.

## We spoke with business owners to delve deeper into how they retain, attract and motivate their people and have shared some of these insights below.

The results of the PwC *Private Business Barometer Pulse* indicate that finding talent is no longer the number one challenge for private businesses. More than half of businesses indicated in the *Pulse* that they intend to hire people within the next six months, consistent with the May 2011 edition of the *Private Business Barometer*.

For some private businesses, finding star talent remains a challenge although they see people are starting to look for other opportunities.

“We found it easier to get good people and the staff we have we’ve had for a while. People are at the stage where they want to move, they sat tight through the worst of the downturn and now they’re looking for other opportunities,” said Melanie MacDonald, owner of Line Management, an online education provider in Queensland.

A key challenge for private businesses is finding the right people who align with their values.

“Our key challenges are still to find the right people to join the business, find those right game breakers and I think that’s always your challenge,” said Tom Strachan, owner of AWX.

Ensuring people have a clear vision of where the business is going is essential. People need to feel aligned with the business and see how they add value and help drive growth within the business.

“We ensure our people have a clear vision of where we’re going. People need a few things – a clear vision that they can align with, cultural fit, to be challenged, and they need money or some form of reward. We show our people that we can provide a pathway to enable them to get what they want,” Tom said.

Michael Da Gama Pinto, Senior Associate at Harbert Australia Private Equity, a lower mid private equity investment group, says that private businesses are looking at different ways to attract talent including employee share scheme plans.

“We’re seeing employee share retention plans becoming a lot more important in the marketplace when you’re trying to attract the right talent,” Michael said.

Businesses are also finding other long term incentives will attract talent.

“We use long term incentives to lock our staff in – we take a long term view while a lot of other companies in this industry are only looking at their staff in the short term,” said Brian Briscoe, owner of Briscoe Search & Consulting a recruitment specialist in Western Australia.

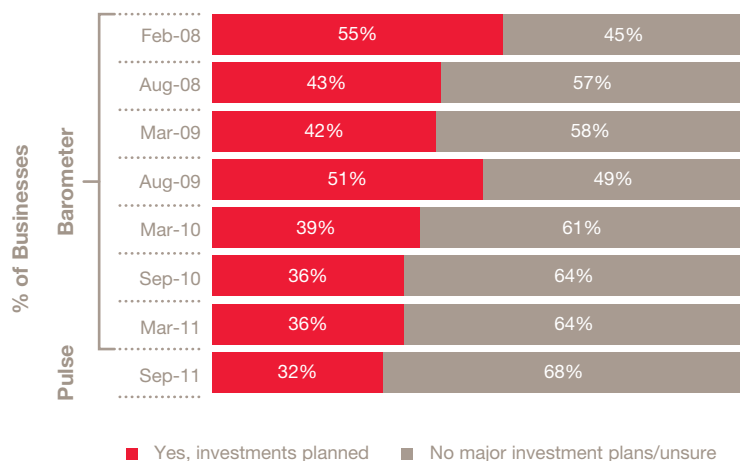


*“We’re seeing employee share retention plans becoming a lot more important in the marketplace when you’re trying to attract the right talent.”*

Michael Da Gama Pinto, Harbert Australia Private Equity.

# Funding

Figure 2: Major Investment plans



## Few investment plans

Most private businesses are not considering significant investments (60 per cent) in the next year with only 32 per cent considering major investments. Private businesses are once again reluctant to take on capital expenditure and this suggests there is ongoing caution in the private business market and a lack of confidence in the Australian and global economy.

Table 5: Main difficulties encountered in raising finance

% of Businesses	Sep-11
Haven't encountered any recent difficulties	24
Haven't encountered any difficulties for some time	18
Costs to the business of debt capital	23
Availability of any credit	21
Availability of equity capital	10
Educating/marketing the business' value	7
Other/Not raising finance	4
Would rather not say	7

Base: Sep 2011 Total businesses n=335.

## Banking relationships

Just under half of private businesses reported they haven't encountered recent or longer term difficulties in raising capital. For those that did encounter difficulties raising finance, 40 per cent reported cost of funding and 35 per cent reported availability of credit as the main difficulties.

Banks want more timely financial information on businesses with many requiring more profit and loss reporting than ever before. Twenty per cent of private businesses said their relationship with their bank has changed with comments such as they're being more stringent, risk averse and not as flexible.

### Now is the time to invest in your business

- *It's now the time to invest in your business whether it be expansion into new product markets, acquisitions, investment in machinery, people and training.*
- *Take confidence in your numbers and business and take advantage of the opportunities out there.*
- *Be conscious of asset and business valuations – if you're looking to buy new equipment or buy out your competitors, now could be good time.*
- *If you approach a bank for funding, ensure you have a plan to show how you will service the debt.*
- *Before you present any management information to a bank, make sure it is accurate.*

**The results of the *Private Business Barometer Pulse* and discussions with private business owners confirm that although their balance sheets are in great shape, they are hesitant to commit to capital expenditure and investment.**

Throughout the global financial crisis private businesses were acutely aware of managing their costs and expenditure and did this well. Profitability and sales improved which is why businesses are now in a great position – yet a lack of confidence in the market sees only 32 per cent of businesses considering major investments.

“The numbers say one thing, but the emotions say no,” said Ruth Richardson Clark, Chief Financial Officer from The Heat Group, a cosmetics distributor in Victoria.

PwC Private Clients believes businesses need to look at both sides of the risk equation, is it more risky for you to move forward, or is it actually more risky to stay where you are?

The availability of credit was widely discussed and whilst businesses agreed that banks are lending, they are becoming more stringent and want more timely financial information on businesses.

Twenty per cent of private businesses said their relationship with their bank has changed. Some have seen it as an opportunity to shop around for the best service because banks were looking for more business.

“We changed banks because we were not happy with the way the bank understood our business, where as our new bank is giving us the recourses to expand and is looking at a long term view of the market,” said Craig Davison, owner of The Outdoor Furniture Specialists.

Banks are scrutinising businesses more closely – even if they are performing strongly.

Ruth agrees, saying that “The banks are telling us ‘you can have this, but you’ve got to give us this in return’.”

Some industries have been blacklisted by banks including printing and some retailers and businesses now need to work harder to prove their worth to gain access to funding.

“Our industry unfortunately gets a big cross for credit. If you’re performing robustly and have the strong numbers, you are friends,” said Financial Controller Neelesh Mehta, Texas Peak, a wholesaler and retailer of sports apparel, footwear and equipment in Victoria.

Other businesses aren’t hearing any noise from banks but have a strong balance sheet to support them.

“We’re not hearing any noise from the banks, we have a record of solid performance, with a strong balance sheet and low gearing.” said Peter Cargin, Chief Financial Officer of the Sumo Visual Group in Victoria.

There are opportunities in the market to acquire businesses and assets. The business owners we spoke with agreed, noting that if you can attract capital there are some great businesses for sale.

“Good businesses will attract capital and will stand out in this market. We are seeing business for sale with quality assets really shining,” said Michael Da Gama Pinto, Senior Associate at Harbert Australia Private Equity.



*“We changed banks because we were not happy with the way the bank understood our business, where as our new bank is giving us the recourses to expand and is looking at a long term view of the market.”*

*Craig Davison, The Outdoor Furniture Specialists.*

# Business Operations

## Growth is the main challenge for private businesses

Private businesses reported that growth is their main challenge. The three key challenges faced by private businesses are low margins and competitive pricing (23 per cent), developing new business (14 per cent) and the state of the Australian economy (10 per cent).

**Table 6: Key challenges faced by businesses**

% of Businesses	Sep11
<b>People</b>	<b>16</b>
Staff retention	6
People management	6
Staff costs	4
<b>Funding</b>	<b>12</b>
Funding the business/cash flow	9
Cost control	3
<b>Business Operations</b>	<b>21</b>
Overseas competition	5
Domestic competition	5
Compliance/regulations	3
Consumer/Business Confidence	9
<b>Growth</b>	<b>50</b>
Low margins/competitive pricing	23
Developing new business/sales growth	14
Customer service/retention	3
State of the Australian economy	10
<b>No challenges</b>	<b>1</b>
<b>Can't say</b>	<b>0</b>

**Table 7: Mobile communication changes**

% of Businesses	Sep-11
Increased or revamped web presence	44
Communicating with customers	41
Marketing strategy	30
Staff working remotely	24
New ways of delivering products or services to clients	22
Search engine optimisation	20
Increased social media presence	20
Online retailing	17
Other	5

Base: Sep 2011 Total businesses n=335.

## Private businesses are changing the way they communicate with customers

With an increasing focus on social media and communicating with mobile devices, we asked private businesses if they have, or plan to make changes to their communication channels or strategies. Forty four per cent of private businesses said they have increased or revamped their presence on the web and 41 per cent said they are changing the way they communicate with their customers.

### Focus on value, not price

- *Now is the time to focus on your value proposition, not price. How can you differentiate yourself from your competitors?*
- *Consider expanding into a new product market.*
- *Look at the different ways you can communicate with your customers – including the web and social media. What are they saying about your business and your competitors? How can you leverage from this? How can you use social media to better understand your customers?*
- *Measure where your new business is coming from to ensure your business strategy supports customer demand.*

The results of the past three editions of the *PwC Private Business Barometer* highlighted that securing the right talent is the number one challenge for private businesses. In the *Private Business Barometer Pulse* and through discussions with business owners, we see that private businesses' number one challenge is low margins and competitive pricing.

Private businesses have shifted their focus to looking at cost efficiencies – particularly in the retail sector.

“We have witnessed a real shift in focus towards cost reduction. This is particularly relevant for our customers in the retail space with tendering requests, consolidation of their procurements processes and demanding more cost effective solutions from us,” said Peter Cargin, Chief Financial Officer of the Sumo Visual Group in Victoria.

In response to failing to meet high growth targets, some private businesses have increased costs to alleviate pressure on margins.

“We set a growth target of 20 per cent on the previous year and failed to meet it. We focused on proactive marketing and upped our prices,” said Mark Da Silva, Managing Director, Concept Marketing in Western Australia.

We talked to private businesses about their online strategy, in particular if they have made, or plan to make, any changes to it. The majority of businesses acknowledge the shift and demand for online goods and services, particularly in retail, but many are waiting before they invest in an online strategy.

One of the businesses we spoke to initially resisted moving her business online. However after doing the research with her customers she realised she had very little choice.

“We started to get a few students saying, we’d like to see you on the web, we want to do courses online. We had to experiment to see what the marketplace wanted rather than what we wanted, it showed that’s where the demand was, so we decided to give the customers what they wanted,” said Melanie MacDonald, owner of Line Management, an online education provider in Queensland.

Line Management’s business is now built on social media.

“All of our customers come through some form of social media. We’re using Facebook, blogs, various forms of Google so all the business we generate comes from people engaging with us on the web in some way,” said Melanie.

Others have developed software to support their customers and staff to make their online space more interactive.

“We have implemented several self-made software programs that have been able to make online more interactive so that we’ve actually provided our employees and clients a platform that they can utilise,” said Tom Strachan, owner of AWX.

Some businesses have completely shifted their spending on traditional marketing and moved it online to embrace social media.

“We spent hundreds of thousands over the years on yellow pages, now that’s down to zero, and the money is now being spent on online media sites and other social media including Facebook” said Craig Davison, owner of The Outdoor Furniture Specialists.



*“All of our customers come through some form of social media. We’re using Facebook, blogs, various forms of Google so all the business we generate comes from people engaging with us on the web in some way.”*

Melanie MacDonald, Line Management.

# State by state overview

## Western Australia

### *Two-speed economy at play*

The resources and mining industry in Western Australia is driving the state economy.

Private businesses in Western Australia that are exposed to resources and mining are doing well and are embarking on capital expenditure and projects, whereas industries including property, retail and manufacturing are thinking twice about the extra expense.

## Australian Capital Territory

### *Consider redefining your market*

Private businesses in the Australian Capital Territory are starting to feel the impact of price corrections in the market. Growth is slowing when compared to the past six to twelve months.

There is uncertainty and a lack of confidence in the economy which is impacting investment in capital and innovation. The reluctance of private businesses to invest in innovation is a lost opportunity for not only creating a point of differentiation, but for helping drive the economy forward.

## South Australia

### *Private businesses ambitious but looking for direction*

Private businesses in South Australia have a reputation for being naturally more cautious than their eastern and western counterparts. Whilst there is a feeling that conditions will improve and that the opportunities will still be there in the longer term, the level of confidence was generally low.

The results from the PwC *Private Business Barometer Pulse* highlight that private businesses in South Australia, whilst bullish with their short term and medium term sales and profit targets, have, like the rest of Australian privately owned businesses, struggled to meet their forecasts.





## Queensland

### **Queensland recovers and looks to mining to drive economy**

When we spoke to private businesses for the last edition of the PwC *Private Business Barometer* it was not long after the floods and cyclone Yasi had struck. It is pleasing to see that most private businesses are in recovery with many now indicating they are no longer seeing the effects on their businesses. Private businesses are looking to the state and federal governments for certainty in leadership and policies that impact their businesses.

There is a two-speed economy at play in Queensland. The mining utilities and services industry is performing strongly whilst property, retail and tourism are under pressure.

## New South Wales

### **Opportunity to add value**

Private businesses in New South Wales are fairly optimistic, however, like their counterparts in other states, are not confident in the external factors influencing their businesses which are out of their control. More than half of private businesses in New South Wales met or exceeded their revenue targets; however they have been more conservative setting targets for the next year.

With a recent change in government, we believe private businesses are looking for a shift in policy – particularly in areas including payroll tax, state based awards and incentives for doing business in New South Wales.

## Victoria

### **Private businesses find niche and perform well**

Private businesses in Victoria are taking a modest approach when it comes to short and medium term sales and profit targets.

Many private businesses in Victoria are putting off major capital investments and are not planning significant acquisitions. Most are taking a more conservative view of the economy given poor consumer sentiment and a current lack of stimulus in the market.

# PwC contacts

## *PwC Private Clients helps private business owners and individuals grow their personal and business ambitions.*

### *PwC Private Clients*

It will come as no surprise to you that we do audits. Provide tax advice. Can help with a raft of business advisory services. What's different about PwC? You.

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We believe that together, we can create conversations and ideas that will grow the future of our nation and help you realise your business and personal ambitions.

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Our mission is to help the people we work with grow both their business and family wealth. We do this by:

- understanding what your needs are at both business and personal levels; because it's not all about work.
- telling it like it is, by giving you the honest insights you expect from a trusted business partner. You didn't get where you are by surrounding yourself with 'yes' people.
- bringing you the very best ideas and fresh thinking on a host of business issues.

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# Acknowledgements

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*How can growing  
a business make  
you feel like an  
emperor?*

**pwc**

When our Private Clients team spoke with brothers Emanuel and Napoleon Perdis, of Napoleon Perdis Cosmetics, they had outgrown their local advisor and were looking to expand. Emanuel wanted someone who could work with them on expansion plans and refinancing, but more importantly, he needed a trusted business advisor he could come to for future decisionmaking. Their unique take on the cosmetics industry - that they're not in the fashion business, but the confidence boosting business - has seen them grow and grow. With the continued advice of their Private Clients team, they are now on their way to becoming one of the most recognised cosmetics brands from Australia to Hollywood. And Emanuel, he loves the fact that although he's not our only client, he certainly feels like he is.

*What do you value?*

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