



CHARLES PRATTEN

Independent
Consultant

Business &
Management

CONTACT

PHONE:

+ 61 0480 183 977
1300 855 223

WEBSITE:

www.charlespratten.com.au

EMAIL:

contact@charlespratten.com.au

The Off Misunderstood Nature of Business Decisions: Beyond Conventional Wisdom – The benefits of a well-reasoned Business Plan

Most business owners—whether sole traders, directors of small companies, or business leaders—have embarked on extraordinary journeys, making strategic decisions shaped by their own unique talent, experience and judgment. But, when regulators, particularly tax authorities, pass judgment on these decisions, the consequences can often be profoundly negative, and punitive.

“Who cares how transactions are arranged. The structuring of transactions should be evaluated beyond the lens of tax minimisation, as the intricacies of business often defy a straightforward path. While the external appearance of a particular course of action may not immediately resonate with observers, the diversity in business strategies mirrors the subjective nature of beauty, where individual perspectives differ. In the realm of business and negotiation, parties involved may harbour distinct and sometimes conflicting expectations, akin to the dynamic between a punter and a bookie. Thus, the rationale behind a party's chosen course of action may not always be obvious nor transparent, especially in competitive scenarios or collective efforts against a common adversary, where accountability to investors or shareholders is absent.

While fiduciary responsibilities demand logical decision-making when handling others' finances, the same level of superintendence cannot be universally imposed on business entities engaged in competitive enterprise. The notion that every business move must yield immediate profits or align seamlessly with revenue-centric logic is unrealistic. Engaging in groundwork over an extended period, investing more than one receives in anticipation of future substantial gains, even at the expense of short-term hardship, is emblematic of the daring spirit inherent in the world of business—though one that not all enterprises successfully endure.”

Charles Pratten: The Institute for Small
Business & Entrepreneurship 2023

The Importance of a Well-Reasoned & Updated Business Plan

Many of those less extraordinary individuals, having chosen the comfort of desks in positions of authority, are spared the burden of making fateful "food-on-the-table" decisions for themselves. Yet, they are tasked with making subjective judgments about your business decisions, often lacking any real insight into the intricacies and peculiarities of your enterprise. Instead, they often rely on bland statistics and one-size-fits-all analysis. This becomes especially problematic in areas like research and technology investment, where anything out of the ordinary is too often viewed with suspicion—almost with the zest of witchcraft. Sadly, bold, unconventional decisions are frequently penalised instead of rewarded. That's why—should the taxman cometh—it is essential to have a clear, rational, and properly-documented explanation for your decisions, kept updated in a business plan—ready to defend your choices should the need arise.

- ❖ "Averaging" is a particularly problematic phenomenon where your business's income, expenses, and profitability are compared to similar businesses. If your numbers don't match the average, you can expect a "please explain" letter from authorities. It's similar to when a horse unexpectedly wins a race or a favourite loses by a large margin—there's suspicion, and the race marshals will investigate everything from the horse's feed to its training to explain the outcome. In business, regulators, and tax authorities in particular want to understand why your performance is better or worse than your competitors'. A well-reasoned business plan can usually help answer their inquiries.

Notwithstanding, a successful business strategy often relies on ambiguity, much like a chess grandmaster's moves. Business owners have to anticipate market shifts, competitor reactions, and consumer behaviour, making decisions based on deep personal knowledge of their business and long-term goals. While outsiders may not understand these decisions, an up-to-date business plan can clarify them when needed. Beyond resolving such issues, a current business plan also plays a crucial role in valuing one's business—whether applying for finance, selling, or bringing in a partner, it can effectively document your strategies and successes, enhancing your professional credibility and adding value to your business.

CHARLES PRATTEN

Independent Consultant
Business & Management

17 November 2024

© 2024 Charles Pratten. All rights reserved.

Important Information

This information is provided as a research tool for those seeking general insights into the subject(s) covered. It is intended solely for informational purposes and should not be considered financial advice as defined under Chapter 7 of the Corporations Act 2001 (Cth) or under any other similar Act or regulation of another jurisdiction. Readers are advised to consult an authorised financial services licensee or where appropriate other qualified professional for personalised financial advice. For more information about the services offered by Charles Pratten & Associates, please visit:

www.charlespratten.com.au/financial-advice