

Business Matters

News & Information from TWB Chartered Accountants

2nd Quarter 2007



Improve your profitability through better financial control

As a businessperson you will recognise the vital importance of financial control in sustaining and improving profitability.

Good financial control involves:

- Deciding which areas you need to monitor and how frequently
- Generating the numbers quickly and accurately
- Sharing the results with everyone who needs to know them
- Interpreting the numbers correctly
- Taking appropriate and timely action based on your interpretations
- The starting point is to set up a system that enables you to generate accurate reports as quickly as possible - certainly no later than ten days after the month closes.

To be fully in control, you need information on what is happening to your business now, not what happened weeks or months ago.

Weekly and daily updates

In key areas, such as sales, debtors, cash position, trade creditors, and employment figures, you can't afford to wait even for a month. Here you could consider setting up a system of weekly or even daily updates. These 'flash reports' or executive summaries will give you better control in the short term.

Make sure key managers receive the flash reports as well as the monthly reports quickly, and encourage them to share the results with the relevant employees.

Compare projections with results

One of the most valuable instruments of financial control is drawing regular comparisons between projections and results. Not only does this keep you up-to-date on how your business is doing, it also reveals how realistic your expectations are and how in touch you are with the essentials of your business.

For best results, you should draw up projections for a six-week period and then set new projections at the four-week point.

Bottom line results

The key to good financial control is to have an effective system for collecting data and generating accurate and timely reports that is tailored to your specific needs. In our experience, such a system can make a considerable difference to your bottom line results.

Call us today to discuss how we can help you improve your profitability through better financial control.

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KEEPING YOU ON THE RIGHT TRACK

We can help your business and your personal finances to stay on the right track
Call us now and we'll arrange a meeting to discuss:

- Strategies to help your business improve its efficiency and profitability
- Reducing the burden of taxes on your business
- The tax issues that affect you and your family
- Maximising your wealth
- Retirement planning strategies for you and other family members

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Low prices no guarantee of profits

Business owners often think they can succeed with a strategy of undercutting their competition's prices for products or services. It is assumed that low prices are assumed will generate sufficient sales volume to more than make up for smaller profits.

After all, they see tons of advertisements for big companies that only seem to emphasise low prices. And they know that buyers can comparison shop before they make purchases – more so now with ready access to the internet. So they think that a strategy of low prices is the path to success.

But what may be an effective strategy for a few giant retailers or airlines is extremely risky business for most small companies — and most big companies as well.

Competing on price is risky. Low prices mean narrow profit margins, and narrow profit margins mean less cash. With a small financial cushion, you're vulnerable with every slight increase in costs. As small change in fuel costs or rent costs may absorbed your entire year's profit.

That, in turn, means you'll have to find ways to reduce costs. The first thing you may be tempted to do is reduce wages and benefits. This means you won't be able to attract good employees. They're less likely to be productive or loyal. You'll be busy keeping an eye on them, and they'll be keeping an eye on the clock.

The next thing you'll do is cut marketing. And businesses that compete on the basis of price almost always depend on high levels of marketing to keep customers coming in the door.

And the customers who do come are fickle. Low-price shoppers are loyal to price, not to you. So if the competition decides to squeeze you out with even lower prices, a lot of your hard-won customers will be lost almost instantly.

But while price should never be the cornerstone of your strategy, it also can't be ignored. So how can a small company — which may not qualify for the supplier discounts or achieve the economies of scale of a larger business — still maintain competitive pricing?

- Carve out a niche. If you 'own' a market, you have more room to set prices. If there are 100 mechanics in your city, you'll face constant price competition. But if you're the only mechanic specialising in Volvos, you'll face much less price pressure, plus you'll have the added benefit of savings in costs or efforts by developing expertise in fewer areas.

- Communicate the differences. In the absence of any other information about you, buyers focus on price. That means that you need to spell out what is special about your business. It may be that your team has 75 years experience, or that you have a multilingual sales team.

- Focus on value. Value is a term used to mean the combination of price and quality. When you shop for a winter coat, you may be willing to pay a higher price to get quality that will last many years. Likewise, a client may be willing to pay a higher price for your printing services if you can deliver the job faster with fewer errors than your competition. Excellence and service are competitive advantages that let you justify higher prices.

- Target the right customers. Not all customers are willing to pay more, even for better quality. So make certain you aim your marketing efforts at customers who will respond to the differences you offer and can pay a slightly higher price for that value.

- Build loyalty to you, not your price. Reward customers that do business with you that helps you make money. Loyalty systems that recognise those that do not quibble, order frequently or pay on time. An occasional "Thank You" to these kinds of customers also works wonders to build loyalty and costs little.

Don't let yourself get caught in a continual battle to be the "low-price leader." You may win that battle but lose the war — or worse, your business. Remember, you've got a lot more to offer than just a low price.

How does discounting affect my business?

There is an old story of two business owners chatting about their respective pricing strategies. One suggests that he intends to purchase his goods at \$1.00. He points out that he also plans to sell his goods at \$1.00. The second one asks him "How do you plan to make a profit?". He replies confidently, "Volume, of course".

Whilst the story may seem somewhat ridiculous, the fact remains many business owners are uncertain about how much extra business

they need to generate from a price reduction or discount, just to maintain their profit levels in dollar terms, and are often over optimistic when it comes to assessing the benefits that may be obtained by a "great deal".

The chart shown below highlights the impact a poorly considered pricing strategy can have on your business. If you have any questions in relation to your pricing strategy, please call our office.

		Present Gross Profit Percentage								
		20%	25%	30%	35%	40%	45%	50%	55%	60%
Price Reduction or Discount Percentage	2%	11%	9%	7%	6%	5%	5%	4%	4%	3%
	10%	100%	67%	50%	40%	33%	29%	25%	22%	20%
	12%	150%	92%	67%	52%	43%	36%	32%	28%	25%
	20%	-	400%	200%	133%	100%	80%	67%	57%	50%

Sales volume percentage increase required to maintain the same gross profit

Employee or contractor?

It is important to determine the status of workers as payers have different obligations under the pay as you go (PAYG) system depending on whether they engage a worker as an employee or an independent contractor. Award wages, PAYG, compulsory superannuation and

workers compensation are paid for all employees, whilst contractors are responsible for their own payments.

Whether a person is an independent contractor or an employee is a complex legal question. A full answer is really only

possible after considering each individual's circumstances. Courts usually apply certain legal tests to determine the nature of the working relationship. Here is a summary of factors to consider in determining whether an individual is an employee or contractor.

Tests	Employee	Contractor
Control	The employer has an implied right within industrial law to direct and control the work of an employee. The employee carries out tasks under the direction of the employer.	A payer has a right to specify how the contracted services are to be performed. However, such control must be specified in the terms of the contract, otherwise the contractor is free to exercise their own discretion.
Independence	An employee performs work for the employer in accordance with an employment contract.	A contractor performs services as specified in a contract with the payer and provides additional services only by agreement.
Payment	Payment is often based on the period of time worked, but an employee can also work on 'piece rates' or commission.	Payment is dependent on the performance of the contract services.
Risk and liability	An employee generally bears no legal risks in respect of the work; since the employee works in the business of the employer.	A contractor bears legal risk in respect of the work. In return they have the potential to make a profit or loss, and must remedy any defective work at their own expense.
Delegation	An employee performs the work personally and generally cannot subcontract.	Unless otherwise specified in the contract, a contractor can subcontract or delegate the work.
Tools and equipment	The employer, except when specifically agreed otherwise, usually provides tools and equipment.	Generally, a contractor provides their own tools and equipment.

A word of caution. The provision of an ABN does not automatically mean that person is to be automatically deemed a contractor. If you are uncertain about the status of an individual and what obligations you may have as a result of your working relationship, please call our office.

Effective time management

The cliché states that 'time is money' and in a fast-paced working environment, it is particularly important to develop good time management skills.

Use the following checklist to see if yours could be improved.

How did you do?

Count the total number of 'yes' answers you have given.

- 9-10 Well done - now you just have to make sure that you maintain your high standards of efficiency!
- 6-8 Use the checklist to identify and prioritise areas of weakness, and focus on improving these.
- 1-5 The first thing you should do with your time is review your time management! As things stand, you are at risk of damaging your bottom line through inefficiency.

TIME MANAGEMENT SKILLS CHECKLIST

- Management identify the most important issues, and deal with them first **yes / no**
- Staff 'diary' the important jobs, and turn to them in order of importance **yes / no**
- The less important jobs are always delegated appropriately **yes / no**
- Staff are able to deal with the jobs they are given **yes / no**
- Punctuality is a company policy **yes / no**
- Meetings are meaningful and impose a clear-cut agenda **yes / no**
- Distractions such as personal e-mail and calls are kept to a minimum **yes / no**
- Important tasks are tackled when people are at their most productive **yes / no**
- Staff are given rewards and incentives to encourage productivity **yes / no**
- Our current system allows some time for dealing with unexpected issues **yes / no**

Increasing tax credits from investment property

Many property owners are foregoing potential credits by not taking full advantage of a property's tax depreciation potential. Property tax depreciation is available to any property owner who obtains assessable income by way of rent or operates a business from a property.

Unfortunately it is an often overlooked method of obtaining tax credits.

All types of income producing properties can have substantial taxation benefits, over and above negative gearing, that the owner is entitled to claim as a tax deduction. Any property, which is either rented or used to produce income may be eligible to be depreciated.

What is Depreciation?

In simple terms, under Australian income tax law, owners of property used for investment purposes are entitled to claim tax depreciation for the reduction in value of certain property and associated plant assets.

Tax depreciation is a deduction from assessable income, which reduces the amount of tax that you pay.

There are two different depreciation allowances for investment properties.

Depreciable Assets. This class includes plant and equipment such as carpets, ovens, air conditioners and hot water services. The Taxation Office specifies the individual effective life for each plant and equipment items.

In general any property constructed or refurbished after 17 July 1985 (for residential) and 20 July 1982 (for non-residential) is eligible for the construction write-off allowance. The maximum effective life of capital allowance is 40 years.

If you have not taken advantage of the full tax benefits associated with property ownership, don't be concerned.

Depreciation schedules can be prepared to allow recovery of missed depreciation benefits by amending previous tax returns.

A Great Read

Dealing With Difficult People: 24 Lessons For Bringing Out The Best in Everyone

Rick Brinkman and Rick Kirschner

McGraw Hill

Learn how to disarm problem people, find common ground and turn conflict into cooperation. Our challenge is to develop creative ways to handle these difficult people. Brinkman and Kirschner, investigate the psychological roots of ten specific behavior patterns that represent normal people at their worst. Realizing that changing oneself is more realistic than changing the behavior of others, the authors provide a variety of communicative skills that we can develop and nurture in ourselves to turn conflict into cooperation. Finally, Brinkman and Kirschner illustrate how to use these skills with each of the ten problem behaviors. Whilst not all problem behaviors fit nicely into one of their ten categories, the authors do provide a practical assortment of interpersonal communication tools for managing and coping with most difficult people.

A straightforward written book that will appeal to all.

We are sometimes asked if we are able to help additional clients. We are a growing firm and do appreciate your referrals. We consider it a compliment when you recommend us to your friends and business contacts.

WEB WATCH ESSENTIAL SITES FOR BUSINESS OWNERS

Harvard Business Review www.hbr.com

Brings its readers original research and firsthand perspectives from leading business thinkers around the world. Free online executive summaries for the busy business owner.

Survey Monkey www.surveymonkey.com

One of the many available online survey systems. Survey Monkey provides a simple and powerful tool to easily gather online feedback from customers. Cost effective too.

REMINDERS FOR YOUR DIARY

April

- 14** Reasonable benefit limits - Reasonable benefit limits (RBL) reporting – all RBL reportable benefits paid in March 2007 must be reported to the Tax Office on or before this date.
- 21** Activity statements - March 2007 monthly activity statements: final date for lodgement and payment.
- 28** Activity statements - Quarter 3 (January–March 2007) activity statements: final date for lodgement and payment.
PAYG instalments - Quarter 3 (January–March 2007) instalment notices. Final date for payment and, if varying instalment amount, lodgement.
GST instalments - Quarter 3 (January–March 2007) instalment notices. Final date for payment and, if varying instalment amount, lodgement.
Superannuation - Last day for superannuation guarantee contributions for quarter 3 (1 January–31 March 2007) to be made to a superannuation provider.

May

- 12** Activity statements - Quarter 3 (January–March 2007) activity statements: final date for electronic lodgement and payment.
- 14** Reasonable Benefit limits - Reasonable benefit limits (RBL) reporting – all RBL reportable benefits paid in April 2007 must be reported to the Tax Office on or before this date.
- 21** FBT Return - Due date for lodgement of 2007 Fringe Benefits Tax (FBT) return and payment if required.
Activity statements - April 2007 monthly activity statements: final date for lodgement and payment.
- 28** Superannuation - Due date for lodgement of a Superannuation guarantee charge statement and payment of the superannuation guarantee charge for quarter 3 (1 January–31 March 2007) if the minimum superannuation guarantee contributions were not made on time.

June

- 14** Reasonable benefit limits - Reasonable benefit limits (RBL) reporting – all RBL reportable benefits paid in May 2007 must be reported to the Tax Office on or before this date.
- 21** Activity statements - May 2007 monthly activity statements: final date for lodgement and payment.
- 30** End of financial year

Source: Australian Taxation Office