

## Newsletter

WINTER 2011

# Low cost not necessarily value

YOU get your best sales when the buyer sees real value in your price.

Believe it or not, sometimes you lose sales if your price is too cheap!

Some years ago a New Zealand publishing company planned a substantial reference book. They planned to sell it at a low price, but a publishing consultant told them they would sell many more if they sold it at twice the price.

He was so sure he offered a guarantee – if they sold it at the higher price he would guarantee the sales revenue they expected to get at the lower price, but he wanted half of any higher revenue.

The puzzled publisher could not lose, and took the bet. To the publisher's amazement, the consultant was right, and pocketed thousands of dollars. He explained that at the cheaper price, buyers would think it could not possibly be as good as it was. For a quality book, buyers expected a higher price.

A country printer quoted on a very large Auckland

contract, but did not get it. Disappointed, he asked why.

"You were way below everyone else – you simply can't do a quality job for that price," the Auckland firm told him.

The printer's wall was decorated with awards he had won for the quality of his work – but he didn't show that in his price.

Base your selling price on what the market is willing to pay. But take care – this is highly theoretical so research your market. Determine where you want your product or service to be in that market. Do you want to be known for your quality or your price?

The above illustrations show you just how subjective determining a selling price can be.

Cost is not a basis for setting a selling price. You determine cost, including a fair share of overheads, only as a cross check to see you will not be making a loss.

## Dear customer: We love you!

WE USE the term "love letter" in business for a letter or email sent to a customer to make him/her feel special. Life insurance agents often send a card on the client's birthday.

Love letters are a good way to keep in touch. A car salesman can choose the anniversary of when a car was purchased.

How about sending a card to one or two of your top

customers when you go on holiday? A short personalised note, while you are on vacation, helps the reader see you as a friend. It's hard to change your supplier when it means losing a mate.

Love letters are a way to help you keep your best customers.

It is much easier to hang on to your existing customers than to get new ones.



## Chocolates and coffee

A businessman always sends a small present to say thank you for referrals. A box of chocolates or some posh coffee is couriered to the referrer.

Recently, a grateful recipient

acknowledged the gift. "No one ever does that" said the voice on the other end of the phone. She was thrilled to receive the gift. The best way to get people to repeat what you would like

them to do again, is to reward them. You may have noticed the rule is universal. It applies to animals as well as people.

## Do you have your head in the clouds?

INLAND REVENUE is getting agitated about businesses which use “cloud computing” to keep their accounting records.

“Cloud computing is an internet-based computing service where users are provided with access to servers, software, applications, storage and networking, or any other aspects of computing, all of which are delivered over the internet,” it says.

It points out the data centres can be located anywhere in the world. New Zealand law requires you to keep your accounting records in New Zealand and you can be fined for not doing so.

If you use a cloud computing service, it would help if the supplier’s clouds are over New Zealand

– in other words, use a New Zealand-based company.

If you use an overseas supplier, make sure you can save sufficient information on your own computer to keep IRD happy. If this is not practical, you can apply to the department for permission to keep your records offshore. Each request will be considered on its merits. The IRD looks at how readily available the records are and whether having your records offshore is likely to impede the IRD’s compliance activities. If your supplier’s business fails, you could be in trouble if you do not have that IRD approval.



### Where are your business cards?

MANY people leave their business cards in their office drawer. It’s the least productive place for them.

Have them with you wherever you go. If you wear a jacket, you probably have a small pocket located just over your heart. This pocket was, I assume, created specially for business cards! Make sure it is always well stocked. Oh, and what about the person you meet who doesn’t have a card to give you? Keep some blanks in your pocket so you can get them to write down their contact details for you.

Distribute your business cards liberally. Don’t overlook the potential to get customers through your suppliers. I have even seen a business card included with a Christmas card. It’s debatable whether this is a good idea because it might mix the messages you want people to receive.

Joe Gerard, an American, is reputed to be the best car salesman in the world. When he goes to a football match and gets excited he flings a fistful of his business cards in the air. You can be sure it pays him to do this.

### Backing up data essential

The best backup systems are likely to be the ones which occur automatically and for which data is stored off site. For small businesses, 1-2Tb portable disk drives are useful and cost less than \$200. Some IT companies also offer an online backup service.

If you are taking responsibility for your own backup and you use computers regularly, ensure your systems perform backups daily. You might even want hourly backups if you are working on complicated projects you can’t afford to lose.

If you keep your backup in the same premises as your computer and there is a fire, you could lose all your data. If you work from home, try to arrange for a friend or relative to store your data.

Look at the risks and the time involved in doing your own backups and compare this with the cost of getting a professional service, which will backup your data off site.

WE JUDGE people by their actions. We judge ourselves by our intentions. This inconsistency is unfortunate. Next time someone wrongs you, remember their intention might be different from what you have observed.

# Knowing financial position is the key

SOME years ago an airline was operating out of Hamilton. The business failed. Its chief executive indicated later one of the contributing factors was the accounting system. In his book, he said "The accounts department was understaffed, although this was not raised at any management meeting with me. Nor were the difficulties in producing the set of monthly accounts, which, if we had secured in a timely fashion, would have given us considerably more warning of our predicament."

We see this situation in small business all too frequently. A client gets us to prepare annual accounts say half way through the year and by the time the work is finished it is probably something like 20 months since the beginning of the year for which the accounting is being done. If we see a bad result, we are already two thirds of the way through the following year and the problem has probably been compounding.

If only we had known a year earlier that the business was in trouble, we could have helped avoid a possible disaster.

Some of our large clients can get business reports from us as the year progresses; whereas it may be uneconomical to supply the same service to smaller ones.

If you are one of these smaller ones, you can do quite a lot to help yourself.

## Compare sales figures

Winners are always keen to see their final sales figures each month. Add up your sales for the last 12 months and compare this with sales for the 12 months previous. For example, if you are looking at sales figures for the end of May 2011, take the total sales for the 12 months to the end of that month and compare it with the total sales for the 12 months to 31 May 2010. The reason for taking 12 months is to iron out fluctuations due to seasons and holidays. If month by month the trend is upwards, your business may be on the right track.

## Check on profit

You can go one better by working out your profit on those sales. This takes more work. You need to match the total cost of getting those sales with the total sales figures. Cost of sales is the sum of the materials, subcontractors, wages etc, which you have to put in to get your sales. We call these the direct costs.

Most other costs, such as insurance and rent, tend to be much the same from one year to the next. If this is the case for you, you can afford to ignore them until your financial accounts are completed. Develop a system for gathering your cost of sales.

If you do 2-monthly GST returns, make the system you use to prepare the returns spit out this extra data for you. For example, if you work out your claim for GST on the money you pay out by marking and adding up all the GST expenses on your bank statements, why not highlight the direct costs and add these up while you're at it? Six GST returns give you a year of expenses. If you check on your profitability every two months, it will surely beat not doing it at all.

A fellow accountant has commented: "With a couple of my clients, cash in bank adjusted for drawings and creditors seems to be a good indicator, unless they are buying one-off big assets."

We can give you rough tools to help you keep an eye on your business, but you need to understand their limitation. Working out your profit as described above will usually help. However, if your business owes a lot more than it did 12 months ago, you might (or might not) still be in trouble. The better you can measure your business performance, the better you can manage it.

## ACCOUNTANT'S TIP



WHEN faced with a column of figures to add, what do you do to be confident you have added them correctly? You could compare the figures on an adding machine tape with the original list.

Whatever you do, start by looking to see if the total looks sensible.

One technique for checking your accuracy is to add the figures starting from the bottom upwards. If the up/down total equals the down/up total you have a good chance of having the right answer.

If you don't need to have absolute accuracy and a small error won't matter, try this technique. Suppose the total of 20 figures is say \$18,000. Ignore cents. There are likely to be a number of four figure amounts. Work to the nearest \$1000. Thus an amount of \$550 is 1000. An amount of \$453.31 is nil and \$2201 is \$2000. I use this all the time and it is amazingly accurate. Of course, it works just as well for other figures. Sometimes I work in hundreds.

## Money loves speed

WE humans want instant gratification. If it can't be instant, then usually it is ASAP.

In previous articles we have pointed out there is a premium for speed. The tradesman who is quick to produce a quote can invariably ask a higher price. Not every job can be done instantly, so provide a fair time for completion and make sure you deliver within that time.

If you want to chase money, and why be in business if you don't, learn to be quick off the mark. If this presents a problem, look at your systems. Good business is all about having good systems.

Money loves speed. It is probably the most important thing to remember as a business person.

### Use a credit card to pay tax?

IRD is looking at accepting tax payments by credit card. You will, of course, still have to pay the credit card charges. Those who have a very short-term cash shortage could find the service helpful. It will be better than paying penalties. Incidentally, there's nothing to stop anyone borrowing on their credit card to pay tax, right now. Keep your credit limit high and use only in an emergency to fill a very short term gap.

## Name irrelevant when offer gets sandwiched

EACH day when I go to lunch I see a café sandwich board out on the pavement which really irritates me.

Why? Because it does such a poor job of promoting the café's business.

"Bloggs Café" it says in big letters, taking up most of the space. Then there's a small typed message cello taped near the right at the top offering a hamburger, salad, coffee and chips for only \$12. I doubt anyone sees it.

Who cares what the café is called? I'm hungry and want something special to eat. When I start salivating I'll soon look to see where I can get the fantastic fodder.

Sandwich boards are great for catching a customer's eye. Make the most of them.

Your advertisement is an offer. It must carry a major benefit. It needs to be big and bold.

Your firm's name is not an offer. Put it down the bottom.

When you prepare your Yellow Page advertisement, the same applies. The offer is much more important than your contact details. By the way, do you let Yellow Pages design your ad? Don't. It'll look far too much like all the other ads of the same size.

### ACC offers a discount

ACC will be giving small businesses with a blameless track record a 10% discount starting from the year ending 31 March 2012. It says 93% of all

small businesses are expected to qualify. Bigger businesses are being offered a 35% discount for good performance. We ask, does this amount to discrimination?

### Fixing a staff problem

YOUR choice of staff is critical.

Assuming you have chosen well, how do you tell a member of your staff when there is something wrong?

Michael Hill breaks this task down into three parts:

- Start by telling the employee the reasons why you are pleased they work for the firm.
- Say what the problem is.
- Offer a way to fix it.

One of his salesmen had bad breath. As you will know, you cannot smell your own breath. The man got a big shock when he was given this news.

The suggested solution – see your dentist.



### TAX CALENDAR

#### May 28

1st Instalment of 2012  
Provisional Tax  
(December balance date)

#### May 31

Deadline for  
Fringe Benefit Tax return

#### July 28

3rd instalment 2011  
Provisional Tax  
(June balance date)

#### August 28

1st instalment 2012  
Provisional Tax  
(March balance date)

### Guaranteed good for business

GUARANTEES are so important, we want to get you used to offering them.

Guarantees shift the risk from the customer to you, making it easier for the customer to buy. How about this for a guarantee?

"We are absolutely committed to your enjoyment and satisfaction when you dine with us. So if you are not delighted with your meal, it will be replaced without question, or will not be charged." - Baguette (a restaurant in Brisbane).

Notice they say "delighted". Also notice the undertaking not to embarrass you by asking questions. How often do you think they have to honour their promise? Rarely, if ever.

Assuming your product is good, you will rarely be called upon to honour the guarantee. The value it offers the customer is likely to be well worth the risk.