

Newsletter

Summer 2008

When the sun is shining, mend the roof

AN OLD PROVERB GOES: "When the sun is shining, mend the roof." Translated for today's business environment, it could read "Get your business in order today in case things go pear-shaped tomorrow."

Business guru Michael Gerber urges us to work **on** our businesses rather than **in** our businesses.

A consultant complained to us he never had any time and was always behind with people's work. We looked at his financial statements. He was making about \$60,000 a year after expenses and before tax. He worked from home and his annual expenses were about \$60,000.

We did some quick arithmetic. He could work 40 hours a week for 50 weeks = 2000 hours per year. At \$140 per hour, his charge-out rate, that would give him \$280,000 less his \$60,000 of overheads = \$220,000 before tax per annum.

Of course, this is not practical because he would have some non-chargeable time, but you would have to agree he ought to be getting a better income than \$60,000 a year.

We then analysed what he was doing and compared this with what he should be doing. Allowing, say, a third of his time as non-chargeable, he would have 1334 hours he could charge worth \$140 per hour = \$186,760, leaving him \$126,760 taxable income - more than double the amount he was generating.

Some of the things we looked at with him were:

- 1 We asked him to start keeping time records. Clients hate doing this, which is a shame because they can have a very positive effect on profit. We said he needed to account for eight hours every working day, even if some of it was not spent working. Likewise, at weekends, if he was working, we wanted all the time accounted for, both chargeable and not chargeable. We discovered the actual chargeable time was a third of the total hours worked. This is the opposite of what we could reasonably expect. He should be able to double his chargeable time.
- 2 We measured his performance using a device called a Moving Annual Total. Each month we totalled his sales for the last 12 months and compared it with 12 months to the end of the previous month. Thus for July 2008 the 12 months to the end of July totalled \$79,000 and the 12 months to the end of August came to \$81,500. The reason we took 12 months was to



iron out fluctuations due to seasons, the timing of holidays and so on.

- 3 We analysed how he charged for his work. Without going into detail we found several areas where he was charging about half of his normal rate. We discussed the issues. There was no shortage of work, so he agreed he would tighten up the way he charged for his time. It was not too difficult to get him to increase charges for smaller clients, but some of the bigger ones presented a problem. We explained, if he was going to increase his prices he would need to, as one of our clients put it, "sell the bill". He would have to persuade the big customers the increased charges were fair and might have to tactfully remind them of the benefit of dealing with him. If you need to put prices up, a little each year is much better than a big hit after three years.
- 4 Systems are vital to the success of all businesses. This was a one-man band. We talked about how he went about his consulting and we worked out ways he could do the same amount of work in less time. For example, he needed to write reports. Often similar information was provided in each report, so we suggested he use standard wording so he could

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A premium for good service

MANY of us are loath to change. We have always dealt with Max, the plumber, so unless he upsets us there is no point in looking for someone else. We would pay Max a premium so long as he continued to perform.

You can charge a little more than your competitors for reliability and good service. Most of us won't shop around so long as we are being looked after.

Generally, the higher the cost of an article, the more we are inclined to compare prices, although it is often difficult to do this. What about house buying, for example? Why is it difficult; because we lack knowledge?

Most people, who do the grocery shopping, have a good idea of how much a pack of butter or a dozen eggs should cost because they buy them regularly. When we buy something we don't usually buy, we have less of an idea about what we

should pay. This helps the good performer to price his/her services at the higher end of the price spectrum.

A consultant told us he was considering the pricing structure for his services. He could be available much more quickly than his competitors and this had great potential to save customers money.

We asked: "Would your customers know where to find a replacement for you (*their knowledge of the market place*)? What might it cost your customers if they were able to switch to a competitor who would not give as good service as you do?"

We suggested he price his services accordingly.

When you are thinking of pricing, look at the benefits to the customer and set your price based on them.

IN BRIEF

Currency falling

Watch out for the Use of Money` Interest (UOMI) charge. Companies and trusts are most likely to be affected. They become liable for UOMI when their tax bill for the year goes over \$2500. If you have foreign investments, particularly those which earn interest, you might need to increase your provisional tax payments to allow for currency gains in the 2009 year. With the introduction of tax on overseas equities (shares), except those to which the Australian exemption applies, you might also have to consider increasing your provisional tax payments. If in doubt, please check with us.

A Merry Christmas but...

Before you depart for your holiday, if you have a March 31 balance date, don't forget to pay your second instalment of provisional tax due on **January 15, 2009**.

Using the vehicle privately

If you have a **company** vehicle which is a "work-related vehicle" (for example, a ute) and you run your business from home, you are permitted to stop on your way home to shop. The vehicle must not travel significantly from the direct route. The rules are different for a **car**. You may not stop on your way home for shopping. This constitutes availability for private use and fringe benefit tax (FBT) applies.

A sole trader or someone in partnership is not working for a company. FBT applies only to the staff they employ. The sole trader or partner driving a car, which is used partly for business and partly privately, accounts for private travel by keeping a log book in the usual way.

Your telephone can be your timekeeper

TOLL-FREE numbers can be used in place of timesheets. Firms which have a fleet of vehicles can keep a record of their staff movements.

When the employee arrives at a site, he rings the office toll free number **on the customer's land line**. The system records the call received. When he leaves he calls again. In this way you know the exact time spent at the site.

The system collects the information and at the end of each day produces summarised reports. You can get a staff report showing the hours of work for each employee for wage purposes. You can also get a site report showing which employees were at each site and the hours to charge the customer.

The toll-free number can also be used for sending messages from the office. The system generates an email confirming the message was received, which prevents anyone claiming they never got it.

GPS – Global Positioning System – can be used for tracking your vehicles. While it is a very accurate system, it is also expensive. A unique feature of GPS is that it allows you to put a prescribed speed limit in the vehicle. If this is exceeded, the GPS generates a report showing the speed of the vehicle. GPS depends on coverage and is therefore more reliable in urban areas.

Quote from former General Motors CEO Lee Iacocca

"THE ability to concentrate and use your time well is everything if you want to succeed in business. If you want to make good use of your time you've got to know what is most important and then give it all you've got."

House deposits offer some protection

REAL ESTATE agents finish their job when they provide you – as the vendor – with a completed unconditional contract.

The only thing remaining for you is to get your money from the sale. You have an enforceable, binding contract and you can sue the purchaser if they default on the sale.

The deposit for the sale is usually paid into the real estate agent's trust account and the balance, after deducting the commission for selling and advertising expenses, is paid to you or your solicitor.

If the buyer doesn't pay, you are entitled to retain the balance of the deposit and use it to offset against your losses, if you get less when you resell the house.

Traditionally buyers paid a 10 per cent deposit. This left a reasonable sum for you, the vendor, in the event of the purchaser defaulting. Now-a-days, any deposit seems to be acceptable. So if the deposit is not much more than the amount needed

to pay the real estate agent's commission, you will get almost no compensation if the sale falls through. You'll have to sue the purchaser, who might have very little money. What should you do? You could:

- 1 Insist on at least 10 per cent deposit.
- 2 If the agent cannot get you a 10 per cent deposit, then any shortfall should be at the expense of the agent and not you. Put this in the agreement.

What should you do if you are a real estate agent?

Make sure you negotiate a good deposit which can be placed in an interest-bearing account to help compensate the purchaser if there is a long delay until settlement.

If you cannot achieve this, consider the effect on the goodwill of your business if the sale falls through and you take your fee, leaving an upset customer. We believe very few agents would take their fee if this happened. Therefore, the 10 per cent deposit helps protect your fee.

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from front page

save time by copying and pasting. We looked at the format of the report and changed it by getting him to put an executive – one page - summary at the front. It makes it easier for the reader to get the main points.

- 5 Like us, he needed to gather information from customers before work started. Instead of using valuable consulting time, we suggested the customer could be asked to complete a questionnaire and send it in before the consultation. If it wasn't complete, his secretary could assist the customer before the consultation.
- 6 We turned our attention to the non-chargeable time. Time records helped us to work out how he was using his time and where the "lost time" was going. It was not difficult to come up with ways of cutting this back. If you refer to our winter 2008 newsletter, you'll find a list of suggestions.

There are plenty more things we can do with this client to improve his income. We have given you the above example to illustrate what Gerber means when he urges us to work **on** our businesses instead of just **in** our businesses.

Reduce the risk of a nasty surprise

OUR client rang a restaurant on a Monday, when it was closed.

She wanted to make a reservation for the following Saturday and left a message.

In spite of the business being closed, she still received a call in response on the same day. She booked the reservation and was asked if she knew the prices had recently been increased.

She did not know, but she did not want to cancel a booking for a top restaurant, so just thanked the assistant for the advice.

We think the restaurant owner was smart. Price increases can give regular customers a nasty surprise.

It is smart to warn them early, rather than wait for them to see the higher prices on the menu.

Photos show it as it is

SEVERAL of our clients use a camera in their business.

An electrician we know takes several photos of the wiring of a new house before it is hidden behind the gib board. A builder takes photos to show where dwangs are. Being a smart builder, he also includes a picture of a ruler so the owner knows precisely where to hang pictures.

A drainlayer was told by an architect he had not put the material, which he was claiming, into the job.

"I always spray the cables in a trench so that when I take photos they come up clearly." We were curious to know what the architect said when confronted with the pictures.

"He sort of mumbled and my bill was paid."

Eye-catching icons

ICONS catch the eye. Use them in your advertising . You can have:

Pictures: You know the saying “a picture is worth a thousand words”. You can improve a picture of an inanimate object by having a person in the picture. Faces attract attention, which is why you see real estate companies and others putting them in their advertisements.

Numbers: Generally, odd numbers work better than even numbers. “9 ways you can save tax” catches the eye, for some strange reason, better than eight or 10.

Be careful with currency – \$10 looks smaller than \$10.00. If you want to send a message your price is low, don’t add the cents.

Large numbers can impress. Saying 87 ways you can save tax is better than saying all the ways you can save tax. Use the figures, not the words, so 87 is better than eighty-seven.

Words: Sometimes you will see “**YES**  send me...” This catches the eye.

Name: The best attention-grabber of all is the person’s name, but get it right. One of our clients received a piece of mail addressed to Normal when his name was Norman. Some people get upset when you spell their name incorrectly. Difficult parents of the last century often put the first name they were going to use, second. So Norman sometimes gets mail addressed to Laurence, a name he never uses.

Power words: Don’t ignore “power words”. “How to”, for example, attracts attention and if you use the word “you”, it relates better to the reader. So you can have a heading which reads “How you can....”



TAX CALENDAR

January 15 2009

**2nd instalment of 2009
Provisional Tax**
(March Balance date except
for those who pay provisional
tax twice a year)
**Pay GST for period ended 30
November 2008**

April 7 2009

Terminal Tax for 2008
(March April, May and June
Balance dates)

Directors must authorise payments

ANY payments taken out of your company for your wages, **including a salary subject to PAYE**, must be authorised by directors. It has to include reasons why the payments are fair to the company. If your company fails and you do not have the appropriate directors’ minute, a liquidator could (and probably would) insist you repay the money you have taken. Putting yourself on PAYE does not protect you.

A word about judgment

We judge ourselves by our intentions and others by their actions. Knowing this can be useful. If you don’t like what someone has done, pause. What might have been their intention? Does this change your reaction?

A doggone tax

NORTHERN local authorities introduced a dog tax in the 1870s. Dog owners were required to pay 25 cents, which was a lot of money in those days, to register their dog. In return, the local authority provided a collar. Some Maori refused to pay the dog tax and, as a result, a civil war almost broke out in Rawene in May 1898.

PAYE deductions sacrosanct

IF YOU run into cash-flow problems, don’t use PAYE money to pay your creditors. A director of a company has recently been convicted of aiding and abetting an offence by knowingly allowing PAYE deductions to be used by the company for some other purpose. Inland Revenue might also succeed if it prosecuted an officer of a company. The person aiding and abetting not paying PAYE does not have to be a company director.

Look after your suppliers

A CLIENT received super service from one of his suppliers. It was on the day before Labour weekend and he needed the service urgently. He was so delighted he wrote this note.

“Has anyone ever told you are very helpful? Thanks for getting this done so I can continue work over the weekend.”

He received the following reply:

“Thank you, Michael. I appreciate the feedback. I also try to comment when I get good service – so often people do good work in a vacuum and never really know whether it is helpful. It ultimately becomes demoralising and they move on.”

We believe there’s a message here. Treat your suppliers as we hope you would treat your staff. If you would offer praise for good work, why treat the businesses which supply you any differently?

And, another way to keep suppliers happy is to pay their bills promptly. Look after those who supply your goods and services and, when you need it, you have a good chance they will look after you.