



Newsletter

SUMMER 2011-12

Networking saves the business

A JOINER told us about how he rebuilt his business by toughing it out and making the most of his networking skills.

“I employ five people. My factory had run out of work and I owed nearly \$1 million. I was at my overdraft limit. I was on stop credit with all my suppliers. I went to Work and Income and I asked if I could get the dole. I was turned down.

“An order came in and I took a deposit. I used this to restore my credit rating with one of my suppliers so I could get materials. I had a \$7500 limit on my credit card so borrowed \$2000 and continued in business.”

Meantime, he put a lot of effort into making contact with his already extensive network. From that point his business picked up. At the time of writing he is optimistic. He has orders to last several months.

What went wrong?

- An employee stole stock from him.
- He was not monitoring his business closely enough.

What does he do right?

- He aims for excellence in every job.
- He is a great networker and has a lot of contacts.

As a consequence, he gets a good supply of referrals.

Conclusion

We believe his marketing saved his business, particularly his networking.

Where to network

- Join organisations such as the Chamber of Commerce and get yourself a high profile. Offer your services. Don't wait to be asked.
- Join (or create) networking groups which promote referrals among their members.
- Keep in touch with your former customers, even though the jobs might be one-off. Cards and newsletters are useful for this. If you have made a good impression, you could get more referrals; if you lose touch you might not get them because you might have been forgotten.
- Join a club or organisation you are interested in and get known.

Don't wait until you have run out of work to go looking for the next job.

Make marketing, particularly networking, your top priority. People you know and who like you send you business.

Selling your business?

SELLING a business is similar to selling a house. Here are some pointers:

- Make your business look good. Spruce it up as you would your house.
- Your systems should be well documented and easy for a new owner to follow.
- Plan ahead. It is easier for a buyer to find a small amount of money than a large one. Therefore, if you are overstocked, do something about it.
- Check the tax situation with us.
- You are going to be asked to provide financial statements. Why not put together a booklet with pictures of your business and information about it. Bring out the benefits to the new owner but be sure all of them are true. Include the financial statements at the back.
- Draw up a plan of how you are going to market the business just as you would prepare a marketing plan for the business. Who is your target market? Where do you find them? If you employ an agent, work with that firm to market your business in the best way possible. Don't leave everything to the agent.

Tax avoidance is legal, but a no-no

YOU might have read about the recent tax case called Penny and Hooper.

It was about two surgeons. They did not break any tax laws. All they did was to pay themselves low salaries from their companies to reduce the amount of tax they might otherwise have had to pay. There is nothing in the law to say they should not pay themselves a low salary as they explained in court.

Their problem was the amount of the salary was artificial. They would never have worked for such a low wage. If it had been realistic they would have been unlikely to have attracted the IRD's attention.

If you contrive a way to reduce your tax, you could be accused of tax avoidance. The IRD might reset the figures as they think suitable and charge you interest and probably penalties.

If you contemplate paying yourself an artificially low or high salary to save tax, don't be greedy. If the amount of tax is small, IRD is less likely to take any notice. A low salary can often be justified for good commercial reasons. Be ready to justify high salaries to those who are not full-time employees on the basis of hours worked, pay rates etc. Consult us if in doubt.

Promote the real 'benefits' of your business

FIND out what makes your business special and promote these benefits when quoting.

Reliability, fair prices and so on are often cited as benefits, but they are actually features. They are vague, do nothing for the customer and are features that every customer now expects.

Notice how car advertisements no longer promote reliability – everyone expects their car to start every time and get them where they want to go without breaking down. Low fuel consumption would be a benefit, because car owners can see the "benefit" of saving money.

A business can win work by promoting real benefits, even when the cost might be higher.

An example we know of is two painters who tendered to paint a new house. "A" quoted \$24,500 and "B" \$27,500. The owner accepted the higher price. He did his homework and noted the following.

- "A" was a bit short on detail in his quote. He asked "A" what he was planning to do for his money. The differences between the two were startling:
- "A" employed two brush hands, who were not tradesmen. "B", a tradesman, would do the entire job himself.
- "B" was going to re-prime the weather boards because he considered factory priming insufficient. He was also going to apply two top coats to the outside. "A" was going to do neither of these.
- "B" stated he was going to use the best quality paint and there was good reason to believe him. "A" made no mention of quality.
- "B" gave advice on how to make the job last as long as possible. There was no after-sales service from "A".

Two things will help you to win quotes at the prices you really want:

1 Be quick.

2 Tell your prospective customer why you should be chosen.

What benefits do you offer that others might not?

A worthy investment

THIS is a true story and has nothing to do with business. Nevertheless I think you will like it. It goes nicely with Christmas. A friend collects Clarice Cliff china. He showed me a beautiful tea set comprising about half a dozen pieces. "I paid \$20,000 for that, which is about market value," he said. "I bought it at auction and found out it was originally owned by an old lady in Tauranga. She saw it in a second-hand shop about 20 years ago, in Napier. She bought it for \$7 because she thought it looked pretty. Now times are hard for her so she has sold it. I am so pleased she was able to get a good price."

Donations

AVOID getting involved in scams, even if you think they might be helping someone. This includes assisting a charity to dodge GST. For a donation rebate to be allowed, the charity must be approved by the IRD. Make sure your donation is legitimate.

Go to <http://www.ird.govt.nz/donee-organisations/donee-organisations-index.html> for a list of approved charities. The list is not always up to date but it is the best we can offer you.

Rebate on school fees.

THERE'S a common misconception you can claim a rebate for all school fees. The school must be state funded or be approved as a charity. The general school fee is not a compulsory payment so it is a donation. You can claim a rebate provided the donation is into the general fund of the school and is not earmarked for a specific project. A donation for a school trip would not qualify.

Discounts come out of your pocket

DON'T give discounts just to get business. It is one of the worst ways to promote new business as it comes straight out of your profit.

If you can reduce your price once, your customer will expect you to do it again. Further, if you can always afford to reduce your price, you are telling everyone you are overcharging.

By all means give a discount for a second or subsequent purchase immediately following an initial buy. You are catching the customer while in a buying mood. Discounting the second sale is good business as it is better to get some extra profit than none at all.

A joiner (see article "Networking saves the business" on the front page) gives new customers referred to him a 5% discount as a thank you to the referrer. We think



people refer their friends primarily because they think you do a good job. We doubt the promise of a discount for someone else would encourage many people to recommend your business.

Many joinery businesses make quite small profits after taking out wages for the owners. Ten percent of sales is often good going. A 5% discount off sales represents a 50% cut in profit for a firm making 10% profit.

Get into the right gear for the conditions

GEARING is the ratio of borrowed money to your own money. If you have a business which has a high proportion of borrowed money, you are said to be highly geared.

There is a very old saying in accountancy: "In good times get into high gear. In bad times get into low gear."

If you think these are bad times, get your borrowing down.

Keep an eye on the proportion of your borrowed money to your total equity (what you own). If 80% of what you own is financed by borrowed money, you are taking a big risk in difficult economic times. In fact, you could be gambling. For small businesses, for "you" read firstly the business and then both your personal situation and the business combined.

If you want to reduce your business borrowing, you could:

- Consider hiring equipment rather than buying it.
- Subcontract to other firms. The extra cost of hiring another business to work for you may be a better choice than tying your money up in equipment which doesn't get sufficient use.
- Tighten up on debtors (money owing to you). Reduce the time you allow for payment. Above all, police the outstanding bills, regularly, frequently and swiftly. Make notes of any promises and remind your bad payers about them if you have to keep following up.
- Keep an eye on your stock levels. If you have made some bad decisions, you have already lost money. Sell your mistakes early. Don't over-buy.

Overseas super

IRD is focusing on overseas superannuation schemes and the cash economy. Do not cash in your overseas superannuation without first consulting us as you could turn a non-taxable situation into one subject to tax. If you have an overseas pension scheme, not taken out in New Zealand, tell us when we do your tax return, even if you are not getting income from it. It could be taxable.

Is gold taxable?

The IRD has reminded the public if they buy gold and then resell at a profit the gain is taxable. In fact, since gold never yields any dividends, even if you sit on it for years, it would seem a profit on sale could be taxable. What about gold coins? If you already have a collection of coins and add some sovereigns to it, is this part of your hobby? The answer, of course, will depend on the facts. The longer you keep the coins the more likely they are part of your hobby. Other evidence of your coin collection being a hobby would be your general activity and interest in coins.

GIFT DUTY ABOLITION

You may have heard in the media that the Government intended to abolish gift duty as from 1 October 2011. It was also suggested that there may be other legislation or issues that would continue to impact on gifts made after 1 October 2011.

We have now read the legislation which has repealed gift duty and analysed all other relevant legislation. As a result of the assessment, we advise as follows:

1. Any gift of any size made after 1 October 2011 will not longer attract gift duty.
2. When a gift is made after 1 October 2011, and especially if that gift is larger than \$27,000 the person making the gift should sign a written statement confirming that after the making the gift, the person's assets are large enough to satisfy all debts owed by that person after the gift has been made. This is called a "Solvency Certificate". A classic example of this is where you may have a personal guarantee to a third party for business purposes. If, after making a substantial gift, your assets are not large enough to satisfy the debt associated with that guarantee, the gift may not be valid.
3. If you are involved in a business, the statement to be signed regarding your ability to pay your debts after making a gift will need to be signed by a third party, normally your accountant.
4. It is also important to note that the rules around insolvency and gifts have been tightened. The Official Assignee, if you are declared bankrupt within 5 years of making a gift, will scrutinize each gift very carefully to assess whether the gift was made with the intention of prejudicing creditors. If the Official Assignee decides this was the intention, the gift or gifts will be "clawed back".
5. It is important to be aware that the above issues will not impact on your obligations to the bank. As far as the bank is concerned, the mortgage over your property secures any debts owed by either you or the Trust.
6. Another byproduct of the gift duty abolition relates to eligibility for a resthome subsidy. The rules set by the Ministry of Social Development in this regard have not been changed. These rules state that any gift made:
 - (a) That exceeds \$6,000 per year in the 5 year period prior to a resthome care subsidy being applied for; or
 - (b) A gift that exceeds \$27,000 made at any time, will not be recognised by the Ministry of Social Development. In other words, the amounts gifted in excess of the above sums will still be considered part of the applicant's assets. An example of where this could cause problems is if a significant gift (say \$150,000) was made in 2012 and the person who made the gift applied for a resthome care subsidy in 2025, the \$150,000 gift will still be considered an asset in the name of the applicant. If the applicant has other assets, this may take the applicant over the threshold allowed and mean that the applicant is not eligible for resthome subsidy.

Coupled with the above seemingly unfair application of the rules by the Ministry of Social Development, we have also been advised that the Ministry will now assess couples as having a total limit of \$27,000. The Ministry is interpreting their rules to say that any person **or couple** who makes a gift in excess of \$27,000 at any time will have eligibility problems when it comes to residential care subsidy.

As a result of the above, our advice to clients is that it would be prudent to continue gifting at the rate of \$27,000 per year. Unfortunately given the Ministry's interpretation of the rules, for couples, we are suggesting that gifting be dropped to \$13,500 each (or \$27,000 between the couple) each per year.

Phone etiquette a key to business success

“THAT line is currently on voicemail,” said the person on the other end of the telephone. “Would you like me to put you through to a live person?”

Wow! I have never been asked that before!

Your business probably appears to the public as being very much like that of your competitors. The way you treat your customers can make all the difference and give you the edge.

At a function recently, a woman was talking about restaurants. She said the quality of the service could make a big difference to how often she chose to go.

Get your staff involved with ideas for making your business special. Implement the best thoughts.

Ideas for improving your telephone reception and getting more business include:

- If you are out and can't answer a call, get it to switch straight to your cell phone.
- Determine the maximum number of rings by which the phone must be answered and get everyone in the business to make sure this happens.
- If you can't answer right away, have your answering message tell the customer you will return their call within x hours. Keep your promise.
- Train staff to answer the phone with a smile. Customers notice how the phone is answered. They can tell the mood of the answerer by the tone of voice.
- When taking a message which requires another person to ring back, get the phone number to save the need for it to be looked up.

One way small businesses can get an edge over their bigger competitors is to make it as easy as possible to be contacted.



TAX CALENDAR

January 15 2012

2nd instalment of 2012
Provisional Tax

(March Balance date
except for those who pay
provisional tax twice a
year)

Pay GST for period ended
30 November 2011

April 7 2012

Terminal Tax for 2011

(March April, May and
June Balance dates)

Convert walk-ins into sales

CAFES are a great source of stories for our newsletter.

A café near our work has excellent sandwiches. It was lunchtime, just before 1pm. While I was there I watched four people come in, look in the food cabinet and walk out. All the sandwiches were gone. I told the owner she was letting customers walk out.

“All our sandwiches are fresh,” she said. “At the end of the day I throw out any which are unsold.”

She was sacrificing sales to avoid wastage. She was losing not only the four sales for the day but also repeat business. Customers who like sandwiches and find none will stop coming.

It's one thing to get customers into your shop, but it's another to make a sale. Focus on how to increase the proportion of those coming through the door into paying customers. If you can measure your performance, do so. Then set a challenge to improve.

Study how other firms succeed. Fire any sales

person who asks a customer “Can I help you”. Learn better ways to sell and apply them. An obvious one is to show enthusiasm for the goods being looked at.

One client measures his companion sales. These are the sales you make as add-ons to the thing the customer came in to buy. He can tell if his staff is promoting additional sales and he rewards success.

Another area where clients miss converting sales is after a promotion. When the phone rings, get the caller's contact details, as a priority. Then, if the call has to be dealt with later, a competent sales person can call back. You may also be able to add the caller to your database for future promotions.

Keep the till tapes

SHOULD you keep till tapes? It is your job to prove you have accounted for all your income. You must therefore keep whatever evidence is available to help prove you are right. Yes, you do need to keep till tapes. Like other records, you need to hang on to them for seven years.