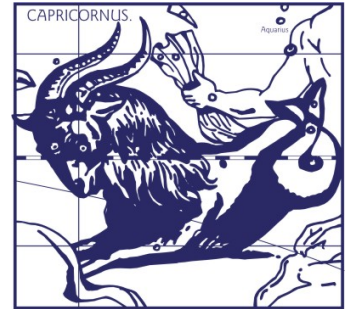


# Business Matters

News & Information from Capricorn Group

2nd Quarter 2007



## Improve your profitability through better financial control

**A**s 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

**B**usiness 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 may 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?

**T**here 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 depending on whether they engage a worker as an employee or an independent contractor. Employees have rights under the Employee Relations Act 2000 and other employment laws which determine entitlements to such things as minimum pay rates and holiday pay. Health and safety laws apply to both employees and contractors, but implications for each case are different.

Employers are also responsible for their employee's tax deductions. These include PAYE, student loans and ACC payments. Even if a person is a contractor, employers in many industry categories (such as agriculture, milk delivery) are still obligated to deduct and remit withholding tax to the IRD.

Whether a person is an independent contractor or an employee can be a complex legal question. A full answer is really only possible knowing each individual's circumstances. Courts and government authorities 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   |
|----------------------------|--|--|
| <b>Control</b>             | 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. |
| <b>Payment</b>             | 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.  |
| <b>Risk and liability</b>  | 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.   |
| <b>Delegation</b>          | An employee performs the work personally and generally cannot subcontract the work to someone else.  | Unless otherwise specified in the contract, a contractor can subcontract or delegate the work.   |
| <b>Tools and equipment</b> | The employer, except when specifically agreed otherwise, usually provides tools and equipment.   | Generally, a contractor provides their own tools and equipment.  |

What may seem clear on the surface is not always so. Recently a contractor had their contract terminated because of inappropriate behaviour at work. The Employment Relations Authority determined that whilst the intention of the relationship was a contractual one, other tests established the reality of the relationship was one of employer-employee and the employee received compensation for unfair dismissal and embarrassment.

# 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**

# Four weeks annual holidays – What are the implications?

From 1 April 2007, all employees are entitled to at least four weeks paid annual holidays a year.

Under the Holidays Act 2003, on and from 1 April 2007, when an employee next becomes entitled to annual holidays the employee's minimum entitlement is increased from 3 weeks' annual holidays to 4 weeks' annual holidays.

That doesn't mean that on 1 April 2007 all employees currently receiving 3 weeks annual holidays will immediately become entitled to an extra week. The actual date of entitlement is determined by an individual's anniversary date. As each employee completes their current year of employment on or after 1 April 2007, their minimum holiday entitlement is adjusted to four weeks.

The increase from three weeks to four weeks paid holidays or leave is being introduced progressively over the 12 months from that date. This will mean the changes will apply to different people on different dates.

Bear in mind that the change does not mean that employees who already receive four or more weeks annual holidays will automatically get extra holidays. Whether or not an employee is entitled to another week will depend on the wording of their employment agreement.

If the agreement specifies a number of weeks annual holiday – for example, four weeks – the employee wouldn't be entitled to any additional leave. However, some agreements refer to providing one or more "additional" weeks holiday, over and above the legal requirement.

Here are a few reminders of things that need to be put in place or considered with the move to four weeks annual holiday:

- Update your employment contracts to reflect the changes
- Plan for extra time off and the extra staff and resources that may be required
- Review the cost and cash flow implications for your business and decide whether you should consider adjusting your prices
- Update your payroll system to ensure leave accrues at 8% rather than 6%

If you are unsure about the impact the new holiday entitlements will affect your business please call our office.

## 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](http://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](http://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

- 10 2006 end-of-year income tax due for clients of agents with a March balance date
- 20 Employer deductions (IR 345) or (IR 346) form and payment due and Employer monthly schedule (IR 348) due

### May

- 7 GST return and payment due
- 21 Employer deductions (IR 345) or (IR 346) form and payment due and Employer monthly schedule (IR 348) due
- 28 GST return and payment due

### June

- 20 Employer deductions (IR 345) or (IR 346) form and payment due and Employer monthly schedule (IR 348) due
- 28 GST return and payment due

### July

- 9 Provisional tax instalments due for people and organisations with a March balance date
- 20 Employer deductions (IR 345) or (IR 346) form and payment due and Employer monthly schedule (IR 348) due
- 30 GST return and payment due

### August

- 20 Employer deductions (IR 345) or (IR 346) form and payment due and Employer monthly schedule (IR 348) due
- 28 GST return and payment due

Source: IRD