



# Newsletter

Spring 2008

## That terrible, technical 'R' word

NEW ZEALAND is now close to being in a "technical recession". We hope this will be temporary. How should you prepare?

The country has several things going for it and it might fare quite well when compared to other countries. After all, we supply food to the world and it is in short supply.

Who knows?

For businesses, in difficult times we need to look after our existing customers. It is far harder to get a new one than to retain one you have. How are you going to go about this? Try some of the following strategies.

### Keep in touch with newsletters

Newsletters do not have to be four pages long like ours. Half a page is better than nothing. Use your newsletter to give your customers useful ideas. Your newsletter could be a free add-on service. A painter told me recently I should wash my house down twice a year because it helps to preserve the paint.

So a painter, for example, could give advice about:

- maintaining the paint work;
- choice of colours and the reasons for making those choices;
- the effect of sunlight on paint;
- new products;
- are all painting quotes the same, and why is the lowest price not necessarily the best?

### 'How's things' calls

Another way of keeping in touch with clients **and contacts** is to give them a call. Never use this tool to promote sales – your aim is to keep in touch. Reserve this for your most important customers. It is known as a "how's things" call. It should be brief because your customer might be busy and won't thank you for taking up valuable time. Incidentally, the "how's things" call will sometimes lead to a sale!

### Make it friendly

Almost everything you do in your business affects your marketing. How the phone is answered is vital. If you are being hassled and answer the



phone quickly, you are likely to convey your feelings to the caller. It shows in your voice.

The atmosphere at work affects how your staff feel. This can affect the way they treat your customers. One of our clients recently bought a couple of appliances worth about \$12,000, for his home. The conversation with one firm's rep in the store went something like this:

"When could Paul [the manager] give me a price?" the buyer asked.

The sales assistant responded. "He will need to come and measure up and unfortunately he is working in ... [a town about 80km away] all next week. He doesn't like us ringing him during working hours."

"Would he be available on Saturday, then?"

"Well, he takes the children to sports on Saturdays."

"How about Sunday?"

"He has to have some time off," she retorted.

At this point the customer was heading for the door, prompting the assistant to ring Paul immediately, who suddenly became available to measure up.

In the end the firm did not get the contract.

# Are you really in business?

GETTING into business is not easy.

We see many clients who have what Michael Gerber calls the “entrepreneurial seizure”. They get fed up working for a boss. They decide the profits they have been making would be better in their own pockets.

The day comes when they hand in their notice and have a go themselves. They work hard and the business grows. They might enjoy a bigger income than when they were employees, but they have merely swapped bosses from their former employer to themselves.

They invariably work long hours. They probably earn, after taking into account the evenings and weekends spent on accounting and preparing quotes, much the same rate per hour as they did before going out on their own.

These people are self-employed. They are not in business.

A business is a money-making machine. You should be able to leave it for a long time and it will continue to make money in your absence. It should not depend on you. A McDonald’s franchise is a business.

The question is, how do you switch from self-employment to business?

- Start by finding a mentor. This is someone outside your business who has been successful and can help you analyse what you do and how

you can do it better.

- Be ruthless with yourself. If someone else could do the job, don’t do it yourself.
- Remember you don’t have to delegate to your staff alone. You can outsource services.
- Make full use of modern technology. Make full use of your word processor. Use standard letters. Use cut and paste. Use the internet to access information. An outworker at home could access your computer just as easily as a person at your workplace.
- Plan to make yourself redundant and measure your progress. Others can do your work when you have given them systems to follow. Focus on systems for your business. This includes scripts when selling and checklists when performing work.
- You should be the ideas person, but never forget if you have staff, they also have brains. Use them. If you encourage contributions from staff and reward them, they will help provide those ideas.

People in business do not need to work long hours. The test of being in business is – how long can you stay away and the business function without you?

## Putting your prices up

With inflation running at 4%, you are probably going to have to put up your prices. The following five rules may assist:

1. It is usually better to be putting your prices up at the same time as others.
2. Small amounts regularly (but not too often) are better than big amounts infrequently. Don’t keep putting off this task.
3. Can you move something down at the same time?
4. Your top 20% of customers need to be handled more carefully than the others. Try giving them a few weeks to adjust. Consider personal contact as part of your strategy. As one client says “Sell the bill”.
5. Give your customers true explanations for the increase.

A client put up his prices 8% in one go. “I had to bite the bullet” he said “my prices had got too low. I lost just two small customers.”

Another doubled his prices and lost half his business. Incredible! Customers do not like nasty surprises.

**THE FOLLOW-UP PHONE CALL:** One thing which really impresses customers is a follow-up telephone call after goods or services have been supplied and paid for. So few people do it and yet it is very effective. It shows the sales person cares about whether you are happy with what you have bought. It gets your customers talking about you and remembering you. It adds the “wow” factor.

## Emergency call-outs

A VEHICLE is not exempt from fringe benefit tax just because it is taken home in case of need.

The exemption applies on the day the vehicle is used for an emergency call-out. You are allowed to use the vehicle privately on a day where there has been an emergency call-out and still have that day exempt from FBT. If a person is on call they do not automatically qualify for the call-out exemption.

What constitutes an emergency call-out? Note the following:

The call-out has to be at a weekend, statutory holiday or between 6pm and 6am on working days.

The visit is to attend to some essential plant or service, or the personal health or safety of a person.

If it’s a case of personal health or safety, there are no restrictions.

# Being a trustee brings responsibilities

IT'S flattering to be invited to be a trustee. However, it is alarming when things go wrong.

If you want to accept an invitation to be a trustee, be prepared to do the job properly, or run the risk of some sleepless nights. This applies particularly to the common family trust.

On becoming a trustee, you should:

- Get control of the family trust immediately. Trustees are required to do this. It is not enough to just sign pieces of paper as requested.
- Look through the trust deed and be sure you understand it. You will have to refer back to it on occasions. It tells you what you are supposed to do.

Then:

- Read all minutes, particularly those over the last few years.
- Hold regular meetings of trustees. One of our clients appointed an accountant and a solicitor as trustees for a family trust. They held regular trustee meetings. On one occasion they noticed a rental property was not insured for loss of rentals. Being good trustees, they did not consult their client (because it was the trustees' business

and not the client's) and took out a loss-of-income policy. A few months later the building caught fire and was gutted. If the trustees had not met regularly to review their responsibilities, the trust would have lost a lot of rental income. They could have been accountable to the beneficiaries for this.

- Minute all decisions and get them signed by all trustees before acting on them.
- The nature of a payment to settlors (those who formed the trust) needs to be specified in the minute. It might be reduction of debt or a distribution of income, for example.
- Get a copy of the most recent financial statements and make sure you are happy with them and understand them. Take action, now, if you are concerned or do not understand.
- If you resign as a trustee remember to advise the IRD that you have resigned. Your liability for GST doesn't cease until you have advised them.

## Conclusion

As a trustee, it is your responsibility to have control. You cannot delegate this.

## Changing your PIE tax rate

IF YOU underpay tax on income earned through a PIE, you have to pay the balance through a tax return. If you overpay there is no refund.

PIE tax is based on your income in either of the last two years. You can choose. Thus for the 31 March 2009 financial year you look at 31 March 2007 and 31 March 2008.

If you discover, when your accounts are completed, you could have used the 19.5% Personal Investor Rate (PIR) if you had known your 31 March 2008 income, you can tell the PIE administration and get your rate changed. Sometimes they will make the change effective from the beginning of the tax year, so be quick if you need to reduce your PIR.

If you do have to put your PIE income into your tax return, remember it would have been taxed at 30% in the PIE, but could now be taxed at 39%.

### Joint PIE investments

If you are a couple and you invest in a PIE, you have to be taxed at the rate applicable to the person who has the higher income. It is better to split joint investments and invest half each. If either person has a low income, they can then use the lower tax rate.

## Never say die when it comes to sales

IF YOU earn your living by selling, this story might provide some inspiration.

One of our clients told us about calling on a customer for nearly six years. He estimates he made more than 30 calls but he got no orders. Then, out of the blue, came the big one.

"I kept calling on him because I knew how big he was," our client said. "I knew I would get him when I was in the right place at the right time. Now this is our customer and no longer one to be won."

He went on.

"And here is another story. I called on another customer every two weeks for almost two years without any success. Then it happened. One day they gave me a big list and simply said, 'Supply it'."

They did not even ask for a quote. Our client advises, "You have just got to take the knocks. You must not be out there only for the good times."

## More on pricing

ON page 2 we gave you some guidance on putting up prices. Sometimes you may be able to achieve a price increase without appearing to have done so. Try these ideas:

- Revise your discount structure downwards
- Change your minimum order size or unit sizes
- Charge for delivery or travel – an excellent excuse in the current environment of high petrol prices
- If asked for a rushed order, can you charge for overtime?
- Your terms of trade should include interest payable on overdue accounts. Try enforcing this charge. Even if you later forgive it, the threat should have a positive effect on cash flow.
- It may be time to put escalation clauses back into contracts. The supplier, when quoting, puts in a condition that the price is subject to change if material prices increase.

### Contractors

If your prices are higher than your competitors, for example you may be a painting contractor, explain why the customer would **benefit** from paying you more money for the job. Don't just put in your price and hope. References from happy customers could be included with your quote.

## Make your customers feel good

WE RECEIVED the following story recently.

"Butcher's shops are becoming a rarity," we were told. "Occasionally I buy my meat at an excellent butcher's shop. There are usually three or four people serving. "I use my credit card to pay for the meat and I am always told I don't need to sign because 'We know who you are'.

"How do you think I feel? Important, of course."

Is this little touch good for business? Notice he uses the words "excellent butcher".

## Don't throw away sales

A CLIENT tells the following story.

"My wife and I popped into a coffee shop after work. She bought a piece of ginger slice and I asked for some fruit loaf, which looked tempting but turned out to be extremely dry.

I mentioned this to a staff member, who took my plate away. I waited with interest. After a while the waitress returned with a refund. Could she have done better?

If she had invited me to choose something else, the only cost to the coffee shop would have been a piece of dried-up fruit loaf. She might have impressed me by being generous with the choice of a substitute, which could have turned me in to an advocate for the coffee shop."

Goods are often worth less than half the cost of a refund.

Train your staff to handle complaints properly and empower them to make decisions for the firm. You can set a monetary limit on their discretion, if needed. It is better to be generous than mean with the limit.

## Playing safe in difficult times

YOU can mortgage anything, including your own company assets.

If your bank doesn't want a security over your company assets, why don't you take one?

If your company fails, subject to some conditions and priorities (such as wages and IRD for PAYE and GST), you could find yourself with the first right to the proceeds of the sale of the company assets. You could be paid out ahead of other unsecured creditors.

Some people might question the morality of doing this. However, going broke is sometimes not your fault. For example, Wellington City Council formed a trust to create a big event to celebrate the 150<sup>th</sup> anniversary of European settlement in New Zealand. The enterprise failed and many small businesses were not paid. Who would have expected a city council venture to go broke? Those who took a security over the assets of their own companies were far better off than those who didn't.

## TAX CALENDAR

### September 29

2nd instalment 2009  
Provisional tax (December  
Balance dates)

### October 28

1st instalment of 2009  
Provisional tax for those  
registered to pay GST twice a  
year. Caution! **If you trade  
through a company**, it may  
pay Provisional tax twice a  
year but **you**, the individual,  
**will be paying three times a  
year.**

GST due for those who pay six  
monthly.

(All March balance dates)

### November 28

1st instalment of 2009  
Provisional tax  
(June balance dates)