



Welcome

Welcome to our first Business Digest for 2011.

In particular I'd like to greet the many new subscribers who have signed up since the last edition.

We've been producing this publication for close to a decade now and as always, we strive to bring you accounting-related information that will help you make better business decisions.

I trust you enjoy the read and find the contents of value.

Jarrod Bramble
PARTNER

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Did you know?

Diary Dates

Death by discount

Prepared by our Business Services team

As the immediate impact of the GFC fades, the longer term effects are starting to emerge. One of the more intriguing of these is the change in consumer behaviour and retailers' response to the new mood of frugality.

Retailers have always used discounts to lure buyers.

But today discounting seems more prevalent than ever as marketers seek to stimulate sales and increase share in a sluggish market. The problem is that customers now are driven by a new-found thriftiness and a desire for simplicity which could have a profound effect on business in the long term.

So is discounting a clever thing to do? In fact, was it ever such a great idea?

Many companies get caught up in price slashing. Even marketers who should know better aren't immune. McDonald's recently fought public skirmishes with their franchisees over the price point of their low-end burgers. Their corporate offices want to drive traffic, but franchisees complain that it does them no good to sell any product at a loss.

Along with that very reasonable argument, discounting also has the potential to destroy brand equity, hamstring investment in innovation and zap profitability for companies and their stakeholders.

Before you consider discounting, you need to think about the following key points:

1. **Will it bring in extra sales or simply push your customer's decision forward?** This is the 'robbing Peter to pay Paul' dilemma. There may be more bodies in the shop, but if the only thing you achieve by this strategy is to sell your product today to someone who was going to buy it tomorrow anyway, there's minimal net benefit to your business.
2. **What effect will it have on your bottom line?** Are you still making enough margin to be profitable? (See the article on page 2.)
3. **What effect does it have on your image?** It can be very difficult to balance a 'quality and value' market position with a 'discounter' position. It could be that you simply end up confusing the customer.
4. **Are you just training your customers to wait until the things they want are on special?**
This is one logical outcome of a discounting strategy – 'If it's not on sale, I'll wait until it is!'

'But wait' you say, 'all my competitors are discounting and I have to compete with them!' Sorry, but that's a race to the bottom. Building your business on low cost is almost always a losing battle.

So let's go back to the central player in this story – the customer.

For them it's no longer business as usual. Their attitudes and motivation are changing and that means you must adapt and respond with new thinking. Doing the same old same old probably isn't the answer.

“ Building your business on low cost is almost always a losing battle. ”



Adding value to your bottom line

Prepared by our Business Services team

A healthy business is built on a healthy bottom line. The key ingredients for this are increasing purchasing, increasing mark-up and increasing sales.

If you adopt a policy of discounting prices without improving purchasing power or increasing sales, your gross profit margin will be eroded.

The table below shows the alternative price discounts and additional sales increases needed to maintain profit margins. For example, if you discount prices by 10% and your gross profit margin is 20% then you need to increase sales by 100% to maintain the same "\$" profit margin.

WHAT DISCOUNTING DOES TO YOUR BOTTOM LINE

WITH A PRICE CUT OF (%)	GROSS PROFIT (%)					
	20	25	30	50	65	70
1	5	4	3	2	2	1
3	18	14	11	6	5	4
5	33	25	20	11	8	8
10	100	67	50	25	15	17
15	300	150	100	43	30	27
20		400	200	67	44	40
30				150	86	75

TURNOVER INCREASE REQUIRED TO MAINTAIN PROFIT

So let's look at an alternative to discounting.

Adding value

Consider adding value instead of reducing value as an incentive.

The idea of adding value is that your customer receives an additional advantage to your product or service with no or little extra charges. It will only be a 'win-win' if your added value is *low cost* to you and of *high value* to your customers.

You want people to try your services. You want people who can afford your regular rates. So offer them something extra to try you the first time, while charging them your normal rate. Then you know you are attracting clients who can afford your normal rate.

Offer add-on products that don't cost you as much as their perceived value, but make sure your added value **differentiates your product or service from your competitors.**

Your competitors could respond instantly, so be aware and have a Plan B ready.

If you don't have the marketing resources to promote and support your value add it could be a waste of time and money

But perhaps most importantly, if you don't have a plan to get those clients to come back regularly, you're still giving away your services/money. It works the same with reducing or adding value.

Don't give it away. Always value yourself fully.

How to control the uncontrollable

Prepared by our Investment Services team

No matter how hard you try to improve your business efficiencies, sometimes there are factors outside of your control that will impact on results.

The key to being able to maintain profitability and operational success when external factors arise is through appropriate anticipation and reaction.

Currently there are some fairly significant factors that may impact on your results and no matter how efficient your processes and procedures are your bottom line may be adversely affected unless you anticipate and/or react.

Interest Rates

The Global Financial Crisis resulted in a lack of confidence in financial markets, so much so that financial institutions would not transact with each other unless the price of doing so was raised significantly. Money for certain projects or businesses literally dried up or became significantly more expensive.

The price, being the interest rate, had to rise to compensate for the lack of confidence and associated risks. That's assuming the transaction actually occurred. Many transactions were simply denied due to their risk, most notably property development.

The price rise experienced by the financial institutions was passed on to their customers impacting adversely on cost of funds. Many businesses reacted to this by securing funding from alternative sources, for example capital raisings.

Oil Prices

Recent unrest in the Middle East has sent the price of oil upward affecting the cost of most businesses in some way. In its most common application, the price of fuel at the service station impacts any business that has a car on the road or that receives or transports any product in or on a vehicle fuelled by petrol or diesel.

How can your business control the events in the Middle East? Well it can't, but you must be on top of your pricing models well enough and quick enough to be able to react and modify them to take into account their affect.

Carbon Tax

In the lead up to the Federal Election in August last year, the introduction of a carbon tax was rejected. Some seven months later it is now being forwarded as a new tax that will affect business.

The tax will no doubt be passed down the line to consumers and will inevitably add to the cost of doing business

The imposition of a new Federal, State or Local Government tax cannot be planned. However, most political announcements are preceded by a barrage of media releases giving you a 'heads up' that a tax is on its way and time to anticipate the effect on your business.

Implementing efficient work practices is fundamental to a successful business.

So too is the ability to anticipate and react to the unexpected hiccups that inevitably occur along the way.

Looking for a finance package that wraps up all your needs?

Prepared by our Finance Brokerage team

Alan Johnston, head of our Finance Brokerage, can help.

The Brokerage was established to provide finance solutions tailored to the specific needs of our clients. This was in response to the frustrations some clients experienced in their dealings with the 'one size fits all' mentality of the more traditional lenders.

We've subsequently been able to support our clients in many areas from financing business expansion and the purchase of capital equipment to home mortgages and motor vehicle loans.

With access to a wide range of trusted finance providers, Alan will tailor a package to help you achieve your business goals.

If you have an existing loan, it might be time to check whether it is still appropriate to your current circumstances. Our complimentary Loan Review could save you money!

Call Alan on 02 4928 8500 for a no-obligation chat.

April

21 Monthly Activity Statement – March 2011

28 PAYG Quarterly Instalment Notice for quarter 3 due for payment, lodgement only required if varying amount

Superannuation guarantee contributions for quarter 3 due for payment

Quarterly Activity Statement – quarter 3 if lodging by paper

May

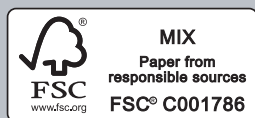
7 April 2011 monthly payroll tax due

15 Income tax return lodgement for all other entities not required earlier. Payment for companies and superannuation funds. Payment for other entities is due as per the notice of assessment.

21 Monthly Activity Statement – April 2011

26 Quarterly Activity Statement – tax agent lodgement

28 FBT Return – lodgement and payment



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Did you know?

Prepared by our Accounting and Taxation services team

Changes to Director Penalty Notices (DPNs)

The NSW OSR is currently actively issuing DPNs to directors who are behind in their payroll tax obligations, in the same manner as the ATO does for group tax.

As with the ATO DPNs, if the director does not, within 21 days of the date of the notice, do one of the following then they will be held personally liable for the amounts claimed on the notice.

- Pay the debt;
- Enter into a repayment arrangement;
- Have the debt waived or deferred;
- Place the company into administration; or
- Place the company into liquidation.

For more information about the items above, please contact Jace Pedonese on 4928 8500.

FBT Exempt Motor Vehicles

As FBT time is almost upon us once more, now is a good time to review the criteria by which motor vehicles are eligible for FBT exemption.

An employee's use of a panel van, utility or other commercial vehicle (that is, one not designed principally to carry passengers) is exempt if the employee's private use of such a vehicle is limited to:

- Travel between home and work
- Travel that is incidental to travel in the course of duties of employment
- Non-work related use that is minor, infrequent and irregular (for example, occasional use of the vehicle to remove domestic rubbish)

Dual cabs qualify for the work-related use exemption only if either:

- They are designed to carry a load of one tonne or more, or more than eight passengers.
- While having a designed load capacity of less than one tonne, they are not designed for the principal purpose of carrying passengers.

The ATO has compiled a list of the vehicle Makes and Models which they have deemed to be exempt motor vehicles. This list can be viewed at <http://www.ato.gov.au/businesses/content>, in the toolbar list on the right hand side of the page.

Pay your ATO bill by credit card and earn reward points

The ATO has recently changed their payment policy to allow certain types of tax bills to be paid using credit cards, provided that certain conditions are met.

→ See our website for the full article

Would you prefer to receive this newsletter via email?

Simply contact Vicki in our Marketing department on 1800 988 522 or cnmail@cutcher.com.au with your name and email details.

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■ **Newcastle** 02 4928 8500
■ **Sydney** 1800 988 522
cnmail@cutcher.com.au

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