

Newsletter September 2008

How to thrive in a slow down

We are quite clearly in to an economic slowdown now. People are reporting sales and profit performances down, cash flow tight and outlook grim. Retail sales have slumped, forcing many to engage in discounting strategies, property prices are dropping, the spectacular demise of the finance company sector means that many developments have stopped or been put on hold, and the flow on effect to the trades and every other business that supplied this sector are unmistakable. Those who haven't seen a slow down yet are bracing themselves for the flow-on effects.

Arguably, we have not seen a slowdown of this proportion for many years. What to do?

Fundamentally, the answer comes down to choice. The result is not determined by the event, but rather by our response. To a certain degree, the choices business people make in these times become a self-fulfilling prophesy. If you think you will sink, you probably will. If you aim to not only survive, but instead thrive – you probably have a better shot at success. Whatever the case, hanging in there and hoping for success is not enough – you need a strong business strategy.

With a good business strategy and solid and committed execution, difficult times can present a myriad of opportunities. Look for the gift in adversity rather than wallowing in self pity, embrace change rather than fear it, and focus on what really matters in your business.

Here are some “rules of engagement” for a recession:

1. Get your own attitude right. This situation is temporary, it is not your fault, but you can **do** something about it.
2. Focus on efficiency. How can you produce the same output with less cost? Will investing in technology improve your performance? How can you lift productivity? Your customers are all looking for value – make sure you can provide it and stay one step ahead of the competition.
3. Make the tough calls that we would rather put off, and do it early. Don't make the mistake of waiting until it is too late.
4. Focus on what really matters – drop outdated commitments and de-clutter everything.
5. Cash is king! Get on top of your debtors and do not let them stretch you out. Look at your credit terms, and put resource in to collections.
6. Innovate, innovate, innovate! Break the cycle and look for better, smarter and more effective ways of doing things. Eliminate the philosophy of “if it ain't broke, don't fix it”. This is a myth in recessionary times – you must always strive to improve and stay one step ahead of the rest.
7. Review your marketing strategy – not with the intention of pulling back, but with the intention of what else can you do? Look for points of differentiation and yell them from the roof tops.
8. Do not discount! Instead, try to reposition your product or service to emphasise economy or value for money. But at the same time, take out costs so that you preserve your margin. If you simply reduce the price without changing the feature/benefit mix, you will struggle not only to get margin in the short term, but you've made it much harder to reposition at a higher price later, when the economy picks up



9. Look for the opportunities as they will certainly be there. If you are feeling the pressure, your competitors will be feeling it also. This may present some acquisition opportunities.
10. Look to expand your markets and look to sell more products in to your existing markets. Remember the four ways to grow a business:
 - a. Increase the number of customers
 - b. Increase the frequency of transactions
 - c. Increase the average dollar sale
 - d. Increase the efficiency or Gross Profit
11. Talk to suppliers about your buying opportunities, and look to the market for alternatives if you have to. Your incumbent will be very keen to keep your business, so stay with them if you can but remind them about alternatives and take ideas to the table about how you can both be better off.
12. Squeeze the surplus cash out of your balance sheet. Reduce stock, sell up surplus assets and as previously mentioned, collect all debts.
13. Review your borrowing structure, pay off debt where you can and consolidate to get the most effective cost of funds.

Finally, and most importantly remember this is only a phase. The economy moves in a continuous cycle and it will improve. You need to be ready when it does.

Your Accountant's Top 10 Tax Tips

High interest rates, finance company failures and plummeting property prices mean that businesses are facing some of the toughest economic times for a decade. One thing that all business owners should be aware of is tax – and in particular how you can save tax legally!

Here are some tax tips to help you ensure you're receiving every tax benefit available to your business

1. Check your interest deductibility. There is often an opportunity to get bank loans documented in the name of the company and thus obtain a tax deduction for the interest cost. This can be particularly effective if the shareholder current accounts have a reasonable credit balance.
2. Do you have a trust? As well providing excellent asset protection, trusts may also provide significant tax benefits when utilised in the most effective manner – particularly if your income is greater than \$60,000.
3. Research and Development – do you undertake any R&D? If so, you may be entitled to the new R&D tax credit which provides a further 15% over and above the normal tax deduction. You may be surprised at what can be claimed – it is certainly not limited to test tubes and lab rats! Things like new production process or new products and materials provide options. It is even possible to claim a proportion of the wages and overhead cost associated with the research. If you think this applies to you we recommend reviewing this now – don't wait until year end or you may lose the opportunity of capturing the data.
4. Home Office – If you do some work from home, you may be able to claim a portion of your home expenses including interest or rent, insurance, rates, power and any repairs. Simply measure the area of the office, calculate the percentage of the floor area of your home and claim a proportion of the expenses. You are paying these costs anyway, so you may as well get the tax benefit!

5. Don't get caught for penalties! The IRD introduced late filing penalties for GST returns from 1 April 2008 so you could be penalised between \$50 and \$250 for each late return depending on your payment basis. There are also late filing penalties for income tax and PAYE – file the returns on time to avoid this absolute waste of money.
6. Entertainment – Some entertainment expenses are actually 100% deductible rather than the standard 50%. This could be when:
 - a. you are out of town
 - b. on a conference that lasts more than four hours
 - c. providing refreshments at a trade day or similar which is open to the public
 - d. morning or afternoon teas
 - e. meal allowances

Are you claiming GST on all of your entertainment expenses and not just the standard 50%? The GST adjustment for non-deductible entertainment is an adjustment that must be made on an annual basis. So, you should be claiming GST on 100% of any New Zealand based entertainment expenses.
7. Fringe Benefit Tax – Make sure it is minimised!

You may not need to pay FBT on certain work related vehicles if the private use is restricted by way of letter and signed acknowledgement from the employee. If the vehicle is only available for some of the time, then ensure that accurate records are kept for when the vehicle is not available and those days can be deducted off the calculation. Do this carefully, and it could save a heap of money!
8. Valuation of stock. It is a little known fact that you can value stock at the lower of cost or at market value. This means that if the market value less any disposal costs is less than you paid for the stock you can effectively get a deduction for the loss in value of this obsolete stock. As usual, it is very important to keep good records.
9. Holiday Pay – Did you know that you are entitled to a tax deduction for any holiday pay paid out within 63 days of balance date in the current financial year? This can be a substantial amount, so encourage the team to take their holidays prior to June 2 for 31 March balance dates and you will get the deduction in the earlier year.
10. Review your asset schedule and write off any depreciable assets that are no longer used. The remaining carrying value of an asset can be claimed as a deduction if the asset has been physically dumped or has been disposed of for a nil value to an unrelated third party. Also, remember that any assets with a cost of less than \$500 do not need to be capitalised and depreciated – you can take the deduction in one hit.

So, keep good records and take opportunities that are presented and are within the law. If you have any tax concerns, your adviser can undertake a review of your business to ensure that any tax risks are minimised.