

BC'S BUSINESS BRIEFS

How to survive difficult times

There are many things being written and spoken on this topic at the present time. The writer was recently told of an actual case of a freight company that had been struggling for some time with low (regularly nil) profitability, despite having an outstanding reputation and substantial turnover. The company appointed a new CEO who did not have a background in the freight industry. After consulting with senior management of the company, the new CEO decided that despite the fact that they were in a competitive environment, he was going to raise the companies prices by 10% overnight.

The management staff of the company were totally unified in telling the CEO that the result of a lift in pricing by this amount was likely to be disastrous for the company and they would likely lose significant numbers of customers and the resulting business from those customers.

The actual result of the lift in prices was that out of a total of nearly 3,000 customers, 3 complained and 1 took their business to a competitor. The financial effect of the price increase was to raise company profitability from approx breakeven to a monthly profit of \$100,000 on average which 9 months after the price increase was still holding up.

While a rise in prices will not always achieve these sorts of results, there are a couple of messages to come out of this story.

- 1 The answer to many business problems may often be simpler than we believe;
- 2 Don't close your mind to any possible solutions to problems – sometimes a "clean sheet of paper" approach is what is really required;
- 3 Have the courage of your convictions when facing up to problems and be prepared to take hard decisions if you believe they are the right decisions.
- 4 Remember – the one thing worse than a wrong decision is not making a decision at all.

Regular small price rises may be important to many business' long term wellbeing. One way of achieving this may be to add value to your basic products/services that are being sold and charge a price premium for the added value product, while still offering the original product/service at the original price. Over time it may be possible to convert more customers to the premium product/service. The premium product might include things such as faster guaranteed delivery time, double length product guarantee, extra condiments with food being sold, etc. **How many large multi national retailers can you think of using this approach?**

End of Financial Year

With the end of the financial year now approx 4 weeks away for the majority of our clients, we will be sending out our annual end of year checklists and engagement letters in the next 2 to 3 weeks as a reminder of the normal end of year procedures such as stocktaking, compiling Debtors and Creditors lists (for those not using in house accounting systems) and other annual requirements. While we appreciate that these can be time consuming to complete, they are a requirement of the NZ Institute of Chartered Accountants and accordingly all Chartered Accountants should be using them. Those clients with entities other than companies will see some minor changes to the wording being used this year as a result of a change in the reporting standards that we all are required to adhere to. Please don't hesitate to ask if you would like clarification on this.

Impact of the economic stimulus package on Provisional Tax

There has been some indication that the tax changes proposed as part of the economic stimulus package may well affect the final instalment of provisional tax payable for our clients, which for those clients with a March balance date will fall due on the 7th of May. To date we do not have details of the changes, but as we expect these changes to be progressed through Parliament before the end of March, we anticipate that many clients will have reduced requirements for their final 2009 provisional tax instalment. Should that be the case, we anticipate taking advantage of all concessions for our clients that are available at the time.

Famous Quotes

"A large income is the best recipe for happiness I have ever heard of"

Jane Austen – British Novelist 1775-1817

Whether we agree or disagree with this sentiment, it's interesting to note it's not exactly new!

Please feel free to contact the writer should you wish to discuss any of the contents above further.

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Disclaimer of Liability: The views contained in this article are the personal views of the author. No liability will be accepted for actions taken in reliance on those views by any other person.

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