

# Business Matters

News & Information from Advance Business Centres

2nd Quarter 2006



## Setting the right price

One of the most important decisions to be made when launching a product or service is setting the price.

**I**deally, you will want to make maximum profit from each sale, with prices set at the highest point possible before demand starts to decline. This can be a delicate decision.

Numerous factors will influence your pricing structure. If your aim is just to maximise profits, you may set a higher price than if your objective is to increase market share or grow sales.

### Covering your costs

Perhaps the most obvious way of pricing a product or service is to calculate the costs of producing it and add a percentage profit margin. But it is important to take into account 'indirect' costs (such as rent, utility bills, insurance and depreciation of equipment) as well as the obvious 'direct' costs like materials, sales, employee and management costs and delivery. You may need our advice when analysing your total costs.

In addition, using this 'cost-plus-profit' method alone fails to take into account such factors as competition, market trends and the expectations of the customer. Many successful small businesses cannot compete with large corporations on price, so they focus on areas such as perceived quality, customer service or uniqueness of brand. Indeed, if you are marketing your product or service as high-quality or 'luxury', customers expect to pay more and a lower price could actually harm sales.

### Target costing

It can be difficult to compete on price if production costs are relatively fixed. Target costing is a possible solution to this problem. When launching a new product, an optimum selling price is decided from the outset. The desired profit is deducted from this figure and the result is your target cost. All those involved in product design, development and production are tasked with meeting this cost. However, setting the initial optimum selling price does require extensive market research.

### Discriminatory pricing

Sometimes, you might want to set different prices for what is essentially the same product. For example, existing customers might get discount prices on new products; or prices can be varied in relation to season or time (off-peak and on-peak). You might be able to charge higher prices for the same product in more affluent areas, or in places where there is less competition, or perhaps with a different packaging and image, the same product might be sold at different prices to different markets.

**Pricing is an important weapon in your strategic armoury. Make sure you consider all the different factors in your planning.**

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### OUR SERVICES FOR YOU AND YOUR BUSINESS

Here are just some of the ways that we can help you with your personal and business finances.

Why not call us now and we'll arrange a meeting to discuss:

- Raising finance and maximising the value of your business
- Retirement planning strategies for you, other family members and your business
- Maximising wealth within the family using your annual exemptions and tax breaks
- Timing transactions to minimise the tax bill
- Exit strategies and estate planning, for a secure future

# Creating a 'launch pad' for your family

**E**STATE planning is not just about what happens when you die, but more to do with the management of your assets whilst you are still alive. The objective is to ensure that the right people receive the maximum amount in the most tax effective manner.

Successful estate planning involves a strategic approach – one involving you, your financial planner, your accountant and your lawyer.

## Tax planning strategy

Not everyone has the same objective or is motivated by the same benefit. For some individuals, estate planning is about wealth creation, for others tax minimisation or asset protection.

One of the things to keep in mind is that many structures used in estate planning require your assets to be held in trust - either through a family trust or superannuation fund - or in a company. That means that, you may not govern what happens to your assets in the event of your death as they may not be directly under your control.

What are some of the structures that are used in a successful estate planning strategy?

## Testamentary trusts

"Testamentary" is a legal term that basically relates to the making of a will. A "trust" is created when one person holds the legal title of property for the benefit of another person (not themselves). A "trustee" is the person who takes the ownership in "trust" for another person (known as the "beneficiary"). Under the trust the trustee has a legal and financial duty to the beneficiary.

A testamentary trust is established under a will to appoint a trustee to use property for the benefit of the beneficiary in the way that the will specifies. Many people, especially those of wealth, create trusts to protect assets or to minimise tax. In the same way a trust can be set up under a will. These trusts can last for many decades following the date of death.

A testamentary trust has two significant advantages for a will maker and the beneficiaries:

- Significant taxation advantages in terms of income splitting; and
- Protection of the bequeathed assets from any financial or other difficulties that the beneficiaries may suffer

One of the dangers of this vehicle is that people can lodge claims against your estate under The Family Provisions Act.

## Family trusts

Most family trusts are discretionary. A discretionary trust is generally a trust under which the distribution of income or capital to beneficiaries is made at the discretion of the trustee.

Until the trustee exercises its discretion, the beneficiaries generally have no interest in the property of the trust. A discretionary trust is sometimes called a "family trust" (for tax reasons, however, a family trust means a trust that has made a family trust election), which means it is down to the trustee to determine who gets what income.

If a couple establish a family trust, in order to retain control of the assets within the trust, both parties should become trustees



and also the appointors. The appointors (or appointor) of a trust have the real power and control of the assets of a trust. They are able to appoint and remove trustees. In most cases, the original appointors are the parties for whose benefit the trust is established.

Generally, having a number of joint appointors, possibly including an independent appointor, provides greater asset protection and succession planning benefits, so it is preferable to avoid having a sole appointor.

Discretionary trusts have a number of advantages including:

- Asset protection;
- Flexibility regarding the distribution of income and capital;
- Simpler regulation than a company;
- The governing document the 'trust deed' can be designed to the needs of principals and beneficiaries.

## How we can help

We can help you with advice on:

- Tax-efficient savings for you and your family
- Setting up a trust to manage your child's capital
- Tax-efficient gifts from parents, grandparents and others
- Looking after your own retirement
- Lifetime gift strategies, to help your family during your lifetime, and minimise the tax take on your death.

**We welcome the challenge of helping you to create the launch pad for a bright financial future for you and your family.**

## BUSINESS BRIEF

### WorkChoices

WorkChoices is a new system of workplace relations legislation that covers up to 85 per cent of Australian employees and came into effect on 27 March 2006. A series of factsheets are available to assist employees and employers to understand their rights and obligations under the legislation.

Visit the WorkChoices website [www.workchoices.gov.au](http://www.workchoices.gov.au)

## Making the most of your company meetings

Are your board or company meetings as effective as you would like? Here are eleven tried and tested strategies for getting the most out of your meetings and your board or company members:

### 1 Be prepared

Distribute materials a few days in advance so members have time to review them, but not enough time to put them aside.

### 2 Be disciplined about time

Ensure that you start and finish according to schedule.

### 3 Prepare an agenda

List the most important points first, and allot time to each – with some extra time for unplanned discussions.

### 4 Prioritise items

Identify items that need action by the board, such as approving committee recommendations or developing a policy or proposal. Also identify items included so board members can be kept 'in the loop'.

### 5 Decide powers of authority

Make it clear how a meeting is to be run. The chair must be sufficiently strong to impose order, but does he or she have the power to guillotine or veto?

### 6 Encourage argument

Allow open debate, but encourage consensus decisions.

### 7 Be democratic

Involve everyone by encouraging quieter members to present their views and not letting more 'enthusiastic' members dominate the discussion.

### 8 Tackle the important issues

Develop an annual calendar that includes important items that need to come up for regular discussion - business development, budgets, elections, and so on.

### 9 Use a flipchart

Make notes of important points to discuss and good ideas – and display them where everyone can see. This helps people to focus.

### 10 Keep your meetings interesting

Add variety by inviting clients or suppliers to make a presentation, show a video of your proposed marketing programme or a tour of the website of one of your competitors that does something exceptionally well.

### 11 Be comfortable

Provide refreshments and schedule a half-time break.

Some of these strategies may sound obvious, but it is amazing how easy it is to lose sight of them. If a company meeting is to be effective, it is essential to encourage everyone to offer their opinions without allowing the discussion to disintegrate into a free-for-all; and to make sure that real results and the right decisions are achieved.

## Conducting staff appraisals

Staff appraisals can provide a valuable opportunity for you and your employees to work together to achieve future growth – for the employees' personal careers and for the business as a whole.

They can help you to assess the role of individual members of staff within the company, and to identify who you should or possibly should not continue to employ. They also allow all parties to air any grievances before they become serious issues.

However, without diligent preparation these meetings can be treated as a matter of routine, and not managed in a way to attain the maximum benefits. To help get the most out of the appraisal process, try the following procedures:

- 1 A formal structure.** Prepare standard forms on which you and the employee can set out an overview of their role and performance ahead of the meeting. This should include a statement of their main responsibilities and achievements, as well as constructive suggestions for future development. You can use the form as the basis of the appraisal meeting.
- 2 Put staff at ease.** While the interview should have a formal setting, make it clear that the objective is not simply to judge past performance. Highlight the employee's positive attributes, and make it clear that you are keen to help them to develop their skills further.
- 3 Invite feedback.** Giving staff the chance to share their views and ideas may help to uncover any issues which might not be addressed in general staff meetings, and can enable you to identify potential problems in the early stages.
- 4 Offer training opportunities.** Your staff are among your business's most valuable assets, and by investing in them you will also be investing in your business. Offering training, a salary review, or other benefits will also make staff feel valued, thereby increasing loyalty and improving performance.
- 5 Completing the appraisal.** Once you have agreed on the way forward, compile a document to be signed by employer and employee. Keep a record on file and give a copy to the employee. Make sure the comments are accurate and fair, in case of any future disputes.
- 6 Follow up the points raised.** Having agreed on an appropriate plan of action, you should schedule a series of follow-up meetings, perhaps bi-monthly, to assess whether the actions and targets set in previous appraisals have been achieved.



# The small business debt initiative

**In June 2004 the Australian Tax Office gave small businesses an opportunity to clear their outstanding tax debts under favourable terms.**

Over 96,000 businesses chose to enter into payment arrangements with a total of \$620 million already received.

Whilst the approach was a success, there are still many small businesses that haven't cleared their debt as a result of cash flow or other planning issues.

From March 2006, the newly appointed tax commissioner plans to speed up debt collection from slow-paying SMEs.

## A new approach

The Australian Taxation Office is trialling new and innovative ways of contacting and engaging with people who have a tax

debt. This will include contacting people directly by phone after business hours. Some 650,000 SMEs are about to be targeted by after hours "cold-calling" for their outstanding tax debt.

Technology will also be tested as part of the strategy for managing small business debt. One of these initiatives is, 'dialler technology', to be tested from around April this year.

Dialler technology works through a list of phone numbers, automatically dials and puts all answered calls straight through to one of the ATO staff for action – people will not hear a delay on the line – and the calls will take place during normal business hours.

The Tax Office also plans to trial referring debt to an external collection agency for those people with a debt of less than

\$7,500, and who haven't responded to letters or phone calls.

Anyone who is concerned about their outstanding debt or receives a call from the ATO should call us immediately.

It's important we understand your situation and begin working on an arrangement together.

*Source: Australian Taxation Office*

## Great Read

### Making Teams Work 24 Lessons for Working Together Successfully

Michael Maginn

McGraw-Hill (around \$11.95)

In today's fast-moving work environment, teams are the way that work gets done. Making Teams Work outlines 24 rules and guidelines for molding individual team members into a solid, functioning group, one whose value is far greater than the sum of its parts. Look to this concise, value-packed book to learn how to build innovative, successful, and exceptional teams by showing team members how to:

- Forge a clear, common goal
- Clarify responsibilities
- Make solid decisions
- Discover consensus
- Manage differences
- Trust each other
- Run good meetings
- Lead without dominating

Work teams succeed only when they can eliminate rivalries and focus their different perspectives and skills on solving the problem or challenge at hand. Let Making Teams Work show you how to build such teams, working with individual members as well as the collective team to produce creative, consistent, and decisive results – every time.

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

**Confused by WorkChoices?** [www.australianbusiness.com.au](http://www.australianbusiness.com.au)  
Simple ways for you to understand Work Choices impact on your business.

**Helping sales professionals exceed sales goals**  
[www.richardson.com](http://www.richardson.com)

Great ideas to improve the performance of your whole sales team.

**Employee relations** [www.workplaceinfo.com.au](http://www.workplaceinfo.com.au)  
Information and reference material on industrial relations and human resources at the one location.

## REMINDERS FOR YOUR DIARY

### April 2006

- 21 Activity statements** - March 2006 monthly activity statements: final date for lodgment and payment.
- 28 Activity statements** - Quarter 3 (January-March 2006) activity statements: final date for lodgment and payment.
- 28 Superannuation** - Last day for superannuation guarantee contributions for quarter 3 (1 January – 31 March 2006) to be made to a superannuation provider.



### May 2006

- 21 FBT Return** - Due date for lodgment of 2006 Fringe Benefits Tax (FBT) return and payment if required.
- 21 Activity statements** - April 2006 monthly activity statements: final date for lodgment and payment.
- 28 Superannuation** - Due date for lodgment of a *Superannuation guarantee charge statement*

### June 2006

- 21 Activity statements** - May 2006 monthly activity statements: final date for lodgment and payment.
- 30 Superannuation** - Superannuation guarantee contributions need to be paid by this date to qualify for a tax deduction in the current financial year.
- 30 End of Financial Year**