THE POWER OF BEING UNDERSTOOD

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RSM NZ Business Tips

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Four ways to grow your business

- Increase the number of customers (of the type you want to have)
- Increase their transaction frequency
- Increase the average transaction value
- Increase the effectiveness with which you do things

Break even analysis

- The break-even analysis is a very useful tool for determining your pricing strategy and tracking your cash flow. It can be used to calculate the sales volume at which your variable and fixed costs will be recovered.

- Another way to look at this is that the break-even point is the point at which your product stops costing you money, and starts to generate a profit.

Basic Example	
Overheads	150,000
Margin (Gross Profit)	40%
Breakeven Sales	375,000

Cashflow

- Positive cash flow boosts your growth options
- The more cash your business generates the more profit it will make.
- The reverse may not be true. Your business accounts may show a profit but you may still owe more than you can pay.

Cash flow continued

Knowing your inwards and outwards cash flow enables growth planning. A regular cash flow expert will address the following questions:

- What your cash flow buffer is?
- How far you are from your cash flow target?
- How your cash flow trends over time.
- A cash flow forecast enables you to manage your cash flow and to know when you may need help from your bank.

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Discounting

If I reduce my price….

- How much must I increase my sales volume by to get the same profit:

Amount of price reduction	Present Margin								
	20%	25%	30%	35%	40%	45%	50%	55%	60%
	Sales volume must increase by								
2%	11%	9%	7%	6%	5%	5%	4%	4%	3%
4%	25%	19%	15%	13%	11%	10%	9%	8%	7%
6%	3%	32%	25%	21%	18%	15%	14%	12%	11%
8%	67%	47%	36%	30%	25%	22%	19%	17%	15%
10%	100%	67%	50%	40%	33%	29%	25%	22%	20%
12%	150%	92%	67%	52%	43%	36%	32%	28%	25%
14%	233%	127%	88%	67%	54%	45%	39%	34%	30%
16%	400%	178%	114%	84%	67%	55%	47%	41%	36%
18%	900%	257%	150%	106%	82%	67%	56%	49%	43%
20%	-	400%	200%	133%	100%	80%	67%	57%	50%
25%	-	-	500%	250%	167%	125%	100%	83%	71%
30%	-	-	-	600%	300%	200%	150%	120%	100%

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Premium Pricing

If I increase my price…

- How much can my sales decline before my gross profit is reduced?

Amount of price increase	Present Margin								
	20%	25%	30%	35%	40%	45%	50%	55%	60%
	Sales volume can decline by								
2%	9%	7%	6%	5%	5%	4%	4%	4%	3%
4%	17%	14%	12%	10%	9%	8%	7%	7%	6%
6%	23%	19%	17%	15%	13%	12%	11%	10%	9%
8%	29%	24%	21%	19%	17%	15%	14%	13%	12%
10%	33%	29%	25%	22%	20%	18%	17%	15%	14%
12%	38%	32%	29%	26%	23%	21%	19%	18%	17%
14%	41%	36%	32%	29%	26%	24%	22%	20%	19%
16%	44%	39%	35%	31%	29%	26%	24%	23%	21%
18%	47%	42%	38%	34%	31%	29%	26%	25%	23%
20%	50%	44%	40%	36%	33%	31%	29%	27%	25%
25%	56%	50%	45%	42%	38%	36%	33%	31%	29%
30%	60%	55%	50%	46%	43%	40%	38%	35%	33%

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A rough idea is better than none

- Businesses should be preparing accounts more than once a year, even if the result is only an approximation. It is better to have a rough idea of how you are doing than no idea at all. Often thousands of dollars could have been saved if the business had been monitored regularly.

What should you look for in your accounts?

A rough idea is better than none

Here are two suggestions:

1. Net Profit

- This is the amount left over once business owners have been fairly paid in their efforts

2. Gross Profit percentage

- For many businesses the ratio of gross profit to sales should be reasonably constant. Gross profit is the amount left over after deducting direct costs from sale (direct costs are the costs that vary with sales, as opposed to fixed overheads)

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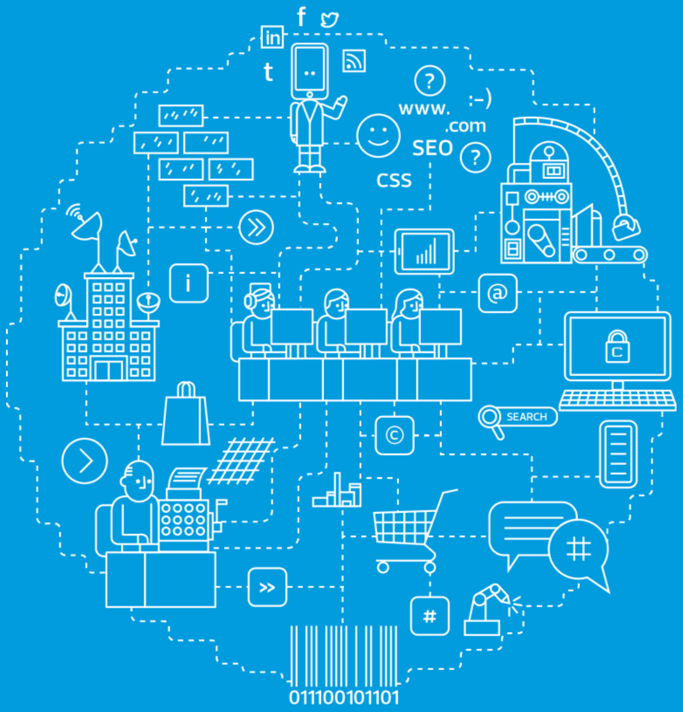
A rough idea is better than none

To improve Gross Profit ratio, look for:

- Wastage of materials and / or time
- Theft of goods or cash
- The proportion of high to low profit margin sales (sales mix)
- Quoting errors
- Underpricing
- Discounting to achieve increased sales volume
- Ways to maximise trade discounts
- Regular review of margins and markups
- Systems in place to ensure that all costs (materials, labour, travel etc.) are billed
- Maintenance of accurate inventory records
- Regular review of inventory for slow moving and obsolete stock turnover

Use of Money Interest (UOMI)

- UOMI is a charge on higher incomes for short paid tax
- Currently, if the tax on your personal income for the year is less than $50,000, after deducting all other taxes paid as you go, you are not liable for UOMI from the beginning of the 2017 / 2018 tax year. This threshold is to be increased to $60,000, which is equivalent to getting $209,333, assuming no tax has been deducted from the income.
- Companies and trusts are caught for UOMI if their tax liability is more than $2,500 tax. This threshold is to be lifted to $60,000 from the beginning of the 2017 / 2018 tax year. Companies will then be able to earn $214,285 before UOMI will apply and trusts $181,815, assuming no tax deductions at source.
- UOMI will no longer be charged on the first and second instalments of provisional tax, so long as the tax is paid based on the standard calculation method
- UOMI will still apply to the third provisional tax payment
- The income of contractors hired out through labour hire firms, like those in the IT industry, will be subject to withholding tax deductions from their income.



Collaboration. Understanding. Ideas and insight.

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QUESTIONS
AND ANSWERS?

THANK YOU FOR YOUR TIME AND ATTENTION

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