

# businessessentials<sup>®</sup>

Advice and ideas to grow your business - presented by Nick Schildberger

May 2011 | Audio CD



the extras



**Managing Director**  
Nick Schildberger

**Production Manager**  
Heather Dawson

**Producer**  
Bob Kearsley

**Studio Manager**  
Peter Letts

**Advertising/Sponsorship**  
Nick Schildberger  
nschildberger@be.com.au

**Publisher**  
Business Essentials Pty Ltd  
405 Riversdale Road,  
Hawthorn East Vic 3123

**Telephone:** 03 9882 8333

**Facsimile:** 03 9882 8017

**Email:** info@be.com.au

**Website:** www.be.com.au

Exciting news this month about developments here at Business Essentials which will enable us to provide a whole new range of services to small and medium businesses. We're delighted to announce that we've merged our operations with those of business education provider Multiple Coaching Services, whose founder Geoff McDonnell joins us as General Manager. Building on Business Essentials' well-respected brand and these monthly CDs, we're now able to offer wide-ranging support to business owners right across Australia. Whatever your problem, we'll diagnose it, prescribe treatment and work with you in a hands-on way that will go right through to implementing the appropriate solutions. As your business strategy partner, Business Essentials can help you grow your business by focusing on what you want to achieve, and the best ways of getting there. Getting your business model right, finding and reaching your market, understanding social media, improving your internal and external communications, managing your HR requirements and training your key staff are all on our agenda.

There's more detail on our website, [www.be.com.au](http://www.be.com.au), and in the handy brochure which accompanies this CD. If you'd like to talk over the possibilities we can offer you, call 03 9882 8333 for a free 30-minute chat with one of our account executives, who have many years experience in business development and helping businesses grow.

Meanwhile, there's plenty of good advice to help you grow your business on this month's CD. Pricing is a key issue for most businesses, and Ron Wood of Pricing Insight tells how to get it right, with a powerful warning against "cost-plus". A warning too from Andrew O'Keeffe of Hardwired Humans about the dangers of over-confidence. And, as the new financial year approaches, Jon Hemming from Unity Management tells us why budgets are important, and how to use them effectively to monitor performance as the year goes on.

Enjoy the CD!

Regards

A handwritten signature in black ink that reads "Nick Schildberger". The signature is fluid and cursive, written in a professional style.

**Nick Schildberger**  
Managing Director

For more information about the topics discussed on this May 2011 program, please contact the relevant organisations listed below.

### GETTING YOUR PRICING RIGHT

Ron Wood, Pricing Insight

T: 02 9091 0226

[www.pricinginsight.com.au](http://www.pricinginsight.com.au)

### ECONOMIC UPDATE

Professor Neville Norman,  
Melbourne University

[neville.norman@unimelb.edu.au](mailto:neville.norman@unimelb.edu.au)

### RECIPE FOR A SUCCESSFUL BUSINESS

Simon Beaty, Snooze

T: 03 9830 4166

[www.snooze.com](http://www.snooze.com)

### HOW WELL DO YOU REALLY TREAT YOUR CUSTOMERS?

Kevin Dwyer, The Change Factory

T: 0408 508 490

[kevin.dwyer@changefactory.com.au](mailto:kevin.dwyer@changefactory.com.au)

### WHY BUSINESS BUDGETS MATTER

Jon Hemming, Unity Management

T: 02 9011 5220

[www.unitymanagement.com.au](http://www.unitymanagement.com.au)

### DON'T LET CONFIDENCE OBSCURE REALITY

Andrew O'Keefe, Hardwired Humans

[andrewo@hardwiredhumans.com](mailto:andrewo@hardwiredhumans.com)

[www.hardwiredhumans.com](http://www.hardwiredhumans.com)

Andrew's new book is titled

"Hardwired Humans – Successful Leadership Using Human Instincts".

The book is published by O'Keefe.

### BEWARE SPURIOUS OFFERS OF GOVERNMENT GRANTS

Michael Schaper, ACCC

T: 1300 302 502

[www.accc.gov.au](http://www.accc.gov.au)

### TAX WATCHOUTS ON SELLING YOUR BUSINESS

Michael Jones, Cummings Flavel McCormack

T: 03 9252 0800

[enquiries@cfmc.com.au](mailto:enquiries@cfmc.com.au)

[www.cfmc.com.au](http://www.cfmc.com.au)

### SHAREMARKET UPDATE

Elio D'Amato, Lincoln Stock Doctor

T: 1300 676 332 or 03 9854 9444

[www.lincolnindicators.com.au](http://www.lincolnindicators.com.au)

### THE SEVEN TRIGGERS OF PERSUASION

Tony Gattari, Achievers Group

T: 02 9440 7373

[www.achieversgroup.com.au](http://www.achieversgroup.com.au)

## Accountants Who Help You See Further

**Cummings Flavel McCormack are accountants who provide accounting, auditing and business advice to business owners. Cummings Flavel McCormack also provides tax consulting services.**

### Tax Consulting

Tax law is relevant to every major business and investment decision. Understanding the latest developments in tax is difficult.

The Cummings Flavel McCormack tax consulting practice works with clients to evaluate the taxation risks and benefits applicable to their business and investment plans.

We are proud of our ability to untangle the complexities of tax law to produce commercially practical tax advice that the client can understand and act on with confidence.

We have significant breadth of experience, having worked with successive governments in tax law development and holding key positions on advisory and education committees with professional tax bodies.

David Kent, Michael Jones and Neil Flavel lead a group of dedicated taxation professionals.



## CFMC KEY TAX DATES FOR: MAY AND JUNE 2011

21 May 11 **FBT return:** due date for lodgement of 2011 FBT return and payment.

**April 2011 monthly activity statements:**  
final date for lodgement and payment.

21 Jun 11 **May 2011 monthly activity statements:**  
final date for lodgement and payment.

30 Jun 11 **End of financial year.**

“Not everything that  
can be counted counts,  
and not everything that  
counts can be counted”

**Albert Einstein**

For more visit our website, [www.cfmc.com.au](http://www.cfmc.com.au)

### Office Details

Level 15, 390 St Kilda Road  
Melbourne VIC 3004

T: 61 3 9252 0800 F: 61 3 9252 0801

E: [enquiries@cfmc.com.au](mailto:enquiries@cfmc.com.au)

E: [careers@cfmc.com.au](mailto:careers@cfmc.com.au)

[www.cfmc.com.au](http://www.cfmc.com.au)



# “He **NEEDED FINANCE** for a trayback ute but it was a **PUBLIC HOLIDAY.**”

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Owner-Manager

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# THE ESSENTIALS

## May 2011

### Track 2

#### **Getting Your Pricing Right** **Ron Wood, Pricing Insight**

- Buyers are more sophisticated these days as pricing transparency increases, with customer segments fragmenting into small groups which require individual attention
- Your sales force needs to be aligned to a consistent pricing strategy, but able to be flexible to meet the requirements of each customer group
- If you can get a 2 percent increase in prices, that can flow straight through to the bottom line if volumes remain constant
- Perceived discounts can work very effectively in a retail environment, but it's not a sustainable way to grow your business
- A 10 percent discount may mean you have to double your sales just to break even
- The commonest mistake people make in pricing is to use "cost plus" mark-up. It's easy, but you're likely either to underprice and lose margin or set an unsustainably high price and lose the sale

- Avoid it by segmenting your customer base and then developing price lists, and discounts, that are realistic for each segment
- Don't overreact to demands from customers to cut prices. Sales people must be able to understand and articulate the value they're offering to customers
- And don't allow the sales force too much discretionary pricing power. Make sure they have clear guidelines they can work to, but don't bog them down in red tape
- Train your sales team to sell consultatively through understanding the customers's needs and the value your product is providing, before quoting prices
- Look out for warning signs like "the jaws of death", where revenues are rising but gross margins are falling
- Customers may leave you for a cheaper competitor, then return because the service or product is not up to scratch. Don't let them back in at a cheaper price than they were paying before
- Understand your capacity to service the customer. Don't promise more than you can deliver, or enter a market when you're not ready
- Know where you are in the business cycle, so that you're not increasing prices in a falling market
- Never use cost to determine your sell price, but use it to determine your margins and whether you'll play in a market
- And understand your competitors' value proposition and why they're in a particular market segment, and try to avoid head-to-head competition

## Track 3

### Economic Update

Professor Neville Norman, Melbourne University

- I've called this "Budget Blues", to reflect the difficulties the Government has been facing, and the problems that have bedevilled business
- Two years ago, in 2009, Prime Minister Rudd and Treasurer Swan were talking doom and gloom about the budget deficit and the long road back to surplus
- A year later, with an election coming, things had suddenly got a lot better - they were promising a return to surplus 2 or 3 years earlier than in 2009
- Now, in May 2011, after all the natural disasters, the expectation is that the gloomy view will return, with a \$60 to \$70 million deficit
- The old political economy paradigm was for a tough budget in the first year of a new government, with tax increases and government spending cuts
- The government's popularity then nosedives, but picks up again as some measures prove economically sensible, and sweeteners can be offered before the next election
- The Hawke, Howard and Rudd governments took a different path, but maybe we'll go back to that scenario this time
- Treasury is urging some corrections to the tax system, and other lobbies want another look at Henry Review proposals. Two types of excise - on tobacco and petrol - may be considered for increases

- The implications for business will be shock and horror in the short term, but a good outcome in the longer term if corrections are made
- Watch for the major announcements in the Budget and the detail that affects you. We'll review it all next month
- The Australian economy is not heading towards recession but it's not experiencing the boom that was predicted
- The problem is the process: a fog of policy uncertainty and a second-rate debate, which is causing business to stop investing
- On interest rates, no-one's talking about cuts, but I am. I think there's a good chance the next change will be a reduction

## **Track 4**

### **Recipe For A Successful Business**

**Simon Beaty, Snooze**

- When I took over 3 years ago, I discovered a business with a long history and people with passion, but one where growth had stalled, it was losing stores and relationships needed work
- We've provided as quickly as we could some clear and focused leadership for the business, a vision for growth and an emphasis on increasing profitability for our franchise partners
- We realised our core competency was franchising so we've reduced the number of company stores. We'll use the remaining ones to test and trial systems and demonstrate the business model
- All retail businesses need sound fundamentals, like location, product, price and good people, but for me the universal rule of success is attitude

- Bringing sound fundamentals and the right attitude together is something that franchising does best
- People seeking to enter franchising come from a wide range of backgrounds - finding those with the drive and determination to succeed is the key
- At Snooze, we've started the brand's resurgence and laid the foundations for growth. Our target is 100 stores Australia-wide, and to be the preferred choice as a bedding retailer
- As the media landscape changes quickly, we're adapting our marketing to incorporate social and digital media, to engage with potential customers wherever they may be found
- A successful business needs a positive attitude from the business driver - it will be taken on by staff and recognised by customers
- And if you constantly challenge yourself to discover what you can do differently and better, you're bound to improve

## **Track 5**

### **How Well Do You Really Treat Your Customers?**

#### **Kevin Dwyer, The Change Factory**

- We don't seem to be getting better at customer service. In fact, it's often worse. In good times, people don't see the need to provide good service, and in tougher times, managements cut back on training and follow-through
- Hospitality, banking and telecommunications haven't been good at customer service for a long time

- Lip service is paid to it, but many firms fail to identify the service their customers want, create standards to provide it or performance-manage their staff to ensure it's provided
- Think about the "moments of truth" for the customer - any moment where you can create a lasting impression of the value of your product or service
- Poor communication - being left on hold, talking to a voice synthesiser - are an indication that companies just don't get it
- Whether call centres work or not will depend on whether they're inward-looking - concerned about the permitted number of seconds for a call - or outward-looking and concerned about the customer's needs
- It's an area where small business can shine, by adding the human dimension that big companies often lack, but make sure you've done your research and know what customers want
- Customer feedback forms are not a way to carry out research. They're usually poorly designed and used mainly as a means of punishing offenders
- Regular surveys of identified customer groups will give you a better result, backed up by focus groups once you've determined what's important
- Online survey tools are available now which aren't expensive, but it's worth spending money to get the questions right
- "Moments of truth" mapping is the place to start, followed up by setting customer service standards and following through on them
- If you don't get it right, customers will leave you and - through social media - tell hundreds of their bad experience

## Track 6

# Why Business Budgets Matter

Jon Hemming, Unity Management

- A business budget needs to set out the key goals and targets for the coming year, as derived from the company's strategic plan
- It needs a historical perspective as well as recognition of the present situation and projections for the future. It's often described as a business plan expressed in numbers
- A budget enables you to monitor regularly key indicators: net profit, cash flow, return on investment, costs and to understand break-even points
- If you're not looking for growth, it's easy to set a budget based on an average of previous years' performance
- But if you want growth, start at the other end, by setting the profit margin you'd realistically like to attain
- That will bring forth a series of questions to be answered, about inventory, resources, marketing, which will all add to the cost side of the equation. Extra sales will be required to meet the added cost and earn the desired profit
- Don't set over-ambitious targets just to encourage people to try harder. They're more likely to become disillusioned if the target's unattainable. Better to involve them in setting targets that are achievable and still meet the company's goals
- Review performance on at least a monthly basis. Look for variances and find out why they're occurring so they can be corrected before it's too late

- But don't over-react to one month's figures - it may be just an anomaly or related to seasonal factors which will even out
- A useful skill is "triple vision" - look at the figures from a historical perspective, on a monthly basis, and from a quarterly standpoint. That way you'll be able to measure performance and progress
- You may need to monitor figures on a weekly basis if you're growing rapidly, to make sure extra costs and sales are in balance
- Budgets should be documents management keeps to itself, but it's important that staff understand what's being asked of them and how they're performing vis-a-vis targets. That's important for morale and for setting rewards

## **Track 7**

### **Don't Let Confidence Obscure Reality Andrew O'Keeffe, Hardwired Humans**

- We all possess an instinct to opt for what's possible rather than what's achievable. If we don't recognise it, we can run into serious trouble
- The pilot of the aircraft which ditched safely in New York's Hudson River in 2009 could have tried to reach an airport when geese knocked out both engines. It was theoretically possible, but he understood the risks and opted for the river.
- Good decision, and a strong contrast to the Garuda pilot who ignored cockpit warnings and his co-pilot's pleadings because he believed he could land safely in bad conditions at Jogjakarta. He couldn't and many died

- In a business setting, we're often overly optimistic, opting for the big, sexy decision and ignoring reality when it doesn't suit us
- The instinct comes from a primeval mating strategy, when choices of a partner were limited and self-confidence was a powerful influence
- Only days before the disastrous Gulf of Mexico oil spill, a BP engineer said repairs had been completed and "it will probably be all right"
- In the HR context, bosses will often not want to hear about a staff problem because they don't want to believe it and because they might have to take unpalatable action if they face reality
- The ideal is a blend of optimism, to dream of what's possible, and realism, to make sure it happens properly
- That means ensuring we have the systems and resources in place to carry our plans through in a practical and realistic way

## **Track 8**

### **Beware Spurious Offers Of Government Grants Dr Michael Schaper, ACCC**

- The ACCC has become increasingly worried about a number of websites purporting to offer special access to or exclusive information about government grants to small business
- People, believing the websites are official, are handing over hundreds of dollars for information packs which contain nothing which isn't freely available from government sources
- One such site is called [australiangovernmentgrants.org](http://australiangovernmentgrants.org). The sites often

have 1-800 phone numbers and make frequent references to government

- It's often only in the fine print disclaimers that you discover that the site has no official standing
- Any genuine government website will have a ".gov.au" suffix. There's a dedicated site at [www.grantslink.gov.au](http://www.grantslink.gov.au), which has all the information you'll need about applying for grants
- Make sure you read the fine print if you suspect a website, and be wary of requests for money
- Don't be put off applying for grants because of the dodgy operators
- If you've been tricked into paying for their services, you have some redress if you've paid by credit card - contact your provider or the ACCC
- You can also expose the scammers by contacting the government's [www.scamwatch.gov.au](http://www.scamwatch.gov.au) website. But often the dodgy websites will be based overseas, and securing any redress will be expensive and complicated
- There are legitimate websites offering help to potential applicants. They're often industry-based and can be found through industry associations or by referral from the government websites

## Track 9

### **Tax Watchouts On Selling Your Business**

**Michael Jones, Cummings Flavel McCormack**

- If you're selling your business, remember that assets are taxed at a lower rate than income, and small business CGT concessions can reduce tax even further, down to zero in many cases
- If your business is a company - or a unit trust - you can either sell the business assets or your

shares in the company. In most cases, you'll be better off selling the shares

- The concessions are easier to apply in that situation, and cash from the sale will end up in the right place
- If you're selling intellectual property in a business, like software, make sure it's owned by a separate company and sell the shares in that company. The CGT concessions are then available
- Be wary about the tax implications of earn-outs. If your assets were acquired before the introduction of CGT, the tax won't be payable when the assets are sold, but the earn-out amount - paid after the sale - would attract CGT
- There are other factors arising from the introduction of CGT in 1985: the goodwill in a business started before that date may not be taxable, but if the business has changed since its inception - e.g. by the later issuing of shares - that could make a difference

## **Track 10**

### **Sharemarket Update**

**Elio D'Amato, Lincoln Stock Doctor**

- Despite the sharp dip caused by the recent natural disasters, the sharemarket has had a flat month, finishing where it started
- Commodity prices have experienced a strong rally, but oil has been the big story, pushed by the political upheavals in the Middle East to beyond \$US100 a barrel. With strong demand, it will be an important gauge of economic activity
- As we've said so often, volatility provides opportunity, and the important thing is to hold your

nerve and be prepared to buy quality stocks when the market's dipping

- As always, diversification in your portfolio is the way to allow for the ups and downs that will hit different sectors of the market in times of uncertainty
- We've been trying to identify value in the market and have highlighted four stocks which all have good prospects: gas and oil explorer Horizon Oil; M2 Telecommunications; engineering firm Bradken Limited; and Cedarwood Properties, based in Western Australia, which is also on takeover watch.

## **Track 11**

### **The Seven Triggers Of Persuasion**

**Tony Gattari, Achievers Group**

- We are all subject to seven emotional triggers which can influence us to take certain courses of action. If our motives are good, it's persuasion; if they're bad, it's manipulation
- The first is "Lust" - the anticipation of pleasure. Marketers will use it to create a craving for something, perhaps by placing a TV commercial for a "wickedly delicious" chocolate ice-cream in mid-evening, after dinner
- "Mystique" is next - providing unanswered questions. The word "secrets" appears in thousands of book titles, enticing you to buy to discover what the secrets are
- "Alarm" is often used to create a fear of missing out on something, or having it cost more if you delay. I used it at Harvey Norman when the GST was about to be introduced - it worked!

- "Prestige" is a very powerful motivating force. Badges on expensive cars and clothes indicate status - you've made it if you can display them
- "Power" is next. It comes from authority, which may come from professional qualifications, making it unlikely that you'll challenge decisions or recommendations
- "Vice" is a way of describing the rebellious streak in us, especially in the young. It's the tendency to do what you're told not to. Make something forbidden or risky and it immediately becomes attractive
- "Trust" is the final trigger. It's about certainty and reliability. Companies point to their long history, to the number of customers they've had, to their role as leaders.
- I suggest you sit down with your team and look at these triggers. Which ones can you employ with which customers? How can you use all of them to the best effect?
- But remember that others will be using them too, to sell to you.