

Newsletter

SUMMER 2014

Be different, be better

S had a house built for him. The builder engaged painters who did such a poor job the paint started peeling off the outside of the house after about three years. S sued the painter successfully.

Meantime, he sought contractors to strip the paint off the outside of the house and start again. He chose his painting firm based on a recommendation he felt he could rely on. The price was high but the contract included a superb guarantee.

The contractor undertook to inspect the house every six months for five years and to make good any work which was not completely satisfactory. The painter gives the same guarantee on all jobs and he's built up a tremendous reputation.

On the first inspection the contractor discovered some defective work. It wasn't major but the job was not up to the contractor's high standard. At the time of writing there is scaffolding on the northern side of the house.

"What's wrong with the painting?" I asked the owner's wife, surprised to see the scaffolding back.

She replied: "He said something about the finish on the window ledges not being good enough ... I'm most impressed with this firm. You might like the story for your newsletter."



Why is it so important?

- It generates referrals.
- It means the painter doesn't compete on price.
- It means a bigger income for the business owner.
- It means this contractor gets work when the next recession comes while those who compete on price starve.

How does this affect you? It's an extreme example of the value of a good guarantee. It's also a USP – a Unique Selling Proposition – something others don't offer. Be different, be better and don't compete on price.

Chocolates prove to be the right sweetener

A South Island company sent a box of handmade chocolates as a thank you when they delivered an order.

The company makes furniture.

It's different from its competitors. It doesn't only send the chocolates after it has delivered the goods, but it sends another box a year later and so on.

Is this a good idea? We think it's brilliant. Some people will include a present as part of their after-sales service, but whoever thought of

repeating the present several times. This is what happened.

"We got a box of handmade chocolates from ...," the customer was saying to someone who also needed some furniture. "Come up and I'll show what we bought," she said. "You can go on the internet and see their full range."

The friend placed an order worth \$5000!

When you've made a good sale, keep in touch with the customer.

You're looking for referrals.

Take care when setting remuneration

Rules exist to stop people paying too much salary or profit share to a family member, as a way of paying less tax.

Make sure any income you want to allocate to a relative, working in your business, can be justified.

If you get caught paying amounts you can't justify, IRD can reallocate the income. In most cases the consequence will probably be a Use of Money Interest charge going back three or four years and potentially penalties. For small companies, the company income is increased by the amount deemed excessive and the shareholder is deemed to have received a dividend, with no Imputation credits attached.

A defence against excess remuneration in a partnership or Look Through Company is to have an agreement, which must comply with these rules:

- Be in writing and signed by all partners.
- Binding for at least three years.
- All partners or owners must be over the age of 20 **when** the contract was signed.

For partnerships, each partner must have control over their share of profits and be liable for their share of losses.

Taking stock for your own use

IRD says you should value stock taken for your own use at its market value.

If you take raw materials to be used for manufacture, market value is their cost, presumably because if you were to sell them, you probably couldn't get a higher price for them. If you take goods you have bought for resale, market value is your selling price. A baker's stale scones might be near valueless, depending on the location of the bakery.

Keep the survey simple

Surveys have reached epidemic proportions. They are generally excessively long.

Telephone surveyors usually underestimate the amount of your time they want. Email surveys go on and on, page after page.

Who wants to waste time answering all these questions when there are so many other things to do? If you want to conduct a survey, limit your questions to the minimum (and then halve that)!

Winston Marsh, a marketing specialist from Melbourne, recently commented on this subject in a Business Growth Centre email article. He suggests the following:

You need only one question. Would you be prepared to recommend us? If the answer is yes, then a few follow-up questions to find out about the main things which have appealed to the customer could be useful. If the answer is NO, here is your opportunity to find out what you may be doing wrong.

He also commented on rewards. Don't you get fed up with being told you are in a draw for a prize you'll never win? Why not send the person you have questioned a discount voucher to be enjoyed at some future date?

A couple of IRD don'ts

Here's a couple of don'ts when dealing with IRD.

DON'T try to bend the rules. The boundaries might seem vague to you. We're likely to have a better idea of what you can and can't do, so consult us. For example, don't try putting down a new pair of spectacles as a general expense of the business. Though you might think they are needed to work, the cost is personal. Similarly, if you're employing staff and would prefer they were contractors, make sure IRD would agree with you. Ask us.

DON'T discuss your problems with IRD. The department is not bound by the advice its staff give. You might be dealing with an inexperienced person and get the wrong answer. It happens. IRD would say "If you get the wrong advice it's your fault. We are not here to give tax advice. Relying on IRD advice can protect you from use of money interest, but if it is verbal you will not be able to prove what was said."

Tax law never sleeps

Tax law is evolving at an ever increasing rate.

In addition to regular tax Acts, we have counted seven regular publications the IRD uses to tell us their interpretation of the law. New tax interpretations, which affect small businesses, are coming out constantly.

What should you do?

If you've any doubts about what you're permitted to do, ask us.

If you listen to what others say, don't assume they are right, even if they tell you their accountant allows them to do it. We'll back our advice with written authority, if you need it.

If you start something new or different, ask if there are any tax implications before you begin.

A contract is a contract - no ifs or buts

In our culture, once you have entered into a contract, it is not renegotiable. You can't add conditions after the event.

Here's an example. A customer wanted to buy a new fridge. As part of the deal he was offered a replacement if the one he purchased went wrong, rusted etc within the first six years. He paid \$150 extra for this.

The fridge was delivered and that afternoon he found a letter in his mailbox. It was the invoice and a copy of the details of the special offer for which he had paid the \$150. He looked inside. There he found a long list of the exceptions, which would **not** entitle him to the new fridge. These were so extensive as to make the \$150 investment almost valueless.

When he ordered the fridge on the phone, he was never told there were any exclusions.

He rang the supplier. As predicted, he was told he could cancel the contract and have his money back. He refused. Instead, he insisted the supplier honour his side of the bargain, exactly according to their contract, and that the exclusions should be deleted. After some wrangling, the retailer gave in.

If you're the seller and you do this, in most cases you'll probably get away with it because not many people know they can contest it. If you're the buyer, stand your ground, if you wish to.

The retailer missed a golden opportunity. When faced with a situation like this, give in gracefully and quickly (and even better, never renege on a contract in the first place). The customer is much more likely to tell people what a wonderful firm yours is, instead of bad mouthing you and warning people about your business practices.

A contract does not have to be in writing. The extra \$150 paid was sufficient evidence of the agreement.

Who is your important customer?

A couple in their 30s visited a car franchise dealer and were greeted by a salesman who asked: "How much were you thinking of spending?"

About \$80,000, they replied.

A few moments later the salesman's cellphone rang. "Excuse me," he said. "May I just take this call?"

After a short time the couple became fed up with waiting and left. The salesman was surprised.

Who is your most important customer? Answer: The person right in front of you. Do you ask your most important customer to wait while you take a call?

You bet you don't, particularly if you're trying to sell an



\$80,000 car.

In any business, if you have interested buyers, don't accept avoidable interruptions. It's discourteous. Look after the customers who count.

BRIEFLY

Statutory records

If you run your business through a company, keeping good statutory records to comply with the Companies Act 2013 is important. When we give you minutes to sign, please get them signed quickly. Changing directors, shareholders etc is not a DIY job. There are both tax and company law implications. Get help from us.

NZ business number

Gurus are working on a way to give a number to every business, trust and state sector organisation in the country. If your business is a company, you already have a NZBN. It is interchangeable with the company number. The plan is to "enable government to provide more consistent and joined-up services, saving businesses time, and enabling greater e-commerce between businesses".

Bank email scams

Bank email scams are becoming increasingly sophisticated and very common. How about this one? "Dear Customer. Your access will expire soon. For security reasons, please use our website below to restore your account." The website address often looks legitimate, but one giveaway is if you hover your cursor over the address (don't click it), the actual address it wants you to go to will show up – it's likely to be nothing to do with the bank. Anyway, banks never send these types of emails.

Seven tips for email senders

Here are seven tips which will help email readability.

1. Keep emails concise. Think about the message you want to convey, and do it in as few words as possible. Long emails don't get read.
2. Draw attention with the subject line. Like a headline in a newspaper it should entice the reader to look for more details.
3. Avoid attachments – they should only be what someone requests. Never try to convey a message with an attachment. Opening an attachment is an extra step readers are unlikely to take. Say what you want to say in the body of the email.
4. Check the text. Proof read before you hit the send button. Spelling mistakes and 'text-speak' are unprofessional.



5. Double-check forwarded messages. Beware forwarding a message with a thread deep down in the email that might have been sent to you in confidence.
6. Never assume privacy. Assume that your email will be read by others; after all you have no control over what happens to your email once you send it. So be courteous and respectful.
7. Take a breath. Never send an email in anger. If you receive an annoying email, never respond immediately. Put the email aside and reply when you are calmer. Consider always leaving those difficult emails until next day. You'll be more rational.



TAX CALENDAR

November 28 2014

1st instalment of 2015
Provisional tax
(June balance date)

January 15 2015

2nd instalment of 2015
Provisional Tax
(March Balance date except
for those who pay
provisional tax twice a year)

Pay GST for period ended 30
November 2014

April 7 2015

Terminal Tax for 2014
(March April, May and June
Balance dates)

Delay that email and save embarrassment

How often have you just hit the email send button and realised you forgot an attachment or, worse still, sent it to the wrong person?

You can delay the sending of emails for a few minutes in Outlook Rules, so if you have second thoughts about the email, it can be deleted or amended. Here's how.

Go to Outlook Rules then select in this sequence:

- Start from a Blank Rule
- Apply Rule on Messages I send – Next
- On this machine only – Next
- Defer delivery by a number of minutes.

Then choose the number of minutes.

Close.

The 80/20 principle applies widely

In 1906 Pareto, an Italian, noticed 80% of the wealth in his country was in the hands of 20% of the people. Others later noted the 80:20 rule applied widely.

Thus 20% of something is always responsible for 80% of the results. Twenty percent of your stock will take up 80% of your shelf space or storage;

20% of your suppliers will provide 80% of your stock; 20% of your staff will cause 80% of your headaches.

Knowing this principle can help your business. If you know the 80% part, look for the vital 20% creating this 80%. Work on the 20%.

As a manager, put 80% of your time into the important 20% of your work.

Flying across the Tasman

The cost of trans-Tasman flying is not always what it seems.

Mr A wanted to go to Sydney. He looked at the cost of flights and saw they were a little under \$250 a seat on the plane. He did not get around to making the booking until the beginning of the following week, by which time the flight costs had increased by \$80 each. That was another \$320 for him and his

wife to get there and back.

He had heard air fares fluctuate according to demand so he waited patiently for two or three weeks until the price fell again.

The airlines have all sorts of devices for varying prices and getting better profits. This is one of them. Know when to rush in and buy and when to be patient.