BusinessPlus+ Newsletter

CMA Collins Mellody

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Issue – September 2016

Foreign Resident CGT Withholding

Capital Gains Tax Withholding applied from 1st July 2016 where taxable real Australian property with a market value greater than $2,000,000 (excluding GST) is disposed of. This is targeted at non-resident vendors; <u>however it applies to all vendors regardless of their tax residency status</u>. The default position of the legislation is that <u>all vendors are deemed to be foreign residents unless they provide a clearance certificate to the purchaser.</u>

The essence of the legislation is that for all sales of taxable Australian real property will be subject to a 10% of the sale price withholding tax and remitted to the Commissioner of Taxation, regardless of if the land is residential, commercial, vacant, primary production. This 10% is targeted at non-resident vendors, however <u>will also apply to resident vendors who do not provide the clearance certificate</u>. The Australian Taxation Office will issue a clearance certificate where the vendor provides the Commissioner with the approved form and based on that information there is nothing to suggest that a vendor will be a foreign resident during the specified period.

This legislation also applies to non cash transactions and can also apply where there is no cash consideration such as gifts, matrimonial property settlements, distributions from deceased estates and in specie trust distributions which will all require consideration of the market value if the transfer value is greater than $2,000,000.

As with most legislation, the devil is in the detail and care must be taken in regards to not only ordinary commercial property dealings and obtaining the clearance certificates to avoid a 10% remittance to the Australian Taxation Office, but also for non-commercial dealings.

If you have any questions about this legislation, please contact us.

Retail Pricing to Achieve Better Results - Part 2

The direct cost for the purchase of stock and the warehousing of stock should be determined. The next area is to determine the best supplier prices that the business can secure products at the quality that the business wishes to sell. The products then need to be allocated into mark-up categories. For example, Category A, may be a general product range that you believe could be marked up by 50%. Category B might be a product range that you believe you could be marked up by 80%. Category C might be products that could be marked up by 100%. Category D could be products that could be marked up by 150% etc. To be successful in setting prices, its desirable that the business has historical records that indicate the quantity and sales of various products that have been sourced previously because this will give you an indication as to the volume of products that it is reasonable to expect could be sold within each mark-up category.

A schedule of overhead expenses should be prepared relating to the business' expected level of operation.

A schedule relating to the expected Labour Expenses for the anticipated level of operations should be prepared and when this is completed, a schedule of the anticipated Labour Oncosts can be prepared. Labour Oncosts incorporates the expected cost of Holiday Pay, Personal Leave, Statutory Holidays etc.

It is then necessary to determine the targeted profit for the year. This could be based on a calculated return on the investment in the business. For example - investment $900,000, projected rate of return 25%, expected profit $900,000 x 25% = $225,000.

Retail Pricing to Achieve Better Results - Part 2 (cont'd)

This will then give you the components of the targeted gross profit comprising:

- Overhead Expenses
- Labour Expenses
- Labour Oncosts
- Targeted Profit

When these four figures are added together, this will give the targeted gross profit for the year. Based on historical knowledge of the business, the owner needs to indicate what the expected "overall gross profit percentage" will be e.g. 25%, 30%, and 40%. The required sales are then calculated with the targeted gross profit being divided by the expected overall gross profit percentage = targeted sales.

For example, if the targeted gross profit was $1,430,843 and the expected overall gross profit percentage was 50%, the targeted total sales would be:

$$\frac{\$1,432,843}{50} \times \frac{100}{1} = \$2,865,686$$

This means that if sales of $2,865,686 were able to be made and that an overall average gross profit percent of 50% was achieved (equivalent to a 100% mark-up) this would mean that the business would cover its budgeted overhead costs and forecast labour and labour oncost charges and would earn the targeted net profit.

In a retail shop there are various components of purchase prices and mark-up percentages and therefore selling prices. The different mixes of purchases and mark-up percentages can cause significant changes in sales and gross profit. This is where the skill and knowledge of the owner/manager comes into play. He/she will need to enter known mark-ups and purchase amounts to determine the best sales mix for the shop. In this way the business operator can plan the "sales mix" of various products required to achieve a targeted gross profit and forecast net profit amount. In this type of calculation the targeted contribution to the "sales mix" from various products is able to be determined and can then be monitored because management needs to be aware of the figures on a daily basis to determine whether some price adjustment needs to be made based on any fluctuations in quantity of sales of individual product ranges.

For example, if the sales for a premium mark-up item are not as high as originally forecast, if the business still wants to achieve its net profit target, there will have to be some changes made to the price mix to compensate for the lower than anticipated sales of a premium mark-up product line. An example of a sales mix that has been calculated based on various mark-up percentages and set to determine an overall gross profit percentage of 50% and also highlighting the contributions to the sales mix based on a turnover of $2,865,686 is as follows:

Product	Purchase Price $	Mark Up %	Mark Up $ (Gross Profit)	Sales $	Gross Profit %	Contribution to Sales Mix
1	500,000	110.00%	550,000	1,050,000	52.30%	36.7%
2	200,000	20.00%	40,000	240,000	16.66%	8.4%
3	250,000	180.00%	450,000	700,000	64.20%	24.4%
4	150,000	89.00%	133,776	283,776	47.10%	9.9%
5	50,000	33.33%	16,666	66,666	25.00%	2.3%
6	25,000	60.00%	15,000	40,000	37.50%	1.4%
7	40,000	70.00%	28,000	68,000	41.20%	2.4%
8	55,000	150.00%	82,500	137,500	60.00%	4.8%
9	162,843	71.87%	116,901	279,744	41.78%	9.7%
	1,432,843		$1,432,843	2,865,686	50.00%	100.00%

The proof of this is:

Sales		$2,865,686
Less Purchases		$1,432,843
Gross Profit		$1,432,743
Gross Profit % - 50%		
Overhead Costs	$ 454,400	
Employment Costs and Oncost	$ 753,443	
Total Expenses Forecast		$1,207,843
Forecast Net Profit		$ 225,000

If you have any questions on this approach, or you would like us to assist you in determining a Pricing Chart for your business, please do not hesitate to contact us.

Price Differentiation

Businesses should consider highlighting the business' "non-price points of differentiation" on an ongoing basis, such as:

- quality of product
- pre-sales service
- availability of product
- knowledge of products and services
- well-informed staff
- informative website
- warranties and guarantees
- after market service
- training

These non-price points of differentiation can assist a business charge a premium price for its products and services, however these non-price points of differentiation need to be delivered honestly and continually so that customers accept that your business does offer some outstanding non-price points of differentiation.

Preparing For Selling

If you're planning to start a sales campaign, you need to consider what your target market is looking for.

Are you confident that the product or service you're producing is of good quality and meets the market's expectations?
Will the product or service deliver what the customer wants from the product or service?
Is the product or service worth the investment, from the potential customers' point of view?

To be successful in business, you need to be able to sell quality products or services that people want and you have to implement very good marketing and selling techniques. It's also a good idea to consider the psychology of selling.

What you would like to achieve is to take prospects through the five stages of selling, moving from:

- rejection to acceptance
- indifference to interest
- doubt to belief
- procrastination to desire
- fear to confidence

This is achieved by creating:

- Attention – that your salesperson is a nice person.
- Interest – details of what it is and why it's so good.
- Conviction – supplying proof about the product or service's benefits.
- Desire – creating some urgency in the mind of the customer to get possession of the product or to receive the service.
- Close – creating an action by asking for the contract so that the customer can receive the product/service.

In preparing for a sales programme, the sales person needs to have:

- developed a "can do" attitude
- a desire to help other people
- create an image that he/she will deliver on promises made
- create strong interest from the presentation process

To close the deal:

- ask for the order
- if not immediately accepted persist until you succeed

Maintaining Customer Service

One of the challenges of operating a business relates to the instigation of appropriate systems, to ensure that customer service is delivered at the highest possible standard every time there's an "event" with a customer.

Many businesses have instigated systems to ensure that there's an ongoing customer service focus in the business. This can relate to the time it takes to answer and respond to telephone calls or email relative to service requirements, as well as inter-reaction with customers to get a particular problem fixed. A good strategy is to place yourselves in your customer's shoes. Would you be happy with the service that has been supplied to you by your business?

Some businesses are utilising customer satisfaction surveys to get feedback from their customers. They're then alerting their team to the comments, including praise and criticisms that customers have expressed.

Maintaining Customer Service (cont'd)

Establishing Key Performance Indicators (KPIs), relating to customer service, can be beneficial. This can relate to questions such as:

- What's the current wait time at the help desk?
- How many jobs have been in the workshop or call centre for longer than a pre-determined time?
- What is a reasonable turnaround time for your business?
- What percentage of your customer enquiries were turned around faster than the specified time?
- What percentage was slower?
- Has your business delegated to the line managers the responsibility of appropriately staffing customer service sections, so that customers continue to receive an outstanding service every day, irrespective of volume of service enquiries that have been received from customers that day?

Elevator Pitches

Every business operator should have developed a clear and concise "elevator pitch" that you can present to an enquirer at any time. The concept of elevator pitches originated in New York City around the theatre areas, when aspiring business operator would get into a lift with a prominent producer. Whilst the lift travel from the ground floor would give a "pitch" to the producer about the story that they've written or service that they could provide. The pitch had to be completed in around 30 seconds because, by that time, the lift has reached the floor to which the producer was travelling.

The following is a suggestion on training for an elevator pitch to suit your business. The three key introductions are:

- <u>You know how…</u> Finish by naming your target audience. What's their target and how you're going to assist them to get new clients.
- <u>Well, what we do is…</u> What are the key benefits that you supply to your customers, such as saving them time and making more profit, supplying them with products to assist to deliver services that they want to deliver?
- <u>In fact, our products will…</u> Include the best case you can think of that backs up what you've said in your previous sentence (What we do is…). This might be a summary of the key products or services that you're producing that will help your target market to achieve their aspiration.

Remember not to talk too much. The whole presentation should be completed in 30 seconds. Simplicity is the key to a good elevator pitch. You need to be able to clearly identify the benefits you offer but look at it from the listener's point of view. Once you've drafted this, it's then essential that you practice, practice and practice, so that the presentation sounds very authentic. Hopefully it will create a great impression on the listener.

If you would like some assistance in the development of an elevator pitch relative to your business, please don't hesitate to contact us.

Cold Calling Is Difficult

A cold call is being made to obtain feedback from the prospect that you're ringing. Many commentators believe that it's best to adopt an attitude that, when making a cold call, you're not primarily doing so to make a sale on that first call. What you're doing is having a genuine discussion with your prospect, to enable trust to develop from your prospect's point of view.

It's suggested that you should ask a series of questions to your prospect and then listen very carefully to their responses. In that first call, it's a good idea to avoid any suggestion of sales questions. In most cases, the aim should be to set up an appointment for a subsequent meeting or sales call in which you can explore specific issues relating to the prospect's business. In that meeting or call, you will have the opportunity of specifically stating how your products or service will assist you prospect to increase their sales or reduce their costs.

Experience sales person will always try to find out something about their prospect, even when the prospect has contacted them. "Can I ask you a few questions about your business?" When someone rings a sales person, they have a genuine problem that they would like to have solved. This gives the sales person a great opportunity to obtain more details about the prospect's business and to offer a solution to the prospect's problem. Cold calling has been referred to as a "brutal game". Hopefully these suggestions will assist you in developing a cold call strategy if you need one within your business.

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