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Surviving Recovery

In a bumpy recovery period, you might need to think about steps for surviving recovery, as well as the steps you took to survive the original crisis.

For instance, people’s spending habits change, adapting to their circumstances.

The Main Report for Business points out that in a recovery economy, credit is not so easy to obtain as it was during the boom times. Households will tend to prefer to pay for purchases with money they have rather than money they borrow. They also may be carrying a higher debt acquired as they tried to weather the crisis. Both spending and borrowing habits tend to be conservative. This trend can continue for some time.

If your business is in sales, this has an obvious impact. It may, for instance, change the way you market your products and services.

Strategies For Improving Times

There are signs of business improvement. This will assist smaller businesses all over New Zealand, as long as there are no major problems in overseas markets.

However, growing pains during the recovery period may cause severe problems for some businesses.

For instance, if you are using borrowed money, it might be wise to factor in the impact of rising interest rates on your business.



Cashflow and debtor management - Cashflow management is extremely important. Monitor debtors' payment times and try to get your debtors back to normal trading terms. Are your systems for debtor management as good as they could be? Or have you just been following the same systems you had in place during the boom years?

Monitor investments - Monitor stock by conducting regular stockturn calculations and comparing actual turns achieved to budgeted position and then take action to ensure the anticipated stockturn is achieved. Also monitor investment in work in progress (if you have any).

Plan for the future - Staff are going to be very important in ensuring that businesses have a sound future in the recovering economic climate. Have you recruited the right mix of staff and are you investing in staff training?

Innovation - All businesses need to be innovating and developing new products and services which can be offered to customers. What research and development projects could be undertaken in your business?

Export Opportunities - Have you considered exporting your products and services or licensing your technology or business know-how for overseas markets? It might be a good idea to visit the New Zealand Trade and Enterprise website at www.nzte.govt.nz to familiarise yourself with strategies to implement to commence export of products or services successfully.

If you would like our assistance in planning strategies for your business to take advantage of the improving times, including market research and business plans, business reviews and so on, please do not hesitate to contact us.

Corporate Governance Applies To All Directors

If you are a company director, you have the same corporate governance responsibilities as a director of a major public company, even though you are running a lot smaller business.

Directors are responsible for the appointment of the Chief Executive or General Manager and then monitoring the overall performance of the company. This means that directors' meetings should be held regularly. Directors should receive written reports on all matters to be discussed at the meeting at least 48 hours prior to the meeting so that they can read the material prior to the meeting. Directors should be conscious of declaring any interest that they have in matters being discussed at the board of directors meeting.

There are many items to be considered under corporate governance, and directors' responsibilities, some of which are:

- § Ensuring that assets are purchased in the company's name
- § Ensuring that any borrowings that the company does are on the best possible terms
- § Ensuring that a system of internal control has been implemented throughout the company
- § Reviewing budgets and cashflow forecasts
- § Reviewing periodic monthly financial reports and key performance indicators, comparing these to the budgets and enquiring into the reasons for any variance
- § Ensuring that staff are employed under appropriate agreements and that staff evaluations are conducted on at least an annual basis

Be sure to read each article with the mindset "How this could apply to our business". Thinking of it that way will guarantee that you get value. Also make copies for each team member. To really make sure something positive happens, work with your business development specialists to talk your team through ideas.



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- § Seeking assurance from company accounting personnel that all debts are being paid in the normal course of business
- § Ensuring that management is reviewing any environmental issues that may affect the business
- § Encouraging management to implement appropriate risk management strategies for events that may affect the company e.g., weather, cyclones, tsunamis, burglary, armed robberies, death or inability of key personnel to perform their duties

"Sustainable recovery, with rebalancing in demand and the economy's productive base, is mostly a microeconomic matter. This means households, firms, banks and investors making the right decisions about where to allocate land, labour, capital and funding." Dr Alan Bollard, Reserve Bank of New Zealand, from an address to the Hawkes Bay Chamber of Commerce

Advertising - Comply With The Law

There are various laws relating to advertising which can be summarised by saying 'be honest' and if you are promising to do something, you have to do it. The experts believe you should be putting yourself in the shoes of consumers. Don't promise what you can't deliver and ensure your advertisement will be clearly understood by the consumer.

Over-promising or not delivering what you promised can cause you problems under the Fair Trading Legislation which could involve prosecution by the Commerce Commission in New Zealand. Some of the common breaches of advertising rules include:

- § 'Two-pricing' advertising - this is where an item was originally claimed to have been listed for sale at the original price (e.g. \$800) and it has now been reduced to half price (e.g. \$400). If called upon to do so by the commission, you need to be able to prove that not only was the item listed for the original sale price, but that you actually made sales at that original price



- § 'Bait' advertising - this is where an advertisement is placed which lists an item for a very attractive price but when the potential customer goes to purchase the item, he is told 'sorry, it is no longer available' and then the sales person tries to sell the potential customer another product. If the potential customer complains to the commission they will investigate and take action against the business if the commission believes there was never any stock available to be sold at that very low price. The commission considers that the advertising was only used as a 'bait' to get the potential customer into the store
- § 'Omission in advertising' - another problem that can occur in advertising is if important information is deliberately omitted from the advertisement. This can be an offence as it could be alleged that the business has deliberately misled the consumer

What's It Mean?

Gross profit means... the difference between sales and cost of goods sold. Ideally your gross profit should cover the overhead expenses of the business, and achieve the targeted profit for the business.

Sales	\$77,800
<u>Less Cost of Goods Sold</u>	43,300
<u>Equals Gross Profit</u>	\$34,500

Gross Profit % means...

You work out your gross profit percentage from sales and gross profit.

Gross Profit	<u>34,500</u>	X	<u>100</u>
<u>Divided by Sales</u>	77,800		1
<u>Multiplied by 100/1</u>		=	44%
<u>Equals Gross Profit ratio</u>			

The sales required to achieve gross profit depend on the gross profit percentage being earned by the business. You'll be aware of the gross profit percentage you expect to achieve from your business. You might also need to be aware of the individual gross profit percentages of various products.

Net Asset Value... describes the market value of a business' total assets less its liabilities. Normally determined by adding the value of all tangible assets in a business e.g. plant and equipment, motor vehicles, land, buildings, debtors, cash on hand then subtracting liabilities owed by the business including creditors and loans. The resulting figure is termed the Net Asset Value. Please note the value of Goodwill is not included in Net Asset Value.

We would be happy to discuss your debtors management system with you and look at the possibility of applying for a debtors' financing facility.

An Important Message

While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.

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