Three Simple Steps...

...your accountant should take you through that will transform your business and simplify your life

A start-to-finish approach to achieving a financially well organised future

SHERIDANS
ACCOUNTANTS AND
FINANCIAL PLANNERS

So you're in small business. Congratulations!

You're your own boss. You set your own path, answer to yourself, and determine your own destiny.

The satisfaction business ownership gives you is great, isn't it?

But let's be honest. I'm sure there are also times when you stop in your tracks and ask yourself the question, *"Why did I get into this?"*

Your house is on the line every day. And you know full well that unless you perform – unless you generate healthy profits and have your financial affairs sorted – things can rapidly come unstuck.

In fact, despite all the risk taking and heartache, you begin to realise you could end up with the **least** out of all the people in the workplace when it comes to retirement.

But it doesn't have to be that way.

The keys to transforming your business and your life are in the above phrases – 'generate healthy profits' and 'have your financial affairs sorted'.

There is no rocket science in this. Within my own practice, I work with lots of small business people as we focus on those two vital issues. Achieving healthy profits. And getting their lives organised financially.

The reality is, your business is **never** separate from your personal life. You simply can't have one... without impacting on the other. And it's only when both are 'sorted', that you can truly enjoy less stress, be happier in yourself, and be able to look ahead with confidence and with a sense of direction. And most importantly, to know you have a decent retirement waiting for you.

Sadly, all too many small business owners retire without enough income-generating assets. Certainly, there may have been sufficient cash flow to live comfortably when they were active in generating the sales.

But when it comes time to sell, where's their asset base?

Almost invariably, they discover the business isn't worth what they thought. Sometimes, to their shock and disbelief, they discover it isn't worth anything.

It's a bitter pill after having taken all the entrepreneurial risks, and invested a big part of their lives locked into leases, paying rent, paying suppliers, creating customers, employing people, dealing with red tape and paying taxes.

Greg Sheridan

Greg Sheridan
Director, Sheridan's Accountants & Financial Planners

So what is the key to creating abundance and certainty out of your business?

It is simply to get organised. The **3 steps** in getting financially organised are:

One Follow the process to get your business organised and profitable.

Two Get your personal life in order, where you're accumulating assets outside of your business.

Three Protect **everything**.

So, let's begin with...

Step One

Getting your business financially well organised

Start with your fixed costs. It doesn't matter what type of business you're in – retailer, wholesaler, tradesperson, builder, contractor, professional service firm, manufacturer, restaurant or hotel operator, there will be fixed costs - rent, telephone, stationery, motor vehicle expenses, employee wages, cleaning, insurance etc.

To document what they are, you can look at what you've been paying in the past. When you've totalled up all your fixed costs, divide them by 52 so you know what your weekly overheads are.

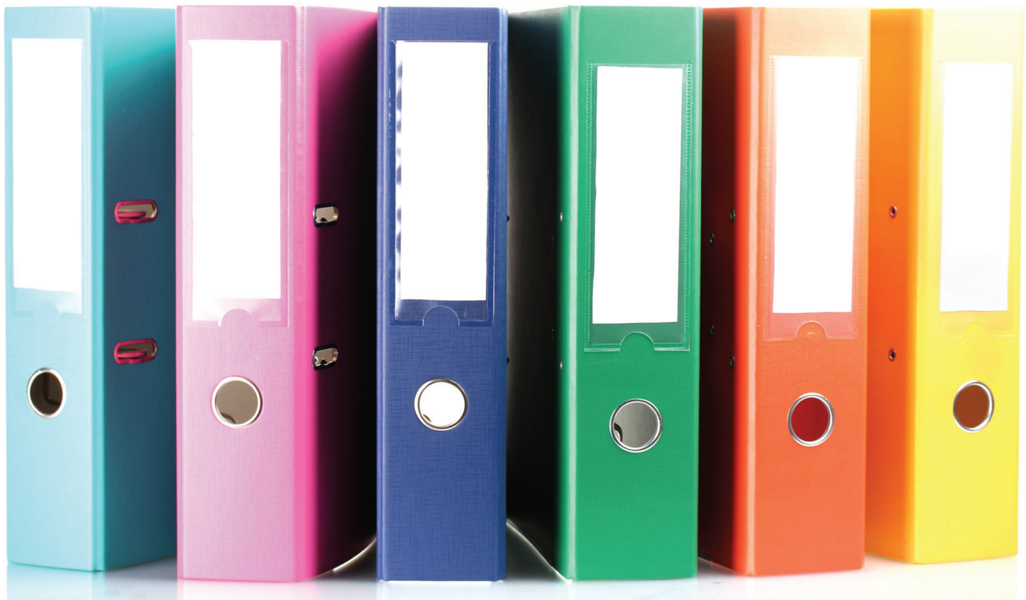
Then, on top of knowing your fixed costs, there are two or three KPIs.

These are your Key Performance Indicators – the 'numbers' that you must get right in your particular business. And that you must monitor every week to ensure you cover overheads and make a profit.

Most accountants who work with businesses just about know those figures off the top of their head, because they are critical to ensuring a business is profitable and efficient.

On the following pages are some thought starters for you.

By the way, don't skip over a business type used here as an example just because it doesn't describe your business. There are vital clues to greater profits for you embedded in each of these paragraphs below!



Retailer or Wholesaler

If you're a retailer or wholesaler, you need to at least **measure the number of sales** made each week and the **average sale value**. These are a simple measure but can **tell you a lot** as time goes on. Especially if you and your accountant 'drill down' into the figures.

For example, are the stock items you carry changing? It could be costing you money if you have slow moving lines.

And when it comes to average sale value, does one salesperson have a higher average sale than another? It's critical to learn what is he or she doing differently so you can train the others in your team with these techniques. This simple distinction can send sales through the roof - without one cent extra spent on advertising or overhead! Pure cream.

Then you should constantly ask yourself how else you might increase the average sale? Is it in better training for your people? Packaging products into a bundle of solutions? Putting prices up? (more on that later!) Increasing the number of people who buy though smarter marketing?

As you can imagine, each of these 'simple' questions can uncover a 'Pandora's Box' of things to work on as you start drilling down. But my advice is, find those with the biggest potential impact on your profits, and focus on them first. Maybe start with one or two initiatives. You may be astounded at the immediate impact on your profitability, almost without trying.

A tradesperson

If you're a tradie, there are really two critical 'key performance indicators' for you to identify and monitor (and most don't!). The **number of chargeable hours** you work each week is the first. This is an easy figure to record. And second, **the percentage of quotes you win**.

The first indicator tells you whether you're covering your costs and making a profit. The second indicates how many quotes you need to do (at that 'conversion rate') to convert a profitable percentage to actual jobs.

Of course, as you learn the simple techniques for converting a higher percentage of quotes into jobs, you can do less quotes, (which means less of your 'leisure' time taken agonising over preparing quotes), and you can still generate the same or more income. I enjoy showing our clients some very simple ways to achieve that outcome. You'll kick yourself at all the quotes you've missed and how easily you could have won them!

A builder or contractor

If you're a builder or contractor, after calculating your fixed overheads and profit target, you can then calculate **how much you must mark up your direct costs** on a job to achieve that profit. You can then measure the **number of quotes you win** and the **actual profit on each job**. Knowing your mark-up when quoting is a lot easier than taking an 'educated guess'. And if you guess wrong, you can come horribly unstuck! But if you're a builder or contractor, you don't need me to tell you that!

A professional services firm

A professional services firm – like my accounting and financial planning business – needs to measure the **number of hours billed** each week and the **hourly charge rate achieved**. Just as a manufacturer measures either labour hours or machine hours and the charge rate per hour.

OK, I get the KPIs. But why measure weekly?

Look at it this way. If you have a bad week, it's a lot easier to make that up than to discover you've had a bad month (or even year!) and try to make that up. It's way too late. Measuring weekly allows you to have your 'finger on the pulse'.

Let's put some figures to this to see why the exercise is so powerful.

Let's do these calculations for a trades business, purely because it's a business that anyone can easily relate back to their own operation, and it's easy to dissect its components.

Let's assume our tradie has fixed costs of $25,000.

Next we need to factor in a wage based on what he would have to pay someone else to do his same job. This wage should at least be enough to pay all the personal household expenses and provide a small amount for saving. Let's say $65,000 per year.

Finally, we need to set a profit target for the year. After all, our tradie should earn a premium for all the hassles and risk of running a business. This figure can be determined from looking at other similar businesses, as a percentage of expected revenue, or even a return on investment. In our tradie's case let's pick $20,000 as his profit target.

OK, adding these three figures together:

- Fixed costs of $25,000
- Wage of $65,000 and
- Profit target of $20,000

We can see that our tradie needs to earn $110,000 (excluding materials).

What this means is that if he does generate $110,000, he will pay all his fixed costs, pay himself a decent wage and make a profit he can use for investing in other assets.

So far so good. But...

How will he know how much to charge per hour to achieve this outcome?

Simple. He divides the hours he will work in a year on jobs into $110,000. Calculated like this:

Days in a year	**365**
Less weekends (if you work weekends that's extra profit but we won't include them)	**104**
Less public holidays	**8**
Less days off or sick (you must have a holiday to stay sane!)	**25**
Working days (365 less 104, less 8, less 25) =	**228**
Now, hours in a day	**8**
Less non-chargeable hours (running around, quoting, picking up materials, stuff ups)	**2**
which leaves us with...	
Chargeable hours (8 less 2) =	**6**
so now to calculate his total chargeable hours...	
Hours in a year (228 working days x 6 hours a day) =	**1,368**
and to earn $110,000 in those 1,368 hours...	
Charge rate ($110,000 divided by 1,368 hours) =	**$80 per hour**

$80 per hour is the rate our tradie must charge for his labour and for those working days **he must charge out 6 hours per day, minimum**.

Of course, he'll charge material costs on top of that and mark them up. And the calculation gets a bit more complicated again if there are employees. But you still get down to just two important figures to measure each week – the number of hours charged and his charge rate.

Bottom line, our tradie now has his business organised.

He knows if he bills out 6 hours per working day at an average of $80 per hour (plus GST) he will pay all his bills, pay himself a wage and make a profit.

He also has a benchmark for when to say NO to certain jobs where the customer wants to 'cut corners', which invariably comes out of the tradie's pocket.

I've seen many very good trades people lack the confidence in themselves to know what they're worth. Apart from helping those individuals appreciate their value, (something we do with our clients), by helping calculate their charge out rate in this way, it helps to take the emotion out of the equation. Instead it becomes a business decision.

OK, that's getting the business organised. Let's now move to ...

Step Two

Getting your personal finances organised

There's no point getting your business organised, only to let your personal finances get out of order. Think about it. **There are only four ways to become 'wealthy' –**

1 marry someone rich

2 inherit wealth

3 gamble

4 spend less than you earn and save the difference

The first three require good luck, good planning (or both). My advice is to concentrate on the fourth option! Then if one of the first three happens, treat it as a bonus.

So, back to **spending less than you earn** ... and saving the difference over time. I guess you won't be surprised that the key to achieving this comes down to **having a budget**.

Please don't groan and turn off! You see, there are ways to budget without spending all the monotonous hours those budgeting gurus tell you you'll need to spend. The budget setting process is actually quick and painless. You should be able to do this in about an hour and it's a good exercise to do with your partner!

Total up all your fixed expenses you know you can't avoid. Usually they include:

WATER RATES Telephone Insurance Child Support Payments
Rent or mortgage payments Car Loan CAR REGISTRATION School Fees
Government Levies
Council rates Electricity & Gas Internet

These expenses only have minor variations and you have to pay them regardless of what happens in your life. So we'll call them 'fixed'. All your other expenses (including food) are variable. It's the above expenses that don't change - other than keep going up!

Total all these expenses up and divide by 52 – then out of your pay put that amount plus 5% away into a separate bank account each week.

You will then have the comfort of knowing you will always have money for those fixed expenses. Whatever is left over is all you have left for everything else. Youhave to calculate how much you can spend on the variable expenses and how much you put into a savings account or pay extra off your mortgage.

Next, a handy 'rule of thumb' ...

Here is a rule of thumb that will take all the uncertainty and doubt out of your budgeting.

Over 50% of your net income ... "Very bad"

If the total of your fixed expenses as listed above are over 50% of your net income (take home pay and Family Tax Benefit) then you will be financially stressed. You'll need to look at increasing your income somehow or changing your lifestyle. That may entail moving to a cheaper house, changing schools or selling some assets to reduce debt. This 'downsizing' will probably be just temporary, but it may be the only way to avoid getting into a deep hole you can't get out of.

Below 50% of your net income ... "Getting more comfortable"

If your fixed expenses are below 50% you've got a chance to survive and ease your financial stress.

Below 40% of your net income ... "Phew, relax and enjoy!"

40% or below you should be financially stress free. Unless you waste money on the variable expenses of course.

A good way to see how much you waste is to do an experiment I did once. For a week, whenever I went to buy something I didn't really need, I told myself no and I put that money in a container. At the end of the week I'd saved $136. It did include a rucksack, which I borrowed instead. Obviously you can't do this all the time because you want to enjoy life, but it did give me a shock. (This is the first time I've told anyone this so don't tell my wife or I'll have my allowance cut!)

How does this apply in practice?

Let's say your after tax take home pay is $70,000 (combining both wages if there are two of you working). If your fixed costs add up to $35,000, you're right on that 50% borderline. On the cusp. If costs creep any higher, you'll quickly start to feel stressed. If costs go lower or your income goes higher, life is starting to feel good.

And don't forget to pay yourself superannuation!

Wage earners have at least 9% of their wage paid into Super. If you're in business, you should do the same. Or make sure at least 10% of your income goes into savings.

- With 10% or thereabouts going into savings, you'll still need the age pension but you'll survive. So that's a bare minimum.
- Achieve 15% of your income going into savings during your working life and you'll be financially secure.
- Save 20% of your income and you'll be quite wealthy in retirement.

Of course, this is fine when you're young. But when you're closer to retirement, there are other strategies you will need to investigate. As a somewhat sobering motivating thought, remember that if you want to retire in 10 years time … you have only 120 months left!

10 years until retirement is a good time to get a financial plan prepared to see what your circumstances will look like in 10 years time. Naturally you should revisit your plan every year and adjust it depending on any changes. This is what a financial planner is there to do.

Incidentally, when you see a financial planner regarding investments, make sure this adviser only charges you a fee and is not receiving commissions from an institution.

There is clearly a conflict of interest for the planner to recommend products or an investment platform where he or she is being paid to recommend a particular institution. We have a philosophy to charge a straight fee. A totally transparent fee. We do not accept commissions, and we believe this is the best and most honest way for us to give totally independent advice.

Strategies to optimise your wealth

There are many strategies that can be looked at when it comes to optimising your wealth outcomes.

This can involve splitting income between family members, forming trusts, setting up self managed superannuation funds where you're in control of your own money, buying shares or property, buying property in your self managed super fund, splitting super and tax saving strategies. These are particularly critical if you're over 55.

A good financial plan covers all these areas and more.

If you're in business you must, repeat *must*, invest money regularly or it doesn't happen.

The harsh reality

It is often hard for people to accept, but if your business is not generating enough profit and you have tried marketing and you still can't see where it will improve, you need to assess the future of what you're doing.

You may even need to consider turning your hand to something else. As I've alluded to previously, as a small business owner, you are the only class of participant of the economy who risks your house each day … yet has the prospect of ending up with the least amount of retirement savings out of everyone.

So, we've covered off on getting your personal financials organised. Now for…

Step Three

Protect everything!

If you've been in business for a while, you've probably accumulated some assets. Whatever your assets are, they need to be protected. So it's timely that you see an advisor to review your position and your security.

Starting with your home. If you're in business, you need to take the appropriate measures to protect your equity in your house. Sure, you'll have various types of insurance, but that's not necessarily going to protect you.

Your insurance company may argue they don't have to pay your claim for example. (Recent floods across this vast country of ours have certainly shown the truth in that!)

Or you may unwittingly get involved in a lawsuit. Or one day out of the blue, you may find road works in front of your business premises that go on for 6 months. That destroys your cash flow.

This is not to be alarmist. It is simply prudent. You just never know. In short, expect the best ... but plan for the worst.

Examples of prudent planning will most likely include:

- Making sure one spouse is not a director so he or she can hold the family's assets ... including the house.
- Forming companies or trusts to operate the business or hold assets.
- Insuring your life.
- Insuring your income through trauma, disability or cover for business expenses.
- Making a Will and if there are blended families, nominating some assets to be distributed outside of your Will so they go where you want them to go.
- If your business partner is not your spouse, insuring him or her so that in the event of their death, you can pay their spouse out. This saves you the prospect of an unexpected and potentially crushing financial burden, or perhaps worse, inheriting him or her as your new partner!
- Writing up shareholder agreements.

And so the list goes on. The definition of being in business could well be 'one endless series of problems'! So try to avoid as many as possible with sensible planning up front.

Next, the practical application of the 3 Steps.

Case Studies

1) Peace of mind through planning ahead

Our client in this first case study is a small manufacturer employing one person. He was trading as a sole trader and frankly, very exposed. As you read through the initiatives we put in place for him, you'll begin to see how this added immeasurably to his peace of mind, sense of security, and importantly, his wealth building potential.

1. We changed his business structure. We set up a company for asset protection and a family trust. The family trust enables him to reduce tax when it came to distributing income from the business. As well, as part of this protection initiative, the family home was transferred to his spouse.
2. With his input, we prepared a 12 month forecast of income and expenses for his business. From that, we set a profit target. And from that, we identified what he would have to achieve each week to make that profit target.
3. His total accounting fees were divided by 12 and put in his budget as monthly instalments to help his cash flow.
4. We calculated his personal living expenses and a component for superannuation that became his wage out of the company.
5. We checked his pricing in his quotes and set some clear guidelines for him, to ensure the income would not only cover his materials, but all his overheads and the profit target.
6. We changed his accounting system to a web based accounting package that we can both look at anytime, anywhere. It meant we only need to have one set of books for his accounting and tax. No more sending computer files or disks back and forth, saving both of us time.
7. We sent him to an estate lawyer to have his Will drawn up.
8. We arranged appropriate insurance cover for his life and income.
9. We set in place a process to review every 3 months whether or not he is performing to budget, and to collaborate with him if he needs help to pick up his performance.

Pretty simple really.

If, that is, you're doing this 'stuff' every day as we are. However we fully recognise that for time-pressed business owners, there is often not the time, nor the specialised expertise to put all of this in place.

But there are two distinctions to glean from this example. **First up, imagine if you were to have this certainty and organisation in your business and in your life.** How much more in control will you feel?

Secondly – and even more sobering – contemplate for a moment the level of exposure you are subjecting yourself and your family to if you don't have these initiatives in place!

It doesn't bear thinking about. Or in actual fact, it does.

2) Business sold for 7 times what they paid

Another example.

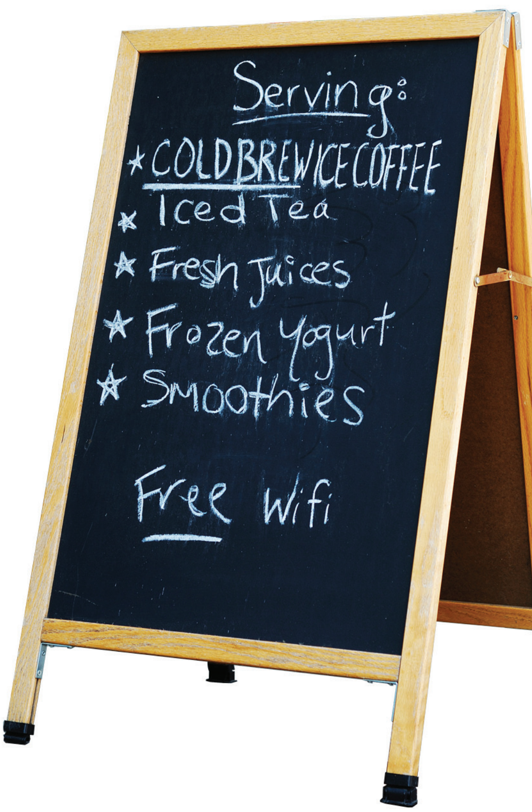
Clients of ours, who owned a restaurant, were barely making a profit and to their dismay, we demonstrated to the owners that they were taking home about $3 per hour. Needless to say this shocked them into taking action! We worked with them to:

1. Calculate the margin they were making on each meal
2. Compare their margin per table to the industry averages
3. Change the menu to achieve higher margins
4. Close the restaurant for dinners
5. Pay the owners more out of the resulting increased profits
6. Set up a self managed superannuation fund
7. Salary sacrificed and paid a pension to the owners thereby reducing tax

The outcome? They sold the restaurant … for 7 TIMES what they paid for it.

This was a perfect example of looking at the clients' financial affairs right from the dollar coming in the door of the restaurant to being paid out as a pension payment from a personal superannuation fund.

Very satisfying for us.
Life changing for our clients.



3) Bought property from bigger profits

A client nearing 60 sold pharmaceutical products and equipment to hospitals and doctors and wasn't making a profit. His personal assets consisted only of some equity in his home. He thought about giving it all up.

However, we helped him to:

1. Set a net profit target of 10% of his sales so he had a figure to aim at
2. Increased his salary but salary sacrificed it into a self managed super fund and draw a pension from the fund for living expenses
3. Employ a sales manager to increase sales
4. Investigate the margin on each product, raising some and discarding some products
5. Change the way he quoted and tendered for jobs

As a result his profit target was exceeded and his super fund was able to buy the warehouse he operated from. This meant he had accumulated assets outside of his business. His business was also worth a lot more too. He is still operating and is very happy.

Interesting case studies I'm sure you'll agree. And they're real examples.

Now let's focus on **you**

As you've been reading these case studies, I suspect you've found yourself saying on more than one occasion, *"Hey! That's me and my business Greg is talking about there!"*

My clients tell me that all the time. They say it's as if I've been looking over their shoulder because I can tell them what they're experiencing in their business, what their fears are, and what their frustrations are too.

There's no magic here.

Most small businesses, most business people, are in this particular boat before we get them organised. They're exposed. Time pressed. Missing out on profits that they should be earning. Working their hearts out in their business, fearing in the back of their minds that their 'retirement nest egg' is looking smaller and smaller each year.

If this does ring true for you, can I suggest we at least have a chat about your business and where you'd like to take it over the next twelve months and beyond?

If we can suggest a way to help you as we have with our 'case study' clients above, then I'll explain how. If we're not right for you, that's fine. I'll tell you that too.

But at the very least, you owe it to yourself to 'stop the clock', talk to an expert adviser, and see what you COULD do to organise your business, your personal financial structures, and to protect what you've built up in assets.

In the first instance, we can have a brief chat on the telephone. And I'm happy to have that chat at no cost or obligation to you.

Sound like a good plan? Call my office and one of my team will be happy to arrange a time for us to chat. Our number is (08) 8376 0455. I look forward to speaking with you.

Bonus Business Tools & Insights

In the pages that follow, I've included some valuable 'Business Tools' and 'Thought Provokers' for you. It's not overstating the facts that applying these initiatives could already make a huge positive impact on your profitability.

Price – they key to an instant profit boost

Getting a handle on margin and mark-up

Marketing – the fastest way to leverage your growth

Embracing technology

Read on and you'll see what I mean ...

Price – the key to an instant profit boost

Discounting your services or products not only carves a huge slice out of what should be your rightful profits, discounting is simply unnecessary in most cases. Now may actually be the ideal time to start putting your prices up.

Hard to accept? Predictably, most business people fight this advice. Most especially so in 'tough times' when the temptation to discount is unbearably strong.

But when you discount, not only are you sending the wrong message to your marketplace, more often than not, there's another alternative and you don't need to discount at all.

I have seen too many skilled, good-hearted business people discount their prices for a multitude of (wrong) reasons and end up with zero profit. Think about that. You may as well sit home and not make any money than work your heart out 10 hours a day and ... not make any money.

The upside of this is that a mere $5 an hour extra or a tiny 3% increase in your gross margin or 10% increase in your mark-up can make a **huge difference to your business profitability**.

Without getting too dramatic, that tiny change upwards in pricing can be the difference between a depressing, stressful life ... and a happy life.

"Surely discounting gets me more sales, doesn't it?"

Great question! This is one of the most misunderstood and cost mistakes made by business people the world over. To prove my point, look at the following table. You'll quickly discover how much extra you have to sell for each percentage you discount your prices, just to be at the profit level you were at before the discount.

Say your total revenue is $600,000 and cost of sales (direct costs, not overheads) is $420,000.
That means your gross profit margin is $180,000 or 30%.

Now look at the chart. Along the top (highlighted) is your gross margin of 30%. Now run your eye down the left hand column, showing various discounts.

What this is showing you is that if you drop prices by a 'mere' 10% on a 30% gross profit margin ... you will have to increase your sales revenue by 50%!

A whopping $300,000 in extra sales – just to make the same amount of profit as before! What's the likelihood of ramping up sales by 50% on a discount of 10%? Zip! Zilch! Zero! **So don't do it.**

I hope that this table is a 'wake up call' for you.

The effect of discounting your prices on your profitability

If your present margin is:

	20%	25%	30%	35%	40%	45%	50%	55%	60%
	to produce the same profit, you must increase your sales volume by:								
and **reduce** your price by:									
2%	11%	9%	7%	6%	5%	5%	4%	4%	4%
4%	25%	19%	15%	13%	11%	10%	9%	8%	7%
6%	43%	43%	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%

Now discounting is the bad news. But look at the chart on the next page.

This table demonstrates that if you were to increase your prices by 10% on that same 30% margin, you'd have to lose 25% ... 1-in-4 of your customers before you are back to your previous profit.

Anything less than 25% and you're making more profit (even with fewer sales). And really, chances are you'll lose hardly any customers at all. So your price increase is 'pure cream'.

The remarkable outcome of increasing your prices

If your present margin is:

	20%	25%	30%	35%	40%	45%	50%	55%	60%
	to produce the same profit, you could reduce your sales volume by:								
and **increase** your price by:									
2%	9%	7%	6%	5%	5%	4%	4%	4%	3%
4%	17%	14%	12%	10%	9%	8%	7%	7%	7%
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%

Now, this doesn't mean you have to increase them by 10% naturally.   Put them up 5% or 7.5% if you're more comfortable with that.

A welding contractor client has just increased his hourly rate by 10%. And do you know, not one customer said anything! Who knows how much it has cost him not to have done this before?

Who knows how much it's costing you.

Getting a handle on margin and mark-up

Confusion in these terms can be confusion costly. I have seen many businesses confuse these two percentages and have marked up cost-of-goods by the gross margin, not the mark-up percentage. This results in significantly lower profit.

Margin is your profit after deducting your direct costs – the purchase of stock or materials and the cost of contractors if you're in the building industry.

Mark-up is the percentage you add to your direct costs to arrive at your sale price.

A simple example:

You purchase goods for $100 and **mark the cost up** by 50%. Selling price? $150
Yet, your **Gross Profit Margin** is 33% ($50 ÷ $150).

Your mark-up is always higher than your margin.

Below is a comparison so you get the feel for the percentages:

If your mark-up is:	Your Gross Profit Margin will be:
10%	9%
20%	16%
30%	23%
40%	29%
50%	33%
60%	37%
80%	44%
100%	50%

Again, many business people confuse them and arrive at the wrong sale price, which can be a costly, honest mistake to make. Always track your gross margin month by month to see the trend. A 1% increase in gross profit margin can make a big difference.

Marketing – the fastest way to leverage your growth

Marketing is a much misunderstood term amongst business people. Some people think marketing is 'selling'. Some think it is 'advertising'. And of course, some business people think it is a load of hogwash and a waste of money.

But let's cut to the chase. Marketing – effective measurable marketing - has the potential to deliver you massive leverage in growing your sales and your profits.

Some quick examples of effective marketing

Let's take one component of marketing ... Advertising

It doesn't matter if it's 'offline' or 'online' advertising. By testing different headlines to your ad, you can achieve differences in the response by as much as 20 times. Imagine that. By hitting upon a 'winning headline', you could multiply your enquiries by 20 times!

Same size ad. Just a different headline theme. Even a 20% increase in enquiry rate wouldn't be bad, don't you think?

Here's another component of marketing ... The Offer

By changing the 'offer' in your marketing, you can impact on sales as much as 300%. It might be a better warranty, a buy-this-get-that package offer, a free bonus upgrade with purchase, or any number of things. But again, with a 300% potential increase up for grabs, it's worth testing, wouldn't you agree?

...and Targeting

Targeting your market? You can experience as much as a 1,000% higher response simply by testing different prospect lists or different publications to reach your target market. That's a tenfold leap in enquiry 'just' by better targeting.

Then there are Client Communications

One retailer lifted the number of purchases his customers made each year from an average two, to FIVE per year by building an ongoing relationship with them through 'CRM' marketing. A huge growth in his business just by staying in touch with the customers he already had!

What about improving your 'Conversion Rates'?

I alluded to this earlier. We've seen businesses where one sales person gets double the sales conversion rate of another. What if you could get every sales person to follow that process?

Or what if you knew a simple change to your quote process that took your rate a winning quotes from say 1-in-5 to just 1.5-in-5. Doesn't seem much. But it represents a 50% increase in your sales.

...and then there's 'Packaged Information'

This is a marketing strategy with amazing sales producing potential. One company we're aware of created a special report and promoted it in their ads. Not just any report. It was a hot lead generating information pack for this company.

When they first implemented it, their enquiry rate jumped from 10 enquiries from a typical ad to over 220. It produced millions of dollars of future sales for them.

We could go on.

But the purpose of highlighting these things here is to alert you to the fact that what we're looking at here are potentially huge leaps in sales and profits.

And if you look back over those examples, in **not once case does it entail spending one extra cent!** It's all about understanding what works in marketing.

Now of course, while Sheridans Accountants and Financial Planners don't hold out to be marketing experts, we do have access to a wonderful library of marketing tools, which we can make available exclusively for our business clients. And we'd be happy to tell you more about how you can get access to this 'fountain of knowledge'.

Embracing technology

Another important profit booster strategy is to embrace technology. It is not hard and requires minimal training. Let me give you a real example from our client files. The case of the revolutionised electrical business through technology.

While you're reading the next few paragraphs keep in mind these two scenarios are about the same electrician. Which 'electrician' do you think has a better life?

Electrician Scenario #1

After working all day, he drops into households as promised on his way home to jot down details of quotes he has been asked to prepare.

On Sunday, he gives up his leisure time to prepare the quotes. And then he sits down to do his invoices. He loves doing this on Sundays. It's his favourite time. (Yeah, right!) Truth be known, being as time-pressed as he is, sometimes these don't get done for weeks, which costs him goodwill with his customers and costs him jobs.

When things pile up, he gives all his paperwork to a bookkeeper who enters the data into an accounting package and prepares a quarterly Business Activity Statement. At the end of the year a disk is posted to the accountant who, after a month or three, puts that information into their accounting package, and the electrician receives a phone call telling him how much tax to pay.

Sound familiar? It describes most small businesses. But let's have a look at …

Electrician Scenario #2

Our electrician (after reorganising the way he works over a period of a month or so) does this:

He takes an iPad to work with him and on the way home, calls into households to give quotes. But there's no taking these home to do on Sundays. On his iPad he has up-to-date material costs from his suppliers and a quoting template.

He prepares the quote on the spot, walks out to his van where he has a printer and prints out the quote, goes back inside and hands it to the householder. So impressed are they, they usually give him the go-ahead then and there. He puts his job in the electronic diary on his iPad and it's out of his mind and sorted.

But it gets better. His iPad is automatically linked to his new web-based accounting package. At any time, he can press a button and the quote becomes an invoice. This is automatically put into his Accounts Receivable and posted to Sales on his accounting package.

Sundays are free again. His family has him back. And he's in control. His bank statements and credit card statements are downloaded automatically each night and he just has to point his mouse to the transaction on his bank statement, point to the relevant expense or income account on our chart of accounts and click, and the amount is posted.

After clicking on the transactions he hasn't posted yet, his bank account is reconciled. If he's not sure of which account to put an item he rings us. We can immediately go into his accounts (remember they're web-based so we're both looking at the same thing) and either he or we post it.

In short, life is great! He doesn't have a bookkeeper anymore because he finds entering the data easy and even enjoyable. If he employs a bookkeeper again, it'll be due to growth, not to try to tame his chaos.

Each quarter we check he has posted things correctly and we lodge the Business Activity Statement.

Better yet, the electrician now has an up-to-date profit and loss statement available at any time. He also has a reminder set up on his front page showing how much tax he owes at any one time.

At year end, with some journals to do, we have a full set of financial statements in which to prepare the tax returns. Everyone has saved time. And there is only one set of books kept and everyone who needs to has access to it.

Which electrician scenario describes a better life do you think? No contest! And the great thing is, these efficiencies are available to any type of business.

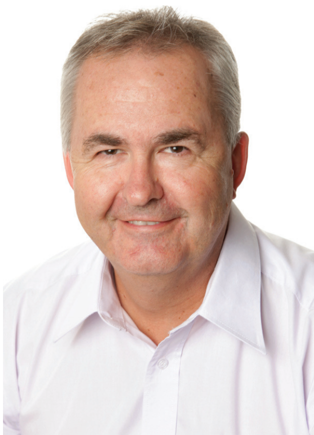
In summary

This document is all about getting organised.

And, not to put too fine a point on it, the costs of not getting organised. I trust you'll see that taking action now will save you a whole lot of heartache in the months and years ahead, and you'll be able to look forward to your 'retirement', whatever that may mean for you personally, with confidence and peace of mind.

Of course, getting organised is hard if you try to embark on this alone. It's a breeze if we do it together.

So go on ... call us for a free exploratory chat about what we can do for you. We'll look forward to talking with you.



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