

Business Matters

FEATURE

JULY 2006

Winners and losers in 2006



2006 will be a year of winners and losers. How your business fares will all depend on your preparation, your industry, your customers and how they manage the trials and tribulations of 2006.

Here's an overview of what you can expect in 2006:

Interest rates honeymoon ends

With interest rates tipped to continue to drift upwards, the direct impact of paying more for your money will be felt by business. It is the indirect impact of lower consumer confidence and, as a result, lower spending that will have the greatest impact. It's not only increased costs that you will need to contend with, but also the potential of declining sales. The message here is "be prepared".

- Don't over commit yourself and try to maintain a liquidity and profit buffer in your business.
- Keep a close eye on your debtors and stock.
- Slow paying customers may be an indicator that they are heading for trouble.
- Stick to your credit terms and follow up outstanding accounts as soon as possible.
- With your trading stock, keep it in control and don't tie up more of your working capital than is necessary.

New Zealand \$

If you are an importer or exporter, or if your suppliers are importers, then you need to be aware of what is likely to happen to the New Zealand dollar in 2006. Significant movements can impact your profitability in a marked way. Economic factors clearly point to a lower NZ dollar in the coming

year. The kiwi dollar has been trading around USD68 cents (peaking at just over 74c in 2005) however, some predictions are for the dollar to fall to less than US60 cents by the end of the year.

Similarly, the kiwi dollar has been trading at over AUD 90 cents (and as high as 93.7) and is forecast to drop below 85 cents. Do your planning around this scenario, but also prepare a sensitivity analysis. Do you know what your breakeven level is based on today's currency? Tomorrows?

World events over which we have no control in New Zealand can play a major part in currency movements. Have a look at what would happen if the dollar moved 10% either side of this projection. If the impact would be significant, consider whether you need to insure against major movements through hedging contracts.

Oil prices

New Zealanders consider petrol in their cars to be a necessity so we don't tend to cut back on our motor fuel consumption. What we end up with is less money available to spend on other things. Do you need to re-examine your marketing strategy, profit margins, overheads, etc as the market's discretionary spending tightens?

With pump prices still on the rise and permanently higher oil prices expected, there is likely to be little relief for businesses who are now carrying the burden of higher costs. If you have not already done so, take a look at your profit margins and see if you are now in a position to pass on these higher costs to consumers.

Innovation wins

2006 will be a year that will reward innovators. There is plenty of competition in most businesses and if anything, competition will get tougher. Increasingly big business is muscling in on small business territory.

Businesses that differentiate and innovate are more likely to hold and attract market share. It is the best way for small businesses to compete and far better than price discounting, where all you are doing is giving away your profit margin in the hope of big

volume increases. Often discounting doesn't pay. Think about ways in which you can innovate and differentiate in your business. It may be your product, the way you deliver it, the way you package it, or how you service your customers.

There are always opportunities for innovators and differentiators.

And in conclusion

Fundamentally, it is not what we can predict about 2006 that will make the difference but what we can't. Risk and business interruption planning is a necessary part of successful management in today's world. Make sure your business model is strong and you are prepared to make the best of the conditions faced.

Quote of the Month

The entrepreneur always searches for change, responds to it, and exploits it as an opportunity.



Peter F. Drucker

What is Business Goodwill?

Business owners are often surprised to find out the real value of their business. We all expect a great return for the years of stress, hard work and time committed. One of the most misunderstood and often overestimated components of a business's value is goodwill. Major international companies like Coca Cola, Pepsi and Nike have a high goodwill value, but what about the average small business? Do you have goodwill, and if so, is it worth anything?

In general, there are three main types of goodwill: corporate, personal and location. You may have one or a mix of these. Different types of goodwill have different values. Typically, corporate goodwill is the most

helping with your business is our business



valuable. Let's have a look at each:
Corporate Goodwill

This is the value items such as brand, business presence, an excellent client database, and repeat customers add to the value of the business. When we talk about a brand, we are talking about something that is recognised, not just a logo. For example, if a potential customer needs to buy a product that you sell, is your brand the first one they think of? This type of brand value can simply be relevant to the area you operate within.

When we ask business owners what differentiates their business from others, one of the commonest responses is "personal service". Your customers or clients come to you because they like dealing with you.

That's personal goodwill. Your customers stay with you because of the strength of the relationship that you have developed with them. That's excellent if you are the owner, but when it comes to selling your business, personal goodwill is generally worth less to the new owners. They will need to establish their own relationship with your customers, and some may be lost along the way. If this sounds like your business, then you should think about how you can broaden your goodwill so that the value attaches to the business as well as the person.

Location goodwill

This is where the location of your business delivers a result for the business. For example, a service station on a major road that is convenient for motorists to enter and exit. If you have location goodwill, the value of the goodwill is determined by factors such as whether you own or lease the location, how long your lease is for and anticipated changes and development in the area.

Business owners should operate with their end position in mind, regardless of whether you expect to sell or hand your business down to the next generation. For assistance to build your business value, talk to HWI today.

"There ain't no rules around here! We're just trying to accomplish something!"

Thomas Edison

Hour Power

Here is a hint that we have picked up on saving time. It comes from a book called Hour Power, written by John W Lee and published in 1980 by Dow Jones-Irwin.

First, whenever you need to **prioritise** your tasks, then you actually make a decision for each task according to one of the four "D"s. You either:

- ▶ Do it now
- ▶ Defer it to later
- ▶ Delegate it to another, or
- ▶ Drop it.

It all sounds so simple, but when it is consciously observed it can take a lot of stress out of life.

There is another **exercise**, which the book also recommends that you should do in order to establish your priorities.

It is to write your own obituary along these lines:
(Mr., Mrs. Ms)

_____ of _____
(Your dream address) died last night at the age of ____ years. (He, She) spent over _____ years in the field of _____ where he/she rose to the position of _____.

Beyond this work, (he/she) is probably best known for _____.

Among **(Mr., Mrs., Ms)** 's most favoured and successful interests were _____ and _____ . (He/she) was also a renowned _____.

(Mr., Mrs., Ms) _____ is survived by _____ and _____.

The estate is estimated at \$ _____.

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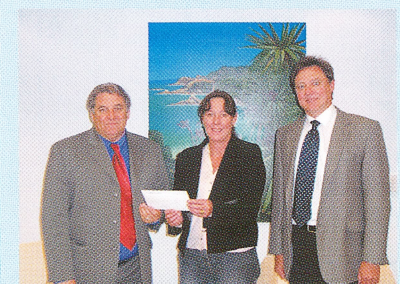
HWI continues to grow in 2006 with Brett Craies joining us as a Senior Manager. After selling his accounting firm in Huntly, Brett moved back to Auckland with his wife and daughter to be closer to their families. A player and lover of rugby, he enjoys golf, running, spending time with his family and the occasional ale down at the clubhouse. Welcome to HWI Brett.



Brett Craies
18 years CA experience



Umesh Dewan
He has 15 years CA experience with a great understanding of Corporate Accounting; Umesh is married with one son and also enjoys Golf



Annie Gray of Open Door Publishing was the winner of our Business Expo Bean Counting Competition winning a luxury Night at the Hilton.