

Perriam & Partners Ltd

Chartered Accountants & Business Advisors

OCTOBER 2008

Issue No 30



BEHIND THE NUMB3RS



**Perriam & Partners
Landlord of the
year!**



We are looking for our best landlord!

What have you done this year to ensure that your tenant will always speak highly of you?

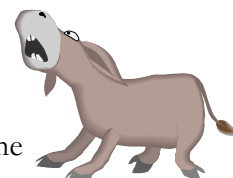
Write into us and tell us your story about why you should be voted Perriam & Partners Best landlord.

The best reason will receive a voucher to the value of \$150.

Closing date for entries
31 October 2008

"CHUCKLE"

Young Chuck, moved to Texas and bought a donkey from a farmer for \$100. The farmer agreed to deliver the donkey the next day.



The next day he drove up and said, "Sorry son, but I have some bad news. The Donkey died."

Chuck replied, "Well, then just give me my money back."

The farmer said, "Can't do that. I went and spent it already."

Chuck said, "OK, then, just bring me the dead donkey."

The farmer asked, "What ya gonna do with him?"

Chuck said, "I'm going to raffle him off."

"You can't raffle off a dead donkey!" The farmer replied.

"Sure I can." said Chuck. Watch me. I just won't tell anybody's he's dead."

A month later, the farmer met up with Chuck and asked, "What happened with that dead donkey?"

Chuck said, "I raffled him off. I sold 500 tickets at two dollars a piece and made a profit of \$898."

The farmer said, "Didn't anyone complain?"

Chuck said, "Just the guy who won. So I gave him his two dollars back."

Chuck now works for the Government.

Tax Rates

Composite tax rates for the year April 08—March 09 need more attention than usual because of the mid financial year tax changes effective from 1 October 2008. The rates are as follows:

Individuals -

\$0 - 9,500	13.75%
\$9,501-14,000	16.75%
\$14,001-38,000	21.00%
\$38,001-40,000	27.00%
\$40,001-60,000	33.00%
\$60,001-70,000	36.00%
\$70,001-upwards	39.00%

Companies-

Taxable income 30.00%

Trusts-

Taxable income 33.00%

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What It's Worth – Selling Your Business.

Most of us know what the value of our home is, what our shares are valued at, how much we have in personal savings and what our debt levels are, but what about our business?

You're flatstick working in the business, at all times looking to increase sales to add value for the purpose of increasing the return to you for these extra efforts.

Short of requiring a full valuation report on your business we set out below for your consideration and self assessment, a process by which you may be able to place your own indicative valuation on your business particularly if there is no 'rule of thumb' process which exists in your industry.

You have decided to sell your business, but what's it worth?

There are three key components to setting the price;

1. **Plant** – usually priced as a going concern (but not always), with its value derived by a registered valuer (both parties can use their own independently – but usually agreeing on one is fine). These are the tangible things required to run the business.
2. **Stock** – SAV means stock at valuation (at cost), this is the norm, however obsolete stock may be devalued.
3. **Goodwill** – the subjective and intangible stuff, some call it an art, others a science...it's a mix, using some tools to assist with the process. The final question is "What will the market pay?"

Plant and Stock – these are relatively straightforward.

Goodwill – this is more subjective. The following offers a quick overview on some of the more common goodwill valuation tools in use: (Note: some businesses will have little or no goodwill, and some derive a value from using 2 or 3 of the following methods.)

Sales statistics and Industry rules of thumb.

Often **common with small business** valuations is the use of industry rules of thumb. While this approach lacks investment analysis, it can be useful when used in conjunction with other methods. It relies on deriving an average value and formula from a number of similar types of business sales and tends to be used more as an indicator. It looks at a historical average, and may vary somewhat from what you are looking at.

Return on investment - ROI (Valuing the Profits)

This is the **most common** method and is sometimes referred to as the Capitalised of Earnings Method (It is used particularly with higher value businesses). The easiest way to explain this is to look at a simple example:

John's Pushbikes produced an **adjusted net profit** (and before owners salary) of **\$120,000 (EBIT)**. The **net assets** (valuation of plant and stock) for the business **were \$140,000** and a fair market **salary assessment for Jim (owner) is \$50,000**. If someone was looking to invest in this business they should be **expecting to receive a 25% - 30% ROI**, as this bike shop offers a medium-risk investment opportunity. (Most small businesses require a return of between 20% for low risk opportunities to maybe 50+% for a high end-risk venture).

Business Profits (EBIT)	\$120,000
Less Owners Salary	\$ 50,000
Profit	\$ 70,000

Therefore based upon the above if a buyer was prepared to accept a 25% return then they would pay as much as \$280,000 for the business. If the buyer expected a 30% return they would only be prepared to pay \$233,333, \$46,667 less.

Therefore;	\$ 70,000 ÷ 25% = \$280,000
	\$ 70,000 ÷ 30% = \$233,333

So how would you then determine the goodwill component of the purchase value. This is calculated by deducting from the business value its tangible assets which in the above example are advised at \$140,000.

Therefore;	\$280,000—\$140,000 = \$140,000 (Goodwill)
	\$233,000—\$140,000 = \$93,000 (Goodwill)

One can then look at the Goodwill and see if this is reasonable.

Please note that the above is only an example and there could well be a number of other factors particular to your business that could influence the business value outcome.

Purpose with Profit

With some reluctance we have increased our Fees

This is the first opportunity to write to you regarding our fee increases. Over the recent months Perriam & Partners Ltd has been affected by a number of overhead and cost increases. Many of you have and will also be experiencing cost increases as part of your own business activities.

To add to this there have been significant changes to the income tax regime this year. Some of you will be aware of this, some perhaps not but with the majority of our client engagements we must contemplate these and determine if there is any impact on your circumstances.

It is no longer possible for us to continue to absorb the effects of these price increases and we advise that our fees have therefore increased for a large proportion of our annual compliance and end of year taxation work.

We constantly review where our prices sit in the market place, as not only is it important to us that our work be of a high quality without comprising our standards, but also that it represents good value to you.

We appreciate your business and will continue to strive to offer you quality work at what we believe to be is fair value.

BEST REWARDS COULD STILL BE TAKING THE AGGRESSIVE APPROACH

With perhaps only two exceptions, everybody who joins KiwiSaver should opt for an aggressive fund – one that has a high proportion of shares and property. Although such a fund will show a great deal of volatility, the current climate being no exception, it should provide better returns.



Given the length of time that many of us are likely to be saving, higher returns will translate into larger savings yet many people who have joined KiwiSaver but have opted for conservative funds.

They have done this because they have been frightened by the negative noise of the markets—every investment commentator is saying you should look at the safest investments possible and, while that is good advice for most investments, it is not necessarily right for KiwiSaver investments. There are two reasons why it is different.

First, with KiwiSaver you are in effect dollar-cost averaging, drip-feeding money into the markets regularly, buying some units cheaply and others quite expensively, currently a lot cheaper.

Whether the markets are going up or down, you need to keep the money going in. At present, as markets are down, you are doing what you should do – buying in gloom and getting cheap units. Second, most KiwiSavers are in it for such a long period of time that shares and property are almost certain to perform best. Provided you are in KiwiSaver for 10 years or more, you should be able to go into a fund with a high proportion of shares and property feeling comfortable that you will do well.

Perhaps the only people who should go into more conservative funds are those who will be able to cash in all or part of their KiwiSaver monies with 5—10 years.

This would generally likely apply to two groups—young people who are saving through KiwiSaver for a deposit on their own house, and older people who plan to retire within the next 10 years.

On reaching an age where you are 10 years from planned retirement you should start to move to less-aggressive funds so that in the three or four years before your retirement you are in the least-volatile funds. It would be a tragedy if people continued to be rattled out of the aggressive funds because of the wall of noise coming out of the markets. It is never easy to stand up against the negative noise, however it doesn't make good sense to switch to a conservative fund at just the time when shares and property have become cheaper.

There will be a few other exceptions, there always is, but if you are likely to need your KiwiSaver money within 10 years you should opt for a conservative fund.

If beyond 10 years, go aggressive. If you keep on drip feeding money into an aggressive KiwiSaver fund for at least the next 10 years you should do well. If your KiwiSaver contributions cannot pass the 'sleep test' then the aggressive approach is not for you.

Persistence

You have to ask the question. How bad do you want it? The biggest mistake as to why people are not successful is because they give up too soon. They are not persistent in their journey toward success. Simply having persistence can get you a long way in life. When asked about how they obtained their success, many successful entrepreneurs have said, "We simply refused to give up!" They were so persistent in what they wanted; they would not let anything stand in their way. Being persistent can mean the difference between success and failure. Persistence is everything when you're looking for success! The great stories of those in business, sport and science all have, as one of their cornerstones, persistence. The ability to stick with it to have sufficient faith to know that in the end you will succeed.

A SPORTING CHANCE

The parallels between success in sport and in business have long been documented. In this report we provide examples of one of Australia's best and how they are also making inroads into the world of business. In each case, the savvy and drive that has made them world class athletes is also helping them reach dizzy heights in the corporate arena. Swimming sensation Grant Hackett is a budding property developer. Rugby icon John Eales is a successful entrepreneur.

What I have done here is to take some extracts from an article I read recently in Australia regarding Grant Hackett. Whilst none of us here acclaim to be the sporting star he was and with all due respect, none of us are likely to be, there are however some very valid points that parallel success in the sports arena with achieving success financially and in your business.

Going the Distance

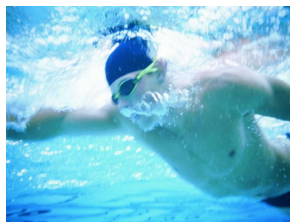
Swimming superstar Grant Hackett has not only achieved his goals, he's smashed them.

If anyone understands the hard work that goes into achieving success, it's Grant Hackett. He covers about 80km a week in the water (equal to 200 laps of the Sydney Harbour Bridge), and endures five gruelling gym sessions to stay at the top of his game.

Grant Hackett is one of the greatest distance swimmers in history.

"I love trying to do better than I've done before," the native Queenslander says. "I take the attitude that you're not as good as your last meet and only as good as your next one so I'm always looking forward. I'm always trying to push the boundaries and push the body and see how much it can take. There are different aspects of motivation and on those typical cold, wintry mornings when the alarm goes off at 4.45am you certainly have to dig deep for them but I just love the competitive nature of it – that's a big driving force for me."

Hackett's journey has been similar to – to win Olympic gold – aged just 13. prominence as a 17 year old during the was unbeatable at the 1500m, winning next ten years. He has smashed various



that of the best entrepreneurs. He developed a goal. He then worked extremely hard, first rising to 1997 Pan Pacific Championships. From then on he every major competition over this distance for the world records along the way.

However, like almost all entrepreneurs, Hackett has also come up against challenges and setbacks. He has suffered short periods of injury and illness during his career, forcing him to work harder to fend off international rivals. He also currently experienced his worst ever career slump.

"You do have your low points and times when you question yourself and doubt your ability," he says. "You doubt what you're doing and start to think of alternatives. Everyone goes through those periods, particularly in times of failure. But those lows often present other opportunities. You think 'well I'm in a tough situation but this will reveal how good I am at what I do'. You can prove yourself and show you have the mental skill or the physical capacity to reach your goals regardless of the situation. To be able to pull yourself out of that slump or a difficult situation and show yourself and other people what you're made of is a real opportunity. And certainly for me its about getting back as quickly as you can, not sitting around and thinking about what happened, what went wrong or trying to blame other people."

This mental strength and positive attitude is something that Hackett hopes one day will help him in the business arena. He is working on a commerce degree in his (very little) spare time and is passionate about becoming a property developer once his swimming career ends. He also hopes to use his experience with sponsors such as Westpac and Uncle Toby's to make waves in business.

If you are experiencing some tough times 80 km's a week in the water might not be the answer but dig deep and prove to yourself that you and your business can be the best regardless of the current situation.

HACKETT'S TOP THREE: (cont from page 4)

1. "Be accountable for your own mistakes. You need to say 'ok, this is what I did wrong, these are the mistakes I made, I won't make those again' and then shift forward and reset your goals. You will be more focused and determined than ever".
2. "Turn poor performance around quickly. Don't dwell on your mistakes and don't blame others. Immediately work on improving and turn negative experiences into opportunities for positive ones. Always look forward and push the boundaries".
3. "Live and breathe your success. Ever since I was 13 or 14 I've written my goals down and put them up on the wall. This sets out the process you need to go through – for me the training regimes and the pattern I had to follow – to get to the highest level. It makes me feel more confident in what I'm doing and where I was going".

Hacketts says there are numerous parallels between sport and business. He says achieving success and reaching goals in either field come about through the same ideals and strategies. "Success teaches success and I think people who have been able to achieve in their own right – whether it be in finance or swimming or another field – if you're able to get to the elite level you need to follow certain patterns. There is quite a simplicity to success. Ideals such as commitment, teamwork, goal setting, focus and determination are a driving force. Often people find it difficult over a long period of time to stay focused, but if you've got those tools you can do anything."

NOW GO FOR IT!

The Staff Room

- ♦ We would like to welcome to our team Nick Williams a Graduate Accountant. Nick started with us on 22 September 2008.
- ♦ We would also like to welcome Mistelle Jack to the team. Mitstelle hails from Dunedin and will start with us on 28 October 2008.
- ♦ Amy Zhu is going back to China on 3 October 2008 for a month to catch up with family.
- ♦ Nicole Huang went back to China on 20 September 2008 to get engaged and more on this in our end of year newsletter.



How do you spell L-O-Y-A-L?

Focus on super-serving your loyal core customers. Love them to bits and reward them for their continuing support with sizzling service.

A big welcome to Nick and Mistelle and safe travelling to Amy and Nicole

Accountants—Wife or Mistress?

An architect, an artist and an accountant were discussing whether it was better to spend time with the wife or a mistress.

The architect said he enjoyed time with his wife, building a solid foundation for an enduring relationship.

The artist said he enjoyed time with his mistress, because of the passion and mystery he found there.

The accountant said, "I like both."

"Both?"

The accountant replied "Yeah. If you have a wife and a mistress, they will each assume you are spending time with the other woman, and you can go to the office and get some work done."

Helping your staff go for the gold medal


Performance at work and in sport do have a lot in common. What motivates a person to consistently outperform is a question that has spawned plenty of theories. In 1968 Harvard Business School published a report written by psychologist Frederick Hertzberg. **How do you motivate employees?**



Many of you will have come across at some point Hertzberg's theories on motivation. In such a tight labour market these should be constantly revisited. Hertzberg's view was that employees are motivated by a sense of achievement, recognition, challenging work, responsibility, advancement and growth (in that order). But workers get unhappy with poor company policies, their supervisors, work conditions, salary and relationships with their peers among other things.

Similar to elite athletes every employee star has their needs and aspirations. Consequently coaches, business leaders and employees need a repertoire of motivational tools to apply at different stages of the game. The manta "People join a good company and leave a bad boss".

Build a sustainable and loyal workforce and they will rise above the challenge and excel.



Make the most of quieter times by refocusing on the thing you really want to do.

It's easy to sit and moan and groan about the economy—more so if you're a glass half empty person. **Instead** use this time as a great opportunity. A time to rebuild, a time to refocus. To coin an old phrase "When the going gets tough the tough get going".

There could well be a silver lining to your cloud. We have all come off some pretty good times of prosperity. With business slower, there's a stunning opportunity to reassess and institute some clever and effective business strategies. Look personally, professionally and financially. So how could you apply these thoughts to your own business?

What are your activities now?
Jot down on a piece of paper all that you do. Then score each of these by how passionate you are about it and how pleasurable it is. Next rate the income generating activities by how profitable they are.

Pleasure / passion have to be part of the equation as life isn't all about money. For example a self-employed kitchen installer would find a better use of his time marketing for new business as opposed to renovating his own home.

But if it gives him pleasure then it's an activity that stays.

Focus your marketing
It's easy for small businesses' or the self-employed to make changes swiftly in response to a slowing economy. Use this as a time to refocus on what you do best, what sells / delivers best. Your customers own business model and needs may well have changed so refocus your efforts on these needs.

Alliances for work you turn away.
You always want to be helpful so try and build alliances with one business in your industry as they may be happy to refer some work your way or alternatively to take on some of your work that for particular reasons you cannot.

Don't underestimate these alliances because they are there—you've only got to ask.

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You are advised to consult professionals before acting upon this information.

Purpose with Profit

Introducing *feeSmart*

A good Accountant should always have a solution if there is a perception of a cash flow problem and we have just that.

FeeSmart operates as a division of Get Smart Financial Solutions Limited and has been developed in conjunction with Acclipse one of the leading technology specialists for Accountants in New Zealand

The Smart Way to Pay Our Fees

Astute cashflow management is essential for operating a successful business. In today's competitive environment many businesses now prefer to spread their professional fees over the year rather than paying these as a single lump sum, just as many of you now pay your rent or insurance premiums.

feeSmart is a monthly payment option available to our clients (with invoices over \$1,000) who would prefer to fund their Accounting fees over a six or twelve month period. A ***feeSmart*** loan means;

- ♦ Existing cash or credit lines (e.g. Bank Overdraft) are retained for other business needs.
- ♦ Simple—a ***feeSmart*** agreement and Direct Debit authority are all that is needed.
- ♦ Stress Free—avoid becoming an overdue debtor with our firm. We would like to be communicating with you more on matters about your business.
- ♦ What are the costs involved to you? ***feeSmart*** clients pay a small (\$50) one-off fee which is added to the first Direct Debit. Please note the set up fee is charged in the first year only. Interest is charged at rates very close to bank overdraft rates (currently the rate is 9%). Full details of interest charges are on every agreement and quotation.

Cashflow management is something we all want to be savvy about, and a good accountant always wants to help! With that in mind we would like to introduce you to ***feeSmart***

We know that many of our clients who have already started using ***feeSmart*** are generally quite capable of paying their Accounting fees as a lump sum BUT they simply now prefer to manage their cash more effectively.

So where to from here?

If you wish to explore this option then please contact Sally King of our office today.