



The

# BUSINESS

A C C E L E R A T O R

MAGAZINE

March 2016



O'Bryan & O'Donnell  
Helping Your Farm, Small Business or Trade Succeed

# 4 Ways To Grow Your Business

## How To Increase The Average Sale Value

In prior editions of the Business Accelerator Magazine we examined the first two ways to grow your business:

- 1) Increase the Number of Customers (of the type you want)
- 2) Increase the Number of Times Customers Come Back

In this edition we will look at the third way to grow a business, increase the average sale value of each transaction.

Your customers have come to you for assistance and guidance and it's logical that you make them aware of your full product range. They might have bought a single product from you but there could be other complementary 'add on' products they would buy if they knew they were available. Remember, you've probably invested time and money to win them as a customer so it makes good business sense to get them to spend more with you before they leave your shop or website.

Before you launch any of the strategies listed below it's important that you know your numbers. To calculate the dollar value of your average sale you simply divide your total sales for the day by the number of customers who bought your products or services. For example, if your daily sales were \$2000 and you made 20 sales on the day the average sale value would be \$100. Depending on the type of business you operate you might also want to calculate your average hourly sale, average sale for each day of the week, average sale for each employee or average sale per marketing campaign. You can then devise a strategy to lift the results. For example, if Monday is your slowest trading day you could plan a special offer for just Mondays.

There are several ways we recommend to increase the average sale or transaction value including:



You want  
**fries**  
with that?

### Cross Selling or the Add-On Sale

McDonald's are the master of the add-on sale. How many times have you been asked the question, "Would you like fries with that?" It's the classic example of a cross sell but the same approach works for almost any business. A solicitor could ask their clients, "Is your Will up-to-date?" I'm sure that could drive some more business from their existing clients and increase the average dollar value of each invoice.

A great way to generate add-on sales is to create a list of related products. For example, a hardware store could have a 'Paint Job Checklist' on display to remind customers to make sure they also get paint brushes, drop sheets and paint trays.

Do you have a core product or service? Think about what you can add on to increase the average sale value and overall profit margin. It could be a tie with a business shirt, a golf accessory with a set of clubs or a wheel alignment with a car service. Sit down and compile a

checklist of items that you could cross sell and help your sales team 'sell'.

With your website and shopping cart, think about making product recommendations using terminology like 'Customers who bought this product also viewed these'. This works particularly well in the fashion industry and by profiling products that other customers purchased you can increase average order values.



### Up-Selling

A great way to up-sell your customers from a lower priced product to a more expensive product is to have products at different price points. They could be marketed as gold, silver and bronze or budget, standard and deluxe models. Your base product might target the budget conscious buyer while the standard offering could be the option that most customers buy.

- Continued over page

*The greatest compliment we receive from our clients is the referral of their friends, family and business colleagues. Thank you for your support and trust.*



# How To Increase The Average Sale Value

- Continued from previous page

The deluxe or top of the range offering could target the small percentage of customers who are looking for extra value and higher quality. Again, it's important to train your sales team to outline the features and benefits of the three options to your customers and typically most customers will opt for the product or service in the middle.

## Batching or Bundling

Batching or bundling several products together in a package deal is a way to make your products and services appear more attractive and create extra value for the customer. Essentially you are offering bundles of products that cost less than if they were purchased individually. For example, a beauty therapist might package up a facial with a massage or a clothing retailer might include 2 shirts with every suit. The products should be complementary and we suggest you sit down and examine your product range to identify any opportunities to bundle them together to make an even more attractive offer to your customers.

For service providers, you can also bundle your time. A physiotherapist might sell appointments in blocks of five half hour appointments. In the process they might yield a higher average sale and guarantee repeat business. It might also help your cash flow by being prepaid for the services.

## Prominent Merchandising

You can potentially increase your average sale if your signage, presentation and point-of-sale displays are strategically placed around your business. Supermarkets are specialists with this strategy and typically they display specials in the checkout area to trigger impulse sales. You can also use testimonials, brochures or product samples to raise interest and get customers to buy that extra item.

**If your present gross margin is**

And you reduce your prices by:	20%	25%	30%	35%	40%	45%	50%
To produce the same profit sales volume must increase by:	11%	9%	7%	5%	5%	4%	4%
2%	25%	19%	15%	11%	10%	9%	9%
4%	43%	32%	25%	18%	15%	14%	14%
6%	63%	45%	36%	25%	22%	19%	19%
8%	83%	61%	44%	33%	28%	25%	25%
10%	100%	72%	52%	43%	36%	32%	32%
12%	123%	82%	62%	54%	45%	39%	39%
14%	146%	91%	71%	67%	58%	47%	47%
16%	169%	100%	84%	81%	71%	60%	60%

## Pricing, Margins and Discounts

Of course, before you cross sell or bundle products together to increase your average sale value you need to know your profit margin on every single product in your range. It could be time to add a new product to your shelves that has a higher ticket price and profit margin. The good news is you don't have to sell as many of these items because of the increased profit margin. On the other hand, it could be time to stop carrying low priced, low margin items.

Be careful with discounting. For example, if your current profit margin on an item is 35% and you reduce your prices by 10%, to generate the same profit your volume of sales must increase by 40%. By contrast, if your current profit margin on a product is 35% and you increase your price by just 10%, your sales of this product can drop by 22% before your overall profit will fall below the original level. (Refer to the table)

Of course, simply increasing your prices will potentially increase your average sale value but you need to make sure you are competitive and you don't lose customers and sales because of the price hike.

## Set Minimum Order for Free Shipping or Bonus

You can potentially increase your average order value by providing customers with an incentive when they spend a minimum

**3**

Increase the Average Sale Value

amount at your store. Consider setting a minimum order amount for free shipping or give them a free gift or bonus when they spend a certain amount. Any incentive to spend a bit more will lift your average sale value.

## Create a Customer Loyalty Program

If you sell consumable products (that customers need to replace at regular intervals) like stationery, take away coffee or razors, then you might contemplate starting a customer loyalty or rewards program. Loyalty programs are a customer retention strategy designed to keep your customers loyal to your brand and increase the average order value. By providing an incentive for your customers to earn points under your loyalty program, you can expect to see them increase their average order value.

If you're looking to grow your business talk to us today and if you need to learn more about the four ways to grow your business, visit the blog section of our website.



# Before You Hit the Business Start-Up Button

Starting a new business necessitates risk and in the digital age your marketing could be the difference between gloom and boom. There are plenty of marketing 'must haves' for a start-up business but there are also some things you should avoid including:

## 1. Failing to Plan is Planning to Fail

Preparation is the key to any new business and failing to plan is planning to fail. Your business plan should provide an overview of your current business position, where you plan to go and how you intend to get there. Your business plan is more than just a document to satisfy your financiers. It can be a roadmap for your business success that both business owners and staff can refer to for guidance and direction. Without a business plan you can't establish your priorities or measure your success so it's a bit like a boat without a rudder.

## 2. Forgetting to Build an Audience

While you are busy constructing your start-up, don't forget to build your marketing plan. There's no point having the best product or service in the world if no one can find it. Plan and build your website, think about the launch and don't wait for everything to be perfect. Get your networks in place and start building a list of potential customers and clients. Don't hold off until everything is 'just right' because you might find you have wasted a valuable opportunity or missed the boat. Don't fly under the radar, get your name out there as soon as possible.

## 3. Letting Perfection Stand In the Way of Progress

In the digital age every business needs a website and everyone wants a state of the art website. Too often entrepreneurs obsess over the look of their website at the expense of the other important aspects like content marketing. Your product is what demands your attention at this time. Dedicate your time to building a reputation and delivering quality and value. Don't let perfection get in the way of progress because your website will always be a work in progress. Perfecting your branding and website on start-up can end up a waste of valuable time and there will always be an opportunity to rebrand and relaunch your website if you so desire.

## 4. Undervalue Content

As stated above, it is not the look of your website that is important, but you need to embrace content marketing. By creating blogs, videos and newsletters that offer insights and updates you can position yourself as an industry expert, build brand awareness and improve your search engine rankings. Optimise the content with keywords and publish it throughout your social media channels. A beautiful website is really just an electronic brochure without remarkable content.

## 5. Networking Without A Strategy

Time really is money, especially when you are a start-up entrepreneur, stretched-thin and stressed out. Before any event that you plan to network

at, identify your goals in order to best utilise your time at the event. Create a prioritised list of who you should be talking to, where to best find them and what you hope to gain from these interactions. Bring plenty of business cards, have a specific piece of content to give to the attendees and make sure you follow up in a timely manner to remain relevant and fresh in people's minds.

## 6. Jack of All Trades – Master of None

Too often entrepreneurs think they are the only people who understand their business and they fail to delegate tasks. Marketing has changed dramatically in the last few years and it could be time to engage a third party to help you develop your brand, website, videos or content. You might be a skilled technician in your trade but is marketing your strength? Focus on developing your plan and that includes delegating tasks to third parties. You could get bogged down, lose momentum and waste a lot of time trying to be the marketing manager if it's not your area of expertise.

Make no mistake, you can't do everything yourself (even if you want to) and there's no future in



being the 'jack of all trades and master of none'. Your passion and drive is essential but a Jack or Jill of all trades can sabotage even the best business. Engage a marketing team to assist you, even if you start small. A word of warning, don't hand the keys to your social media accounts to your best friend's son even though they may be social network-savvy. Your commentary on these channels represents your brand and you need to make sure they are expressing your views.

## 7. Don't Obsess Over Your Competition

It's very normal to have a sneak peek at what the competition is tweeting, their prices and their websites, however, don't constantly take your lead from them. You could find yourself permanently trying to play catch-up. Your start-up business is your start-up operation that you control. Their techniques and tactics may or may not work for your business. Be the innovator not the imitator.



# Splitting Assets From a SMSF

A marriage breakdown and the subsequent split of assets is always complicated. If assets are held within a Self-Managed Super Fund (SMSF) then there are further complications.

The SMSF sector now accounts for around a third of Australia's total superannuation savings and according to the latest Tax Office statistics, around 70% of those are two person funds. This probably means that over one million SMSF trustees in this country are husband and wife. The Bureau of Statistics estimate that around one in three marriages will end in divorce so splitting assets from a SMSF could become a major issue.

So what complications arise from the marriage breakdown of SMSF trustees? It's common for the SMSF to own the business premises and sometimes the only way to realise the value of the asset is to sell the business premises. In many cases the business may not be able to afford to purchase the property from the SMSF and in all likelihood, at least one of the divorcing couple will want to exit the business as well.

In other superannuation funds, the

members and trustees are separate individuals, however, SMSF members will need to continue to interact with each other whether they like it or not. If both members are also trustees they will need to perform tasks such as signing cheques, preparing tax returns, financial statements and make investment decisions etc.

So whatever the personal feelings of the SMSF trustees, they must continue to act in accordance with superannuation laws and the trust deed of the fund. The SMSF regulator states that despite personal difficulties on an individual basis, "as a trustee you must continue to act in the best interests of all members at all times".

The Tax Office has stated that SMSF trustees must (in any circumstance):

- Ensure all trustees are included in the investment decision making process
- Act upon requests to redeem assets and roll money over to another regulated complying super fund
- Make sure that actions comply with the Superannuation Industry Supervision (SIS) Act 1993 or the SMSF's trust deed.



Apart from the issue of a business premises being owned by a SMSF, there might be other types of assets held by the SMSF which would need to be valued before a divorce settlement can be agreed upon or settled in court. Where the divided assets held by the SMSF are rolled over into one or more new funds, it is important that these assets are not first sold for cash. The cash proceeds transferred to the new fund would not retain their original cost base for Capital Gains Tax purposes and any concessions would be lost if a cash value is realised before it is rolled over. Similarly, under normal circumstances SMSF rules disallow the acquisition of assets from related parties, however, the legislation was amended specifically to allow such a transaction in the specific case of marriage breakdown (applies to assets acquired on or after 17th November, 2010).

There are steps that can be taken to minimise the impact of divorce when initially setting up the SMSF. For example, using a corporate trustee. In the case of the business premises being the major asset of the fund, if the premises had been acquired under a unit trust structure and the fund had an investment strategy utilising unit trust structures, then the fund's corporate trustee could redeem units for cash to payout the spouse. The corporate trustee could then take out a limited recourse borrowing arrangement to acquire a beneficial interest in the same business premises.

This illustrates the importance of the structure and strategies when setting up a SMSF. If you are thinking of starting a SMSF make sure you consult with us first because prevention is always better than the cure.





# Who Wants To Grow Their Business In 2016?



It's clear that some business owners still don't think they need a website. In fact, according to a 2016 report in the US produced by Clutch, 46% of small business owners don't have a website. They surveyed 350 small business owners and managers, most of whom own or work for an enterprise with 1 to 10 employees with an annual turnover of less than \$1 million. These website figures mirror the statistics in Australia.

Why don't business owners feel they need a website? The main reason cited was they didn't think it was relevant to their industry. Another 30% said the cost was a barrier and 12% said they have a social media profile instead of a website. The truth is, every business looking to grow needs a website. Now I'm not talking about a website that simply lists the what, where and who of the business because these 'electronic billboards' attract no traffic, leads or new customers. They are just a billboard in the desert.

Some business owners don't think they need a website because all their business comes from referrals. Think again. A study produced by Hinge Marketing (Referral Marketing for Professional Services Firms) examined data from 523 firms and found that 29.6% of people who were referred to a firm ruled them out because they had an unimpressive website, 23.5% ruled out the referral because of poor quality content on the website and 43.6% of people ruled out a referral because they didn't understand how the firm could help them. Ironically, these businesses who rely on referrals for their growth didn't even know they got a referral from a friend or colleague because the person never contacted them.

75% of users never scroll past the first page of search results



## Search Engine Page Ranking

Of course, having a website is one thing but getting traffic to your site is another challenge. If you're a plumber, florist, beautician or solicitor what happens if you Google your industry in your suburb? (e.g. plumber Richmond). Do you appear on the first page of the search engine page results?

Research from online ad network Chitika suggests that the top listing in Google's organic search results receives 32.5 percent of the traffic, compared to 17.6 percent for the second position and 11.4 percent for third position on page one. That means 61 percent of visitors don't go past the third listing on page one and 75% of users never scroll past the first page of search results. You have to be on page one of the search results and increasingly, you need to be number one on page one.

If you have an iPhone I'm sure you're familiar with Siri. Basically you ask her a question and she responds with a single answer. If you want more visitors to your website then your business needs to be the answer and rank number one. Of course, if getting to the number one position on search engine page rankings was easy then we would all be doing it! Be wary of people who guarantee you listings on page one because search engine optimization is a science and Google carefully guards its formulas

and algorithms. We know as part of their process they look at just about every aspect of your website including the age, domain name, response time, social sharing, inbound links and freshness of content. The list of criteria is long and confusing but one thing we do know, remarkable content remains king.

My advice is simple, focus on building the 'RITE' content for your website - Relevant, Interesting, Timely and Entertaining. It needs to be original and think about the questions your prospects are asking online and make sure you answer them with fresh content including blog posts and videos.

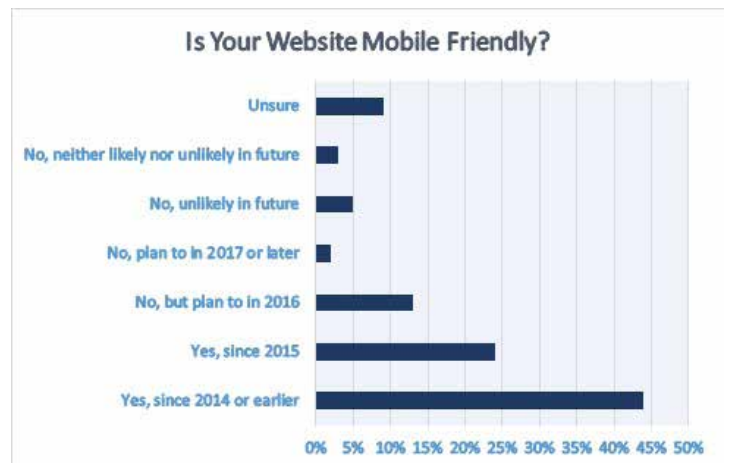
## Recognise The Impact Of Mobile Phones

In May last year Google reported that more searches take place on mobile devices than on desktop computers in

10 countries around the world including the US and Japan. The growth of mobile has been phenomenal and if your website is not 'responsive' to mobile devices then unfortunately Google has blocked your website from the search results on mobile devices. As such, you're invisible and not in the game.

The Clutch survey suggests only 68% of websites are responsive which means the layout of the website changes based on the device used to view the website. For example, mobile phones and tablets will see a different version of the website compared to visitors viewing it on a PC. It will adapt to the screen size to improve readability and make the website more user-friendly for visitors. If your website isn't responsive you need to urgently fix the design.

In summary, your website is your marketing hub and to build a lead generation site you need to have a clear strategy. It takes time and planning. It has to be responsive to mobile devices and to rank highly with Google you need quality and relevant content that answers your prospect's questions.



# Negative gearing – Negative or Positive?



Creating wealth through purchasing an investment property is a well-established practice in Australia. Buy the right property in the right location and you are on the path to prosperity.

## If it was only that easy!

Make no mistake, buying an investment property carries risk. It is a medium to long term investment, interest rates and property markets can be volatile and you need to be earning other income to cover the negative cash flow associated with a negatively geared property. Of course, get the selection process right and the result can be a financial windfall, however, we have also seen the strategy turn into a financial nightmare. It's only when you combine the right property in the right location acquired at the right price in the most appropriate ownership structure that the strategy delivers the best financial outcomes.

## What Are the Claimable Deductions?

While the tax benefits are certainly important, they shouldn't be the only driver behind the decision to buy an investment property. The Tax Office allows property investors to offset a number of deductions against the rental income they receive. Expenses including mortgage interest, management fees, rates, insurance and repairs and maintenance can all be claimed. Please note, you need to be careful with the distinction between a tax deductible repair and a non-deductible capital improvement for tax purposes. Investors are also entitled to a deduction for 'non-cash' expenses like the wear and tear on the structure of the building and assets contained within the property including furniture and fittings. This deduction is known as 'depreciation'.

In addition, the ATO also allows a 'non-cash' deduction for the Building Allowance (or Capital Works Deduction) which lets property investors claim the building construction costs over a 25 to 40 year period. Basically, you can claim a deduction if construction of the property began after 17th July 1985 and the property is used for residential accommodation to produce rental income.

If the property construction commencement date is between July 18, 1985 and 15th September, 1987 the building allowance rate is 4%. If construction commenced after September 15, 1987 the rate is 2.5%. The construction costs must be calculated by a quantity surveyor.

## Compare the Pair

To illustrate the potential tax benefits of owning a negatively geared investment property, let's examine the situation of two 'average' Australian taxpayers who both earn \$80,000 per annum. As you'll see from the table below, taxpayer (A) doesn't own an investment property and pays \$18,802 in taxes (including the Medicare Levy) after he claims \$1000 of basic work-related expenses such as uniform costs and donations.

The other taxpayer (B) who earns the exact same salary of \$80,000 buys an investment property for \$500,000 and borrows the full amount from the bank at 5%. It is an interest only loan so the interest is approximately \$25,000 for the full year. The rental income on the property is \$445 per week. He claims the same work related expenses as Taxpayer A, but he is also able to claim deductions for expenses involved in holding the property including

the management fees, insurance, rates, and repairs. These expenses for a typical two bedroom property are estimated to be around \$3,500 per annum. Taxpayer B also obtained a depreciation schedule which showed they could claim an extra \$8,500 in building allowance deductions.

The below table 'compares the pair' and shows their before and after tax outcomes:

As you can see, Taxpayer A's net income after he pays \$18,802 in taxes (and the medicare levy) is \$60,198. Although Taxpayer B earns the same take home wage, because of the negatively geared property he only pays tax of \$14,020 and takes home \$59,620. In effect, owning the property is costing him \$578 per annum or \$11 per week.

Investors thinking of purchasing a property should always obtain expert tax advice and to maximise the depreciation deductions you will need a report prepared by a specialist Quantity Surveyor. This case study is based on a number of assumptions and investors should always seek our advice to discuss the tax implications of negative gearing.

This article is not intended to provide financial or taxation advice and should not be relied upon for that purpose.

Taxpayer A (no investment property)		Taxpayer B (owns an investment property)	
Gross salary	\$80,000	Gross Salary	\$80,000
Property Rental income	N/A	Property Rental income (\$445 x 52 weeks)	\$23,140
Gross Income	\$80,000	Gross Income	\$103,140
Property expenses	N/A	Property expenses (including interest)	-\$28,500
Depreciation deductions	N/A	Depreciation & Building Allowance Deductions	-\$8,500
Work Related Expenses	-\$1,000	Work Related Expenses	-\$1,000
Total deductible expenses	-\$1,000	Total deductible expenses (work related expenses + property expenses + depreciation)	-\$38,000
Taxable income	\$79,000	Taxable income	\$65,140
Tax payable (including Medicare Levy)	\$18,802	Tax payable (including Medicare Levy)	\$14,020
Net Take Home Income (Income minus cash expenses and tax)	\$60,198	Net Take Home Income (Income minus cash expenses and tax)	\$59,620

The depreciation deductions in Taxpayer B's scenario have been calculated using the diminishing value method and are based on the first financial year of ownership. This is an illustrative example and every person's financial and tax situation is different which is why we recommend you seek independent advice before buying an investment property.

# With All the Will in the World



It is never a pleasant thought to contemplate but the truth is, we will all go one day. Have you contemplated what would happen in the unfortunate event of you dying without a valid Will (Intestate)?

Many people believe the government will take their assets if they don't have a Will, however, this could only happen if you had no living next of kin. In such a case your assets are distributed according to a legal formula which may mean your assets go to someone who you wouldn't have chosen to receive them. Each State or Territory has it's own intestacy laws which reflect what

happens to a person's estate if there is no valid Will.

Below is a table prepared by Estate Planners, Topdocs Legal Pty Ltd that may contain news of an alarming nature to some.

So, for example, if a couple had been separated for years and never formally filed for divorce, the law in the respective State would dictate the portion of the estate based on their formula (not whether a spouse had abandoned their partner and children and really didn't deserve a portion of the estate).

Blended families also present challenges because when a spouse dies, their children from a previous relationship are no longer legally considered 'step children' of the remaining partner and may miss out on receiving anything at all under the intestacy laws which would probably not have been the intention of the deceased.

The important point to note is that as your life circumstances change, making a Will or reviewing and updating your current Will ensures that your wishes as to who receives the benefit of your estate is your decision, not the various State intestacy laws.

STATE OR TERRITORY	SPOUSE			CHILDREN	
	1st \$	% Remainder		% Remainder	
		Portion	\$	Portion	\$
Queensland	\$150K	1/3	\$233k	2/3	\$467K
New South Wales	N/A	100%	\$850K	0	\$0
Victoria	\$100K	1/3	\$250K	2/3	\$500K
Tasmania	N/A	100%	\$850K	0	\$0
South Australia	\$100K	1/2	\$375K	1/2	\$375K
Western Australia	\$50K	1/3	\$267K	2/3	\$533K
ACT	\$200K	1/3	\$217K	2/3	\$433K
NT	\$350K	1/3	\$167K	2/3	\$333K

*Based on Wife or Husband and 3 children (of the same deceased). Estate value (excluding chattels) \$850,000.*

*NOTE: Chattels automatically go to the remaining spouse, as does the family home if owned in joint names.*





The **BUSINESS**  
ACCELERATOR  
MAGAZINE



**O'Bryan & O'Donnell**

Helping Your Farm, Small Business or Trade Succeed

1st Floor, 54 Belmore Street,  
Yarrowonga 3730

**Phone:** (03) 5744 3861

**Email:** [info@obryanodonnell.com.au](mailto:info@obryanodonnell.com.au)

**IMPORTANT DISCLAIMER:** *This newsletter is issued as a guide to clients and for their private information. This newsletter does not constitute advice. Clients should not act solely on the basis of the material contained in this newsletter. Items herein are general comments only and do not convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of these areas.*