

Business Matters



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Reliable, accessible, responsive...it all adds up to a quality outcome

3 keys to low budget marketing

Even in a downturn, if you don't get in front of people and explain your unique value proposition then your chances of selling will be restricted to current customers or accidental passersby. Marketing is what sets you up for selling. However, there are three important things you should appreciate before you start.

1. Your target customers need to hear your marketing messages at least 7 times to influence a buying decision. Sounds a lot, and it is. People just don't always take in all the information at any given time. Especially the first time they hear it, so you need to choose strategies that allow you to repeat them often enough to work for you.
2. Expensive ads don't guarantee sales – even when they are popular with the public. Companies have gone broke over big ticket ads. Every marketing dollar has to translate into sales.
3. A sure fire way to improve sales is to use multiple marketing channels. Your underlying message should be consistent, but you need to get it out in a variety of mediums.

So, if you're a small to mid-sized business on a limited budget your tactics should be to optimise your spending so that you get in front of the right customers regularly and in a variety of ways. Here are four techniques you can use to achieve that.

Identify and target niche customers

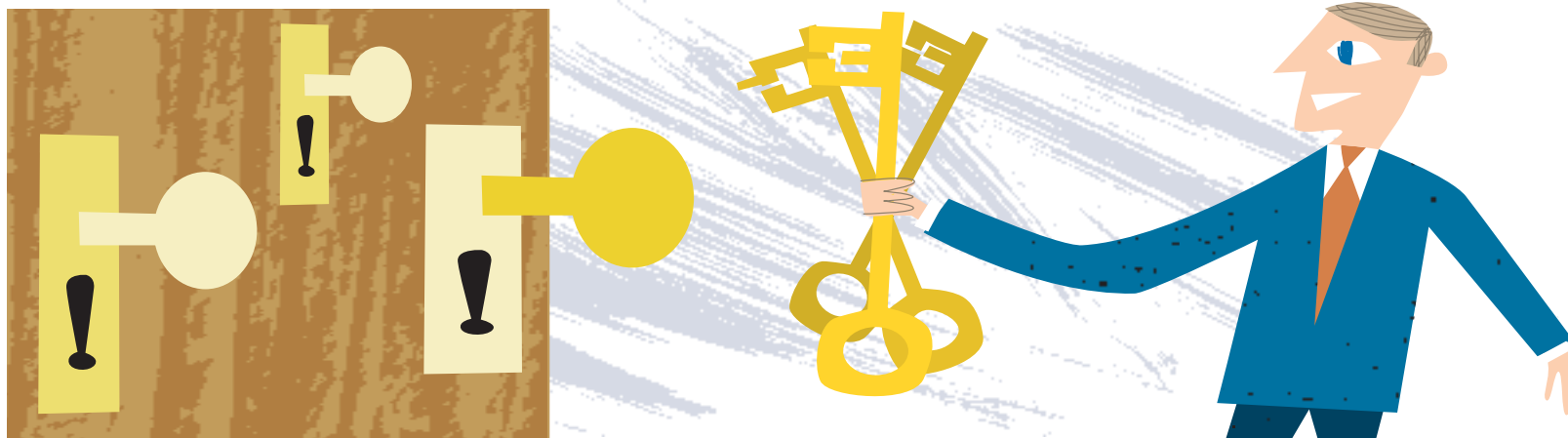
Unless you are a major player with an unlimited amount of money to devote to scatter gun marketing – go narrow. Do your market research and focus on niches – those groups of customers you can clearly identify who would be interested in your offering. Customers who are affordable for you to reach! Then get your message out into local clubs, trade shows, industry publications, niche newsletters, anywhere you can reach those specific prospects.

Be newsworthy

Local media are always on the alert for new content. Recently a local dress designer in a city suburb went to register her own personal name for her fledgling business. She discovered that an overseas singer used it as a stage name. The local designer publicised the resulting legal negotiations over the right to use her own name in her local area. Hey presto – plenty of ongoing press coverage in all

GET THE EDGE

Do you feel concerned about sharing financial information with your team? Worried that they'll feel scared about their job security if the results are poor, or think you're a miser if the results are good? The good news is that the opposite is true. Employees value transparency and feel more part of the business when they are involved in the numbers.



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the local papers lead to lots of sympathy and interest for the local girl and promoted her new business better than any form of paid advertising could have done.

Seek out co-opetition and alliance opportunities

Co-opetition is forming friendly alliances with businesses that are competing in your market, but with a slightly different focus to yours. By forging an alliance with a group of small companies or a large corporation which is complementary to your business you can lower your costs and expand your public presence. You might also be able to provide your customers with a more holistic product offering which will enable you to enter into new markets and create new distribution opportunities. Here's an example; a local business specialised in fresh, healthy, low fat pre-prepared meals for busy people. They approached their local gym with an offer of special deals to gym subscribers and a free meal pack for clients on weight loss programmes who achieved target goals. The gym benefited from the free prizes they could offer while the business got lots of publicity through the gym's newsletter and promotional literature. The gym's clients tended to be working people who wanted to maintain an

active, healthy lifestyle and this supported their goals. Co-opetition provided a perfect win-win situation for these businesses.

Develop a structured referral programme

The most cost effective method of reaching hot prospects is by referrals from satisfied current customers. A satisfied customer who tells their family, friends and acquaintances about your business is more effective than any fancy ad campaign. But are you spending time to get customer referrals on a regular basis? Make it part of your marketing plan and stick to it rigorously – you'll see the results. One business we know provides their customers with a number of their business cards that they can then pass on to others. This makes referral easy and gives the prospect your contact details in a form they are likely to hang onto.

These are just a few of many tactics and strategies used by small businesses to create a high-impact marketing plan on a low budget. Marketing success comes from employing creative approaches that target the specific needs of your ideal niche customer; not from having the biggest budget.

ANALYSING THE PROFITABILITY OF YOUR PRODUCTS AND SERVICES

Knowing the profitability of each individual product/service you provide can help you make decisions to improve your bottom line. You may want to discontinue products and services that aren't particularly profitable while promoting the ones that improve your overall results.

One basic method of looking at profitability is called cost-volume-profit analysis (CVP). At its core CVP relies on the separation of fixed and variable costs to determine the breakeven point of a product (or service) and how much it contributes to profit after reaching this point.

Fixed costs are those that stay the same regardless of the amount of products produced or services delivered. These are often called overheads. Variable costs vary as the volume produced changes. In a manufacturing setting each additional unit produced will add to the variable cost. In a service business each additional customer served adds to the variable cost. For purposes of simplicity, we'll focus on products in this article.

CVP analysis assumes that the number of units sold is equal to the number of units produced. Under this assumption **total cost = total fixed cost + total variable cost (where total variable cost = variable cost per unit x the total number of units produced).**

Let's look at a hypothetical example.

If a company sells one product and has:

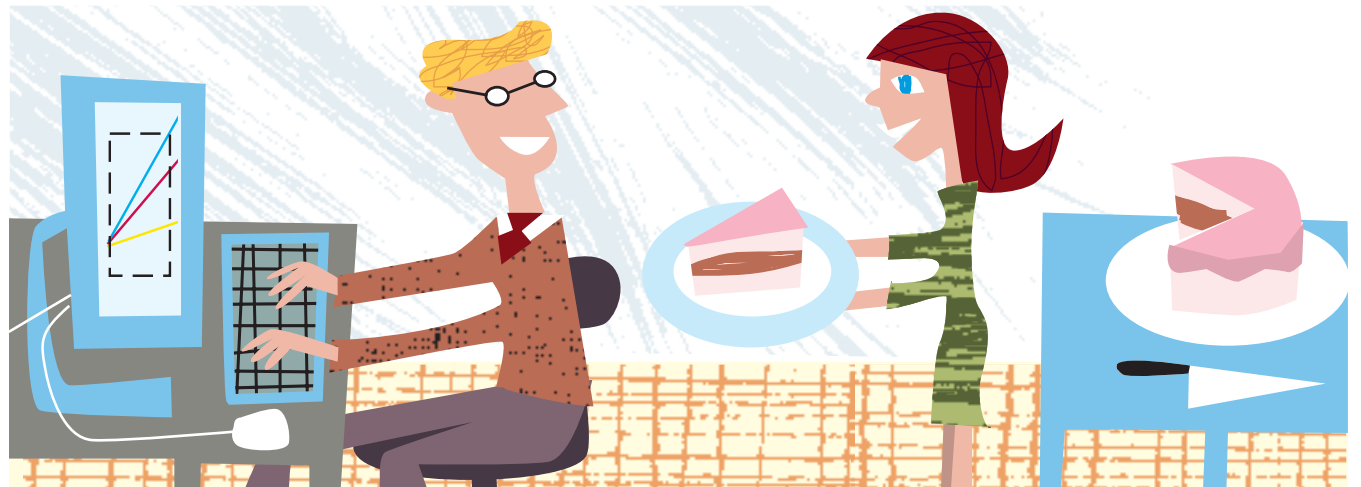
- \$100,000 fixed costs per year
- a unit variable cost of \$500
- a unit selling price of \$1200

Then total costs = \$100,000 + \$500x, where x equals the number of units produced.

The number of units you will need to sell to breakeven is calculated as: Break Even Point = fixed costs / (selling price - variable costs) = \$100,000 ÷ \$700 = 143 units.

The difference between the sales price and the variable cost is called the contribution margin. This is how much each unit of product contributes to fixed costs, and eventually to profit after fixed costs have been covered. On a larger scale, the contribution margin for a company equals the total sales minus variable costs.

Looking at our example again, we can use CVP to calculate the total number of units required to reach a profit target. Let's say we want to earn \$200,000 profit from the product we are producing.



We can calculate how many units we need to produce in order to reach this target:

$(\text{Profit Goal} + \text{Fixed Cost}) \div \text{Contribution Margin} = \text{number of units required}$

$(\$200,000 + \$100,000) \div \$700 = 429 \text{ units}$

We can also use CVP to compare several products once we know the difference between the selling price and our variable cost to produce each product. Let's say we are thinking of replacing the product in the previous example with a new one. This new product has a selling price of \$1,000 and a unit variable cost of \$500. So its contribution margin is \$500. If we want to breakeven with this product we'll need to produce 200 units ($\$100,000 \div \500). If we want to reach our profit goal of \$200,000, we'll need to produce 600 units ($\$300,000 \div \500). So, all other things being equal, we wouldn't want to switch to the new product with its lower contribution margin.

When using CVP analysis, it's important to realise that it makes several simplifying assumptions. For instance, CVP analysis assumes that the sales price, variable cost per unit produced, total fixed cost and the sales mix are constant for a product or service though, in reality, these amounts can vary with changes in the amount produced. You also need to look at qualitative factors before making decisions. For example, a product with a lower contribution margin might be more popular, resulting in a higher sales volume.

Some products will have lower contribution margins and can be viewed as 'loss leaders' that enable sales of more profitable products. Manufacturers of laser printers, for example, earn very little profit from their printers but earn substantial profit from the sale of their printer cartridges.

CVP analysis can be a good starting point when looking at the profitability of individual products and services but it's also important to consider the qualitative factors when making decisions.

WEB PICK OF THE MONTH

Local customers already search Google for the sorts of product and service you offer. You can list your business for free on Google Maps. Check out how at the Google Local Business Center at

http://www.google.com/local/add/analyticsSplashPage?gl=US&hl=en-US&service=lbc&hl=en-US&gl=US&utm_campaign=en&utm_source=en-ha-na-us-google&utm_medium=ha&utm_term=google.com%2Flocalbusinesscenter

FOR THE RECORD – THE IMPORTANCE OF RECORD KEEPING TO YOUR BUSINESS

Behind every successful small business story there's a lot of hard work and, yes, administrative effort. To really make your business prosper brilliant ideas are only half the answer - you also need to ensure that your company is solid from the ground up. One way of establishing a solid business base is through good record keeping. While this may not be entrepreneurship's most glamorous aspect it is nonetheless a prerequisite to consistently good results.

Accurate and consistent records enable you to keep track of your company's progress. Records show whether sales are up or down, which customers are spending and which are not and whether any changes are needed. Without adequate documentation making reliable business forecasts or looking back to see where you have been successful in the past is considerably more difficult.

Good records are also fundamental to the preparation of those financial statements that are necessary when dealing with banks and creditors and also allow you to access information about your assets, liabilities and equity in your business quickly and systematically.

Small businesses receive money and property from a variety of sources on a regular basis. By using accurate records you can identify where your various receipts come from and separate non-business receipts from taxable income.

A simple but important function of records is to act as a supplement to your memory. For example, tax-deductible expenses may occasionally slip your mind. Without an adequate record keeping system you will not be able to claim deductible outgoings come tax time, a loss which could be particularly detrimental to your business.

Records need to reflect the income, expenditure and credits that you note on your tax return. As a general rule these figures will be the same that you use to monitor your business during the year. Keeping good records throughout the tax year so as not to have to scramble to assemble documents when your return is due also means that you will have accurate figures available for official inspection at all times.

Choose your manner of record keeping based on the type of small business you run and its requirements. If you operate more than one small business make sure that each operation's record keeping is entirely separate.

Record keeping tips

Daily business records are probably the best type of record since they are usually very comprehensive and allow business owners to identify outgoings and receipts with more precision than if less regular records are kept.

Supporting documents should include invoices, receipts, sales slips and paid bills. If you keep this supporting material in a systematic fashion, perhaps organised into categories, the preparation of good records will be that much easier.

Some detail is required when it comes to supporting documents. If you are a manufacturer or producer, for example, supporting material should show how much you paid for raw products.

One of the most important business aspects that good records reflect is expenditure. Emails, cash register tapes, account statements and invoices are all supporting material which allow you to keep track of outgoings.

A petty cash system is especially useful in this regard. A good petty cash structure allows you to monitor all those easy-to-lose-track-of payments that can amount to quite a significant sum over a year.

Keep track of your assets. Supporting documentation should contain information such as the items' purchase price and date, the cost of any improvements and how you use the assets in question. These details can be very useful when tax time comes around or if you need to make an estimation of the value of your business.

Record keeping may seem like an unexciting prospect but do it properly and you will save your business a lot of time and money in the long run. Ask your accountant for expert advice on how to implement a good record keeping system.

SIMPLE DIRECT MARKETING TIPS

Direct marketing is very much oriented towards immediate response. Direct marketers can tell you very quickly how successful (or unsuccessful) a promotion is because they have the responses to prove it. So what is the most compelling tool that direct marketers use in order to gain a high response rate? It's the offer.

In general, direct marketing encourages people to respond to offers such as, "Buy a dozen bottles of premium wine this weekend and receive a free bottle of bubbly at no extra charge." Offers are a powerful technique to overcome 'prospect apathy'.

To have an impact you must cleverly target the offer to appeal to the intended audience. It's not much use offering a free trial of a lawn mower to people who live in high-rise apartments. You must also design the offer in such a way that it creates interest.

Essentially, there are four fundamental elements in direct marketing:

- price
- satisfaction
- payment terms
- incentives

One or more of these four elements feature in some way in all offers. Here are examples of offers that direct marketers have found to be effective over the years.

Free trial offer: In many categories this is probably the best of all offers and in direct mail it is virtually essential. The length of the trial can vary with thirty days being the most common.

Payment offer: Offers such as 'bill me later' and interest free credit are both very powerful concepts that regularly generate a substantial response rate.

Limited time offer: Setting a time limit often 'forces' a decision from the prospect by adding an element of urgency to the offer. Care needs to be taken in choosing the period since too short a time frame can give prospects a feeling of being hassled while too long a period leads to inaction and lack of response.

Free gift offer: People love getting something for nothing. Free gifts can be most effective when used sparingly in short, sharp bursts.

Competition and prize draw offers: These offers give the chance of winning a prize, add excitement and can certainly motivate consumers. However, keep in mind there may be legislation you have to adhere to and it is wise to check with your legal advisor before proceeding.

Discount offer: Discounts are popular and are most effective where the value of a product or service is well known. Discounts are better expressed in money terms rather than a percentage, i.e. 'save \$50' is better than '25 percent off'. However, with discounting there is definitely a downside. Discounting eats into profits very directly and can adversely affect the image of a business. There is also the old adage, "live by price, die by price."

After all, your competitors can always discount further. Once you become known as a discounter many customers will only buy from you when you offer discounts.

ABOUT MULCAHY & CO

At Mulcahy & Co our aim is to help you achieve both business and personal goals. Our diverse range of services provides a 'one stop shop', enabling businesses and individuals to access a total financial and business solutions package.

We understand that in helping you achieve financial growth and success, personal goals can be as important as the bottom line. We aim to help you make the most of these opportunities, whilst minimising the risks along the way.

We tailor our range of services to meet your specific needs - no matter how large or small. We realise that 95% of our growth has been through recommendations from our existing clients. Such recommendations are testimony to our ability to not only meet, but exceed our clients expectations.

Whether it's an issue concerning taxation planning, business and succession planning, superannuation advice, assistance with obtaining finance or bookkeeping matters, we have the people, the experience and the systems to help you.

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