

Business Plus+



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You Need to Plan to Start a Business

You would not go on a cross country holiday without looking at a road map to work out where you are going to stop and what sight-seeing activities are available on the way. Planning the start of a business is no different. You need a plan that you have sat down and thought about and then preferably committed to writing. This plan should consider:

- how the business is going to operate;
- what the market is for the business' products and services; and
- strategies for how sales are going to be made with potential customers.



If you are planning to commence a business, we can assist you with a specially tailored business plan to suit your business objectives.

Lifetime Value of a Customer

Businesses need to ensure that there is ongoing education of their team on the lifetime value of a new customer.

Lifetime customers represent repeat business and repeat business equals profit. If you assume that the lifetime value of a customer is about 7 – 10 years on average, multiply the average sale by the number of times you expect to see that customer each year and then multiply the projected annual sale by the number of years' expectancy for "lifetime value". This will give you an idea of what the customer is potentially worth to your business.

One of the most effective ways of marketing your business is to increase the number of visits that your long term customers make to your business as this will add to the lifetime value of your customer. To develop lifetime value of customers you could consider the implementation of a referral system where current customers are encouraged to refer new people to your business with an appropriate incentive being given to the referrer. This could be a weekly lucky prize or a discount of a product in your business.

How do you develop lifetime customers?

- improve your referral system
- create outstanding service to all customers to encourage them to become lifetime customers
- create a database for customers and offer them outstanding service
- keep improving the level of service
- offer special event and promotions to your customers
- go the extra mile
- get them to say "wow"!



Monitoring Economic Indicators

It is certainly a confusing economic landscape at present in Australia. Unemployment is now over 5.1%. The Reserve Bank has left interest rates at 4.75%. The Australian dollar compared to the US dollar is now about 97cents. Retail spending in stores is well down. Value of housing has dropped in most cities and, because of the uncertainty, people seem to be hanging onto their money.

Internationally the USA, Japanese and European economies are performing very poorly and certain countries have huge debt problems. All of this uncertainty affects Australians SMEs in various ways. Keeping an eye on the various economic indicators, thinking how these events might affect your business, is something you might consider doing every month or so. There are seven main economic indicators that may have some effect on SME operations in Australia.

Activity Indicators:

1. Gross Domestic Product (GDP)
2. Consumer Price Index (CPI)
3. Producer Price Index (PPI)

Inflation Pressure:

The Reserve Bank sets an inflation target each year and tries to use interest rates as a mechanism to control inflation.



Interest Rates:

Interest rates are the main lever that the Reserve Bank has to control money supply within Australia. Basically, the Reserve Bank's decisions affect the pricing of loans, leases, hire purchase, debtors' financing etc, that is provided by banks.

Exchange Rates:

The high Australian dollar, as compared to the US dollar rate, was probably warmly accepted by importers but it has caused severe problems to many exporters. In the last month the value of the Australian dollar -v- USA dollar dropped from \$1.07 to around 97c thus taking some of the benefit from importers and making life a bit easier for exporters. How does the movement in the exchange rate affect your business? Should you be taking foreign exchange cover to lock in a rate at the date of purchase or sale? The movement in exchange rates can affect market performance of businesses e.g. high exchange rates discourage international tourists from coming to Australia. If you are a manufacturer or supplier of products to tourism businesses, exchange rate movements can have a significant effect on your business.

Budget Policy:

This is the Federal government's domain and obviously the Federal government can play a major role in economic activity by introducing special support programmes, government grants, change in taxation rates and introducing the Carbon Tax etc.

Industry and Environmental Policy:

The government also controls this area and is obviously under pressure at present to produce some benefits for the manufacturing industry following Blue Steel's decision to sack about 1,200 employees. The political reality is that environmental policies are receiving additional government support at present. Individual SME operators find it difficult to attract direct government assistance, but if you are effected you should monitor whatever government assistance is offered.

Relevant Global Conditions:

This is the last of the economic indicators. Australian banks have to borrow billions of dollars offshore each year therefore problems that are being experienced in countries like Ireland, Portugal and Greece and the poor economic performances in the USA and Japan all have a bearing on the pricing of money.

The extra pricing is reflected in the interest rates and banking costs that are imposed on small businesses in Australia.

Unfortunately, there is not much that SMEs can do to change the course of any of these indicators, but there might be some strategies that you can develop to minimise the effect that some of these economic indicators may have on your business.

Carbon Tax Preparation

The House of Representatives has passed the legislation for the introduction of a Carbon Tax from 1st July 2012. Small business operators need to start thinking about the impact that the Carbon Tax scheme will have on their business operation.

Whilst it is true that the price on carbon will be paid by the emitter, (this is basically restricted to about 500 corporations), the cost effect will affect every small business operator. This is because the carbon cost will be passed through the economy by the emitters in various ways. Higher power prices and production costs will be the main areas affected by the Carbon Tax but there will undoubtedly be others including local government rates. One of the real issues for SMEs to think about is - *if you have long term contracts, will you be able to adjust prices because of the extra costs that you will undoubtedly incur as a result of the Carbon Tax?* If you have long term contracts, then we suggest you discuss these contractual issues with your solicitor. Also, if you are the recipient of a long term contract from a supplier, does the contract allow you to reject an increased supplier cost based on the carbon tax? If you are in this category, we suggest you discuss this issue with your solicitor. The scope and coverage of the Carbon Tax means that some industries will have to pay the carbon tax and others will not, at least for now. The industries which will have to pay the Carbon Tax include:

- power generation;
- industrial facilities;
- mine emissions;
- some transport operations such as shipping, aviation and rail;
- non transport fuel use (eg. non transport LNG [liquefied natural gas] and diesel); and
- non legacy waste (after 2012).

The industries that are not included, at this stage, are:

- agriculture and land;
- biofuels;
- household transport and light commercials; and
- fuel used on land and international aviation.

The tax is generally paid by the producer of the emission, but the cost will be passed through the community. Households receiving taxable incomes of less than \$60,000 per annum will receive some inducements from the federal government. People earning over \$60,000 per annum will not have any adjustment.

ATTENTION

Additional information on the articles contained within this issue of **Business Plus+** is available. Please contact your Client Manager if you are interested in this additional information.

An Important Message

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