T (03) 9859 8555 | F (03) 9859 8777
info@vantagetbs.com.au | www.vantagetbs.com.au
Level 1, Suite 5, 796 High Street, Kew East, Vic, 3102


# Why Is Your Business Under Performing?

Business owners make lots of sacrifices. They typically give up their steady job and regular income to pursue their venture. They take financial risks, often experience sleepless nights and burn the candle at both ends. They also forfeit holidays and give up weekends to build their business.

On face value, entrepreneurs deserve significant financial returns, however, many businesses don't deliver adequate profits. In fact, statistically, close to 50% of businesses fail within the first 3 years of starting. The clear lesson is, no amount of passion, planning or funding can guarantee business success. Financial statements don't lie and if your business is under performing there are reasons. While there's no silver bullet to improve your business profits, let's examine some common sources of the problem.

## #1: Review Your Prices

Pricing is a key part of your profit formula and if you get it wrong, the financial consequences can be catastrophic.

If your bottom line is battling, it's time to revisit how you came up with your original product and service prices. While it's easy to simply base your prices on what your competitors charge, this doesn't factor in your specific business costs. Your competitors might be all online operators and don't have a bricks and mortar presence, so they don't pay rent. Others might be buying in bulk and getting significant discounts. Others might be getting their products manufactured overseas at a much cheaper price than you can source.

With pricing, you can't apply guesswork or simply work on what you think is a fair market price. Your prices need to take into account what it takes to make your business profitable which demands you factor in your business costs and targeted level of profit. Basically you need to reverse engineer your prices. That involves calculating your business expenses plus including a realistic profit. Let's say all up this totals $250,000 which means the gross profit on your sales must equal this number. As such, you need to estimate how many of each product or service you expect to sell and know the profit margin on each item to arrive at a gross profit of $250,000. Knowing those figures will then let you work backwards and price each product so you meet your income target. Of course, estimating sales is always a challenge and sometimes you need to look at doing your sums based on best, mid-point, and worst case sale scenarios.

As accountants, if you need help in setting your prices, we can do some financial modelling based on different price points for your business.

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

## Why Is Your Business Under Performing? *(Continued)*

### #2: Wrong Products?


If your products aren't selling your business is obviously in trouble. If your products are over-priced then it's time for a review as per the above.

Your products might be inferior in quality compared to your competitors. Your products might not be quite what the market wants because you are ahead of your time or your products have been superseded by a newer, technically better product. Maybe you didn't do enough market research before launching? Either way, it's important to test the market and validate your idea to make sure it's something enough people will buy.

If your business is not generating enough sales or profit to justify your time, effort and financial risk then alarm bells should be ringing. You probably only have a few options including shut down or pivot. Business owners normally pivot when they sense the business needs a change of direction. It could be strategic to counter challenges like a new competitor, a shift in consumer demand or help the business recover from a period where sales and profitability are in decline.

The pandemic demonstrated how many entrepreneurs pivoted to survive and keep their business boat afloat. For example, restaurants were quick to pivot when their dining rooms were closed and they offered frozen take-away dinner packs including 7 and 14 day 'isolation packs'. We saw drive-through coffee shops appear, pop-up florists and some businesses like distilleries modified their production processes to produce hand sanitiser. Textile businesses that produced scarves and chef's aprons manufactured face masks while classes for Pilates, cooking, dancing, yoga and fitness all moved online to survive. Gyms rented out their barbells and spin bikes. As they say, necessity is the mother of invention.

The definition of business insanity is to keep doing things the same way and expect the same financial results. If your bottom line profit is below par, could your business benefit from pivoting? Basically, your business exists to solve your customer and client problems and if those problems still exist, can you find a new way to deliver the solution without a massive outlay or risk? As a business owner, you should expect the unexpected and while pivoting may not be an option for everyone, it could present opportunities that might help you emerge a stronger and more profitable business.

### #3: Marketing to Your Ideal Customers or Clients


If you have quality products and provide awesome customer service, why are your sales struggling? It's the million dollar question and it's time to put your marketing under the microscope.

The pandemic saw a major shift in consumer behaviour towards online sales. The truth is, in the digital age, your marketing could be the difference between doom, gloom and boom. If you're generating plenty of leads but your prospects aren't converting to paying customers you are obviously missing something. If you're attracting difficult or problem customers then it's time to focus on identifying your ideal type of customer which can involve identifying their gender, demographic, location, disposable income and where they 'hang out' including the social media channels they use.

Defining your ideal customer will drive all your marketing going forward and only those businesses that really know their customers deserve their business. Understand what is important to them which could be price, convenience, location, or same day service. You also need to spell out your expertise and that might mean building content that focuses on your niche markets or specialist services.

If you expect a queue of customers and hockey stick growth because you have the right product, offer great service and have a website, think again. Your marketing focus needs to be online and your website is probably the first touch point with a potential new customer. In the internet-fuelled world, you need to make a good first impression and an amateurish

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## Why Is Your Business Under Performing? *(Continued)*


website (or no website at all) is marketing suicide in the digital age. Your website is your online shopfront and if you want to appear on the first page of a Google search you need original, quality content including text, videos, and images.

With websites, if you think, 'build it and they will come', think again. Google can take months to index your website content which means you could be invisible on the internet for months after launching your website. Not only that, if your content doesn't resonate with your target audience you won't attract that all-important ideal customer. Your website should aim to generate leads, store all your content and be the hub of your marketing activities. While your competitor's websites could be just 'online brochures' that simply list the who what and where of their business, your website needs to be a 'lead generation machine' that has calls to action on every page together with lead magnets, videos and social proof that demonstrates your customers love your products and services.

**SUMMARY**

Every entrepreneur wants to grow their sales, profit and business value. While there's no proven formula for business growth and improved profitability, these outcomes are achieved as a result of having the right product at the right price. You also need systemised marketing processes together with industry expertise and a great team that delivers outstanding customer service.


A combination of these things together with technology that can accelerate your processes, automate your marketing, improve productivity, reduce costs, save time and help manage your inventory could be the key to unlocking your profitability.

## Proposed Amendments to Superannuation Tax Concessions


Federal Treasurer Jim Chalmers recently announced plans to increase tax rates for individuals with superannuation account balances in excess of $3 million.

From 2025/26, future earnings for balances above $3 million will be taxed at a concessional rate of 30%. The current tax rate of up to 15% on earnings from superannuation in the accumulation phase will continue for all balances below the $3 million threshold. According to Chalmers, "The modest adjustment we announced today means 99.5 percent of Australians with superannuation accounts will continue to receive the same generous tax breaks, and the 0.5 percent of people with balances above $3 million will receive less generous tax breaks."

It is estimated that around 80,000 people will be affected by this change and the policy is set to take effect after the next federal election. Fewer than 1% of superannuation accounts have balances of over $3 million, and the average balance of those accounts is close to $6 million. Mr. Chalmers emphasized that the average account balance of about $150,000 would be unaffected by the proposed changes. He also noted that some superannuation accounts had balances in excess of $100 million.

The proposed increase to 30% will only apply to accounts with balances of $3 million or more during the accumulation phase. Tax-free retirement phase earnings on funds with balances up to $1.7 million will remain unchanged. Balances above this cap will be treated as being in the accumulation phase and taxed at 15%.

## Changes to Claiming Home Office Expenses

Taxpayers can choose one of two methods when claiming working from home deductions - either the "actual cost" or "fixed rate" method. Only the fixed rate method is changing.

Following months of deliberation and consultation with accounting groups, the ATO have announced some changes to the 'fixed rate' deduction available to taxpayers looking to claim home office expenses. Under the new 'fixed rate' scheme, taxpayers will be able to claim sixty-seven cents for every hour they work from home, a significant increase from the existing rate of fifty-two cents per hour.

The claim covers ongoing expenses like electricity and gas, phone usage (mobile and home), internet, stationery and computer consumables. Items like computers and office furniture can still be claimed on top of the hourly rate while the cost of cleaning home office areas and repairs on work-related equipment like computers and printers can also be claimed in addition to the hourly fixed rate deduction. It also means that taxpayers cannot claim an additional deduction for items like a mobile phone when working from home, as the assumed cost is already incorporated into the rate of 67 cents per hour. ATO Assistant Commissioner, Tim Loh, also stated, "You can't claim for things like coffee, tea, milk and other general household items, even if your employer may provide these kinds of things for you at work."

In another important change, taxpayers choosing the fixed rate will no longer need a dedicated office space at home, meaning those who regularly work from the kitchen table or bedroom will be able to claim 67 cents for every hour they spend working at home. However, the ATO will enforce strict record-keeping rules on claims with Mr Loh stating, "From 1 July 2022 to 28 February 2023, we'll accept a record which represents the total number of hours worked from home (for example a four-week diary). From 1 March 2023 onwards, taxpayers will need to record the total number of hours they work from home."

### Record keeping


- Taxpayers need to keep a record of all the hours worked from home for the entire income year – the ATO won't accept estimates, or a 4-week representative diary or similar document under the fixed rate method from March 1, 2023.
- Records of hours worked from home can be in any form provided they are kept as they occur, for example, timesheets, rosters, logs of time spent accessing employer or business systems, or a diary for the full year.
- Records must be kept for each expense taxpayers have incurred which is covered by the fixed rate per hour (for example, if taxpayers use their phone and electricity when working from home, they must keep one bill for each of these expenses).

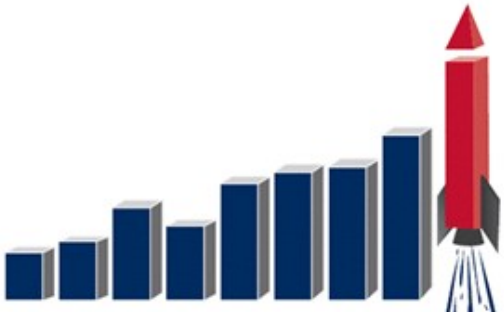
Notably, these changes only affect the fixed rate method.

The 'actual cost' method of calculating a tax deduction, in which taxpayers can detail their at-home expenses and the proportion related to work, remains unchanged. Those using the 'actual cost' method can submit either detailed, hour-by-hour records, or a four-week diary summarising their working patterns

The tweaks to the 'fixed rate' method come months after the temporary 'shortcut' method came to an end on June 30, 2022. That method, provided taxpayers with a simplified, one-size-fits-all deduction rate of 80 cents per hour worked from home and was designed to make life easier for workers who were forced into working remotely by the COVID-19 pandemic.

## Looking To Grow Your Business (And Quick)?

Every start-up business owner is looking to fast track their success. While there's no magic formula that guarantees business success, there's a number of proven strategies that can help you get your business off to a flying start.



Starting a business is challenging and you need to take calculated risks, back your judgement, manage your money and deal with associated the pressure and stress. There are a number of key pieces to the start-up jigsaw including creating your brand, building a website, preparing sales forecasts, a budget and a business plan that incorporates a marketing plan. It's a busy agenda and it's easy to get distracted and lose focus which is why you need to plan the process and including a timetable of activities.

Once you're operational, the next step is to grow the business. Will your brand and website resonate with your target market? Will your marketing plan actually work and are your financial forecasts accurate? Planning is a key ingredient for business success but if you're looking to hit the ground running then there are a number of other things you should look to put in place.

### 1. Reduce Risk

While risk comes with the territory for entrepreneurs, you should aim to minimise the risks. You can't eliminate all the risks but you can certainly take steps to mitigate threats like fire, theft, water damage and burglary with appropriate insurances. Using a solicitor for contracts and leases will also help prevent the threat of legal action.

Another threat is the potential disruption of the business operation due to IT issues including computer breakdowns and poor internet performance. We operate in an internet fuelled world and IT failures can bring a business to its knees. If your server crashes and you lose access to your data or financial software (invoicing, stock control etc.) then the business could grind to a halt.

Theft of customer files or a data breach could be catastrophic. Your IP could get stolen or compromised and the recovery time and cost could be significant. Such events could erode customer confidence and loyalty. Data back-ups, security and contingency plans can give you peace of mind and remember, not every business insurance policy covers things like data breaches or cyber losses. You'll sleep better at night if your policies cover the cost of recovery and remediation plus potential legal action.

Of course, as your business grows and expands you might purchase new equipment and stock levels might also increase in size and value. As such, you should periodically review your insurance policies to make sure they are adequate because you can't afford to discover you've outgrown your coverage just when you need it the most.

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# Looking To Grow Your Business (And Quick)? *(Continued)*

## 2. The Right Team

When you start your business you might find you need to fill many different roles. As the founder you could be wearing many hats including inventor, receptionist, bookkeeper, cleaner, webmaster and marketing manager. You sometimes have to be a jack of all trades but you can't afford to spread yourself too thin. You also need to recognise your weaknesses and if you lack the skills to fill any of the key roles then think about hiring a specialist.

Don't try and become an overnight legal eagle to review contracts, agreements and leases. Make no mistake, getting the legals wrong can be disastrous. If bookkeeping isn't your cup of tea, don't think you can become an instant accountant. Consult with us about what type of business structure and software to use. Use a bookkeeper to set up the right bookkeeping system. As you grow, hiring good people will help you accelerate your growth. You can spend more time working on your business when you delegate tasks to your team.

## 3. One Eye on the Future

If you're filling many different roles in the business, you're probably very busy. As such, it's easy to get caught up in the day to day running of the business but you also need to spend time working on the business.

In business, the definition of insanity is doing things the same way and expecting better financial results. Technology can change an industry in the blink of an eye and you need to monitor advancements in technology to improve your efficiency and processes. It can also give you a competitive advantage and potentially a price edge that can accelerate your growth.

Consumer behaviour and markets change so you can't afford to run your business looking in the rear-view mirror. The owners of the fastest growing businesses have one eye on the future and we have seen large international brands vanish because they missed the technology boat. Global photography giant Kodak had sales in excess of $10 billion in 1981 but filed for bankruptcy in 2012. They were at the forefront of photography industry for years and virtually 'owned' the market with an 85% market share for cameras and 90% market share for film.

Ironically, in 1986 they actually created a digital mega-pixel camera, invested in the technology, and even forecast that photos would be shared online. They failed to realise that online photo sharing was the new business, not just a way to expand their photo printing business. Steve Sasson, the Kodak engineer who invented the first digital camera in 1975, summarised the initial corporate response to his invention this way, "But it was filmless photography, so management's reaction was, 'that's cute -but don't tell anyone about it." While there are very few corporate mistakes the size of Kodak's, the lessons are clear. Complacency is poison in the digital age and if you stand still, your customers will bypass you and your competitors will leapfrog you.

## SUMMARY


In business, no amount of planning, passion or money can guarantee success. They are key ingredients but if you're looking to get your business off to a flying start you need to have one eye on the future and identify emerging trends. Don't get complacent and treat technology as your friend. Monitor your competitors marketing and know their pricing while ensuring you have a clear point of difference.

The right team including your financial and legal advisors can ensure your business foundations are strong including the right business structure and software. Don't try to be a jack of all trades and master of none. Hire people to cover your weaknesses and delegate as much as you can so you can spend more time working ON your business rather than IN your business.