



Terra Nova *e-book*

Launch of our *e-book*

A variety of articles, comments and reviews that may assist you



Terra Nova *e-book*

We are extremely excited in offering this Terra Nova *e-book* to our clients and other readers.

What is an *e-book*? It is the same as a normal book, however the book is produced in an electronic format, hence is known as an *e-book*. It may be in different formats such as PDF, HTML or other and can be read on a PC, mobile phone or on specifically designed portable e-book devices.

The Terra Nova *e-book* will contain articles, comments and reviews from Terra Nova Consultancy Ltd and or other contributors that relate to a number of issues from immigration to New Zealand to operating a business.

The content in the Terra Nova *e-book* will be updated on a regular basis meaning that the Terra Nova *e-book* will grow in size over time.

1st edition

Why this Terra Nova *e-book*

Terra Nova Consultancy Ltd is a commercial immigration company providing advise and immigration assistance to people who wish to immigrate to and or settle in New Zealand.

We believe that it is important for our clients to achieve their dreams and settle in New Zealand as quickly and smoothly as possible.

We believe that this Terra Nova *e-book*, with ever changing and added content, may be one of the various ways to assist our clients.

When you know of other people who may be interested in this Terra Nova *e-book*, please let them register their interest on our website on www.terranoconsultancy.co.nz

-J Peter Hendrikx-



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Please note;

The information provided in the Terra Nova *e-book* is of a general nature only and it does not constitute specific advice.

Terra Nova Consultancy Ltd



This may be the result

IMPROVE YOUR COMPANY PROFITS

What you can do to improve the profitability of your company

What is Profit?

This is the most important question that you really need to understand; Profit is what is left over after having paid all of your company expenses, perhaps and in some cases, even some of your personal expenses.

There are some factors that have influence on and determine the level of the profit in your company. These are;

- The **Price** of your product or service.
- The **Quantity/Volume** of your product or service.
- Your **Fixed Costs**. These are costs you have to pay even when you do not sell your product or service.
- The **Variable Costs**, ie costs that are directly related to produce your product or service.

Example with calculations

For simplicity, let us use an example to show how it works and what conclusions you may draw from that.

The product or service you sell costs you \$40, the variable cost, and you sell it for \$100, the retail price.

The Gross Profit Margin in Dollar terms in above example is

\$60, ie the sale price of \$100 minus the variable costs of \$40.

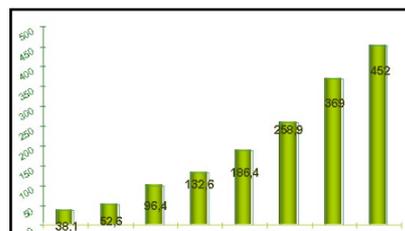
The more you sell, the higher the variable costs, ie when you sell 10 products, the variable costs are \$400 and when you sell 100 products, your variable costs are \$4,000. In other words, the variable costs are directly related to the quantity and or volume of sales.

To arrive now at your Net Profit you need to deduct your Fixed Costs. These are for example all the costs you pay to operate your business and may include lease, rent, wages, postage and courier, telephone, internet, insurances, vehicles etc.

Suppose you sell 100 products, than your total Gross Margin is 100 times \$60 equals \$6,000.

When your Fixed Costs are lower then \$6,000 you make a Net Profit, when your Fixed Costs are higher then \$6,000, you make a Net Loss.

HOW TO INCREASE YOUR PROFITS



The profitability of your company may be improved through assessing the above individual factors that determine your profit. We have discussed these in previous paragraph;

- Price
- Quantity or Volume
- Variable Costs
- Fixed Costs

Price

An increase in price may have the result that the sales

Definitions

Variable Costs

The costs directly related to the production of the products or services or the purchase price for the products or services you sell.

Fixed Costs

These may be costs such as lease, rent, wages, salaries, communications, vehicles etc. In other words, costs that you make even if you do not sell anything at all. These costs normally do not change much.

Gross Profit

The retail price of your product or service MINUS the variable costs.

Net Profit

Your gross profit MINUS the fixed costs.

When Positive, it is a Net Profit

When Negative, it is a Net Loss

quantity drops, however this may be offset by that price increase and hence result in a small increase in revenues.

A decrease in price may result in a larger quantity, an increase in volume, being sold. Be careful though of the revenues.

Volume

An increase in quantity sold equals an increase in gross profits.

A decrease in volume means lower gross profits.

When however volume is decreased because of downsizing your company resulting in less fixed costs, than this may result in achieving increased net profit.

Variable Costs

A decrease in variable costs may mean a change in quality resulting in a reduction of sales.

An increase may mean a better product or service and or a higher quality.

The question remains in both examples, check if this is accepted by your clients, ie what influence may it have on the gross profit of the company and ultimately on your net profit.

Fixed Costs

Fixed costs may rise due to an increase in rents, wages, service or other fixed costs. This requires an increase in quantity or volume.

A decrease in fixed costs, such as moving to a cheaper location, may result in a higher net profit as long as the quantity or volume remains the same.

Conclusion

Each individual above described factor has an influence on your profits. The success of the changes depends on your company's specific circumstances.

MARKETING PLAN OR HOW TO MARKET YOUR BUSINESS

The following are some questions and statements assisting you to prepare a Marketing Plan for your company.

The majority of marketers fail mainly due to three reasons;

- Lack of commitment.
- Lack of clear benefit in your service or product.
- Poor positioning, or, how do I differ from the competition.

Your marketing plan is the first key to your success. It will enable you to see your ultimate goal with clarity.

When completed, your marketing plan will outline seven

A Business Plan

Planning for Success

The following is a recommended structure when putting a business plan together for your business;

Key elements

- Purpose of the business plan
- Your competitive advantage
- The team that you have assembled
- What you have achieved so far

Your business profile

- Executive summary
- Background
- Capital/Shareholder structure
- Business management/advisers
- Business environment
- Legal implications
- Action schedule/time frame

Marketing

- Strategic planning
- Business planning
- Market analysis / SWOT
- Direction

Operations

- The Product/Service
- The Plant (Equipment/Assets)
- The Location
- The Staff
- The Systems, Process Control
- The impact of e-commerce

Finance

- Income and Expenditure forecasts
- Cash flow planning
- The Balance sheet
- The 3 to 5 Year Plan

critical elements in your approach to marketing.

These seven elements are;

01. The benefit to your customers

- The only products/services that succeed are those that offer a benefit to the customer that is greater than their costs.
- It is important to differentiate between a benefit and a feature.
- You need to know what your clients want.
- You need to know what your most important benefit is.

02. Positioning in the marketplace, what business are you in?

- You need to satisfy a specific need with an obvious desirable benefit that ideally is better or unique when compared to the competition.
- The challenge is to know what your clients want.

03. Your target market

- It is important to know specifically who you want to talk to about your product/service.
- How many segments does your market have?
- Focus groups may assist in identifying these people and what they desire.
- Can you put into one sentence what your business stands for and who your clients are?

04. Advertising strategy and positioning

- Product/Service
- Target market
- Competition
- Product/Service benefits
- How is it differentiated from the competition?
- If the reader gets one idea out of the ad, what should it be?
- What action should the reader take after reading the ad?

05. Your budget

- It is necessary to set an affordable amount that won't create demand you can't supply.
- Forecast the expected returns from your advertising so you can recognise/assess that your campaign is a success or not.
- 10% of sales should be applied to marketing

06. The tools you will use to reach your client

- What media are you going to use? Radio, print, mail, TV?

- Within each media there will be specific vehicles that will be suited to your specific marketing.

07. A month by month implementation schedule

- It is important to know what your next steps are and to monitor that you are on track
- It is necessary to set up a critical time path for each individual activity in your marketing plan to ensure its execution, what needs to be done to make it happen.

Reasonable Profits and Rewards

This is a common question in small businesses. As a general rule of thumb the business owner should look for the following monetary benefits from his/her business;

Payment of Market Rate Wage

This as they are working in the business as the owner/manager. This notional wage should reflect any excessive hours that the owner puts in. This may be named the **Effort Reward Component**.

A Profit over-and-above their wage

This calculated after the deduction of a market rate wage and this should reflect an adequate return on the owner's money (investment) tied up in the business (equity).

This is the Return on Equity % referred to above and can be regarded as the **Risk Reward Component**.

Suggestion

The overall principle is that a business owner is entitled to both **Effort Reward** and **Risk Reward** from his business. They are two very separate components.

SOME TECHNICAL EXPLANATIONS

For those of you less familiar with accounting concepts and jargon, the following may help;

01. Profitability Measure (% Return on Equity)

This is calculated as follow; Net Profit divided by Total Equity in the Business,

Where Total Equity in the Business equals;

- Total Assets less Total External Liabilities (Creditors, Loans, Bank O/D, HP Debt),

or equals;

- Owners Capital plus Retained Profits.

02. Equity Ratio

This calculated as follow;

Total Equity in the Business divided by the Total Assets.

03. Liquid Ratio

This is calculated as follow;

- Debtors plus Stock plus Cash at Bank divided by Creditors plus Bank Overdraft,

or;

- The total of assets expected to be turned into cash within the next year divided by the total of liabilities expected to be paid within the next year.

General rule of thumb

The values of these three KPI's (Key Performance Indicators) are expressed in a %. They should generally be;

- **01. Return on Equity**

Should be at least 15%, and higher if the business risk is higher.

- **02. Equity Ratio**

Should be at least 50% in most cases, it may however depend on the level of risk inherent to the business.

- **03. Liquid Ratio**

Should be at least 1.5 in most cases, ie the business has \$1.50 available in the short term for each \$1.00 payable in the short term.



The Business Organism

A business is a living entity. Its anatomy and physiology may be described in terms of;

The heart

Buying, making and selling are the heart of a business. heart failure, arising from lack of management blood or the collapse of individual functions, causes death.

Blood supply

Management is the life blood of a business carrying life giving oxygen (ideas and direction).

The skeleton

Businesses are vertebrates. Their structure is defined by organisation. As the business grows its skeleton should change in shape as well as in size.

The nervous system

Communication is carried out by the nervous system. The brain issues instructions, plans all schedules. The nerves detect variations of behaviour, measuring them and reporting back to the brain which analysis the signals, modifies them and issues revised instructions.

Behaviour

Businesses are social animals whose behaviour ranges from contributory to predatory.

Contributor

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