

hmm your business

To maintain profit margins - re-present your value proposition

Most businesses are finding their profit margins under pressure as a result of the financial crisis and the recent lows of the Australian dollar.

The temptation to discount in order to maintain sales volume and cash flow can quickly lead to a significant profit erosion. Rather than discount your price, review and re-present your value proposition to your customers.

Most of us when questioned about the value of our goods and services immediately presume that the enquirer is asking for a reduction in price.

Consider this representation of the "value equation":

$$\text{Value} = \frac{\text{Price charged}}{\text{Benefits provided}}$$

Clearly there are two variables which form the basis of "value".

Rather than reduce your price as a way to increase value (with a consequent reduction in profit margin), look for ways to increase benefits. Refer this challenge to your sales/marketing team. Have them "brain-

storm" ways of increasing customer benefits to increase "value".

There are many low cost ways of providing additional benefits to customers.

And whilst on the subject of your sales/marketing team, give them this list of **8 marketing tips and reminders:**

1. It costs 6 times more to attract a new customer than to keep an existing one.
2. 80% of sales are made after five or more contacts.
3. The most likely customer to buy is one you just sold to... remember to ask about their other needs.
4. The emotional appeal of a product can generate up to 50% more enquiries than the purely technical or rational appeal.
5. 63% of people requesting information will not purchase until at least 3 months later.
6. Make contact at least every 3 months



- to keep "Top of Mind" awareness.
- 7. Up to 85% of the effectiveness of an advert is in the headline. Use "power words" like: YOU, YOUR, HOW, NEW, WHY, WANT, MONEY, WHO, NOW.
- 8. Sell benefits not features.

If you are still tempted to reduce your price - consider "table A" below which shows the sales volume increase which would be required to achieve the same gross profit dollars, if the assumed discount was offered.

So - if for example your current margin is 30% and you reduce your price by 10%, you must increase sales volume by a whopping 50%, to earn the same gross profit.

Challenge your team to find ways of increasing customer benefits in order to re-present your value proposition - without reducing your price!

TABLE A

| | | If your present margin is: | | | | | | |
|---------|--|----------------------------|-----|-----|-----|-----|-----|-----|
| | | 20% | 25% | 30% | 35% | 40% | 45% | 50% |
| And you | To produce the same profit your sales volume must increase by: | | | | | | | |
| | 2% | 11% | 9% | 7% | 6% | 5% | 5% | 4% |
| Reduce | 4% | 25% | 19% | 15% | 13% | 11% | 10% | 9% |
| | 6% | 43% | 32% | 25% | 21% | 18% | 15% | 14% |
| Your | 8% | 67% | 47% | 36% | 30% | 25% | 22% | 19% |
| | 10% | 100% | 67% | 50% | 40% | 33% | 29% | 25% |

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Investment Perspective

Less than 12 months ago investors were able to lock in term deposits at interest rates well into the 7% and 8% range. Most were doing this to shield their portfolios (and in many cases their sanity) from the financial hurricane that was tearing holes in their equity and property investments.

As these term deposits are now maturing and ready for re-deployment within portfolios, investors have a tough decision to make: where do they put their money now? Following a succession of official interest rate cuts by the RBA, bank term deposits have become far less attractive to investors. With a bit of shopping around you may be lucky to find rates a touch above 4%.

The question of whether it is time to start re-entering the markets should be running through the minds of every investor.

For the purposes of this article we focus on just one of these sectors, Listed Property Trusts (LPT's). This sector has been the worst performing for investors over the past 12 months with the Australian Listed Property Trust index shedding 51.05% in the 12 months to 31 May '09.

Listed Property Trusts

LPT's both here and abroad have been the worst affected asset class during the global financial crisis, but it now appears as though the tide is turning. Early March saw what appears to be the bottom of the market with respect to pricing.

Whilst LPT's have had a very strong recovery since early March, up about 40%, they are still well shy of their historical highs. From the graph on the right you can see that LPT's are trading at levels not seen since 1984!

In late 2007 LPT's were amongst the first to feel the pinch of the sub-prime mortgage crisis that then morphed into the liquidity

crunch. Many of these LPT's were heavily geared and were unable to obtain financing from their previously all too eager to lend banks. The real clincher in all of this was that suddenly there was a mass number of property trusts all trying to offload properties into the same market.

Now in mid 2009, there appears to be some optimism on the horizon for the sector and there are a number of key reasons for this:

- The sector has been able to reduce gearing quite substantially even in light of falling property valuations. Predominantly, this has been achieved by capital raisings, with \$14bn having been raised since September '08 by the Australian LPT sector. The average level of debt for property securities has reduced to 31%, down 5% since early this year. This ability to introduce new

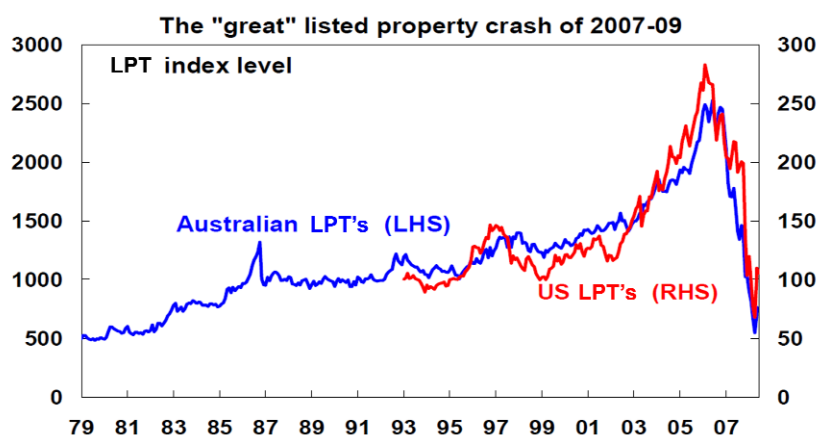
capital has greatly diminished the need for property trusts to sell assets into the current less than ideal environment.

- The sector is now representing excellent value with respect to distribution yields. At present the sector is yielding an average yield of approximately 12%. Admittedly, it is expected that distribution levels will continue to be trimmed back a little. However, presuming that distributions will be cut by a further 20%, these would still be at a 10% yield! Remember this figure when your next term deposit is set to rollover.
- The credit crunch is gradually subsiding as economic conditions improve, lender confidence builds and credit spreads narrow. All of this provides for a positive back drop for the sector as the bank doors re-open.
- Lastly, even following the rally seen in LPT's since early March, the sector is still trading at approximately a 50% discount to net tangible asset values (NTA's), which is the underlying value of the trusts properties less the level of debt held in the trust. Now, although there may still be some uncertainty for the sector with respect to further negative property valuations and general property fundamentals, it would appear that this has already been factored into LPT unit prices.

Conclusion

During the past 18 months or so investors have been running scared, generally electing to build up their cash balances with the eventual view of returning to the markets.

There is a now opportunity for investors to start re-building property exposure at a time when buying at 50 cents in the dollar, whilst also locking in a yield of around 10% p.a. - more than double the rates available from the banks, with the potential for considerable capital up lift over the next 3 - 5 years.





evolution
business systems



The team at EBS

Evolution Business Systems (EBS) is a leading business systems implementer, focused on delivering support and implementation with Arrow Financials and Microsoft Dynamics™ NAV Business Solutions and their complete product range.

EBS work closely with clients to meet their ever growing and changing business requirements. The team of highly skilled consultants continually strive to update their knowledge of the product to ensure they can offer valuable strategies and solutions.

EBS offer years of experience with financial systems and their success has stemmed from key values of trust, integrity, commitment and a strong referral base. EBS take great pride in their ability to interpret clients' needs and intelligently combine functionality, ease of use, design and affordability. Their commitment to service and excellence has been recognised by their main partners, resulting in EBS being rewarded with national 'best of breed' awards 5 times in the last 8 years.

The principals Jonathan Martin and Paul Woods have many years of combined experience in the industry and each and every client receives personal involvement and attention at all stages in implementation and support.

Jonathan and Paul have been working closely with HMH for the past 5 years in developing the EBS business.

The team at EBS are committed to quality rather than quantity. "Our aim is to provide the best quality of personalised service and support and ensure a long and productive

relationship with our clients. All variables, budgets and challenges - from basic financials to fully integrated ERP systems of considerable size are enthusiastically embraced by our team."

EBS expertise is centered around providing Arrow software and Microsoft Dynamics™ NAV that is tailored to customer needs and responsive to a changing business climate through dynamic implementations and ongoing support.

Customer support the first priority

The relationship with clients is paramount and EBS take pride in being flexible to clients' needs. The commitment to client satisfaction ensures fast delivery, rapid response and support whether by telephone, email or an on-site visit. EBS service a broad range of end-users who have all benefited greatly from their focus on customer service at all levels.

EBS offer a broad range of services targeted at supporting business needs, from consulting on software recommendations to staff training.

Tailored strategies for success

EBS works with clients strategically, documenting and mapping out a tailored implementation plan.

All areas and stages of implementation are

specified and installation timelines are based around modules, team responsibilities, guidelines, risks and contingencies. EBS also clearly map out variations and external needs based around hardware, client specifics and network requirements.

A range of valuable support and installation options that include:

- Constantly manned help desk during business hours to ensure rapid response to your queries
- Remote support options via web access for immediate response
- After hours installations and upgrades at same rates
- Pre-purchased hours option at reduced rates
- Regular client communications via workshops, newsletters and seminars

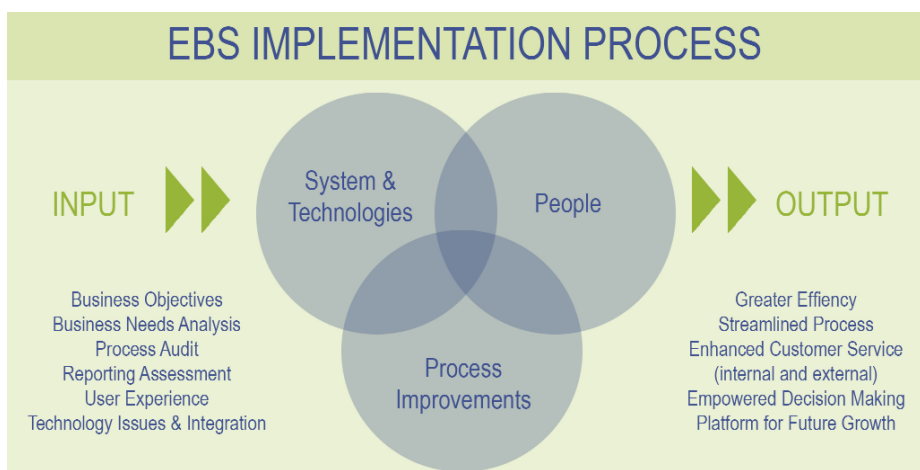
Business alliances for a total solution

EBS also aligns with selected specialists in the areas of hardware, networks and programming (typically with specific reference to Arrow and Microsoft environment requirements) to provide clients with a "total solution". Additionally, EBS also believe in promoting an open partnership with clients' own IT resources or vendors of choice to ensure that the entire IT infrastructure is encompassed.

Clients come from a vast range of industries, and all with varying size businesses. Based on the team's years of experience in working actively with these clients as an extension of their team, EBS have a unique ability to think outside the square to troubleshoot and find a best fit, long term solution.

"HMH have been instrumental in helping develop our business model and financial stability", Paul Woods says.

For further information please contact Paul Woods on 1300-303-973 or email at paul.woods@ebsystems.com.au or visit www.ebsystems.com.au.



Relief from the Tax Man

In recognition of the hard times businesses are finding themselves in, the Australian Taxation Office has announced the following initiatives to help businesses handle their tax debts:

- Twelve month interest-free arrangements
- Interest-free deferral of the payment due date of activity statement liabilities
- PAYG and GST instalment reductions
- Encouraging PAYG instalment variations

While some of these initiatives are aimed at small businesses, we must stress that the ATO has made it abundantly clear they don't want any viable business going into liquidation and are willing to negotiate almost any deal as long as it's reasonable.

Twelve month interest-free payment arrangement

The Australian Government is acknowledging the difficulty small businesses are having accessing affordable credit.

The ATO will be providing a 12 month general interest charge (GIC) free payment arrangement for small businesses with outstanding Activity Statement debts, effectively becoming the small business banker.

This initiative will be available to businesses with an annual turnover of less than \$2 million and only for the period 1 June 2009 to 30 June 2010.

Businesses will need to ensure they keep up with any payment arrangement reached with the ATO. A late payment on arrangement will default the entire agreement with the ATO and GIC will apply.

The ATO will look at any request for remittance of GIC irrespective of business turnover where the business communicates and acts reasonably towards the ATO in respect to outstanding tax debts.

Interest-free deferral of the payment due date on activity statement liabilities

The ATO will also be providing a deferral of the payment due date of Activity Statements. A deferral of up to 2 months can be granted for quarterly and annual payers and up to one month for monthly payers.

This initiative will only be available to businesses with an annual turnover of less than \$2 million and no GIC will be applied during the deferral period.

PAYG and GST instalment reductions

Many businesses pay PAYG or GST through the instalment system. A business instalment payment is calculated with reference to a business' previous year's tax liability adjusted for a GDP growth percentage.

The Government will reduce this GDP percentage from 9% to 2% for all businesses. This adjustment to the GDP percentage will see an immediate reduction in the instalments paid during the 2009-2010 year and better reflect actual business results during the economic downturn,

PAYG Variations

With the fiscal year shortly coming to a close, the ATO will be issuing the June 2009 Activity Statements.

We would like to remind businesses of all sizes that their PAYG instalment will generally be calculated based on results for the year ended 30 June 2008. With the economic downturn businesses should consider varying down their June PAYG instalment.

Once your business receives the June Activity Statement, we would recommend you speak to your usual HMH contact.

The ATO has been very helpful during these hard times and even where a business doesn't fall within the definition of a small business, the ATO has been more than prepared to enter into payment arrangements, remit GIC and remit any late penalties.

"CARE" Guarantee Champion

Our quarterly "CARE" Guarantee Champion is Kerryn Scheiber.

Kerryn has been with HMH for over 24 years. Despite being a mum to twins doing year 12 at school, Kerryn has shown an outstanding level of commitment in taking responsibility for her work. Kerryn is a dedicated HMH person and does an outstanding job for her clients. A very deserving winner for this award. Well done Kerryn!



Wedding Bells

We have had an exciting few months with staff weddings and engagements including the marriage of our Finance and Administration Officer Courtney Wilson, our marketing assistant Karyn Burns and one of our Business Services Managers, Kristian Lunardello.

Mandy Kelley, one of our senior accountants has also announced her engagement and is now busy with wedding plans.



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