

# Improving Your Small Business Skills

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Information to Increase both the Wealth and Lifestyle of Your Family

## Improving Your Profits And Lifestyle

A key way to improve the profits of your business is to increase your Gross Income's Average Hourly Rate.

### Does it Apply to Me?

It applies mainly to a business that charges directly or indirectly for their time spent on a job.

**Examples:** Architects, Plumbers, Electricians, Computer Consultants, Truck Drivers, Accountants and Solicitors.

### Definition of Terms

**Gross Income:** Income earned prior to Expenses and Cost of Sales.

**Gross Profit:** Net Income earned after deducting costs incurred in buying goods which have been sold and preparing them for sale.

**Gross Profit/Income Average Hourly Rate:** Dividing the Chargeable Hours used to earn the Gross Profit/Income into the Gross Profit/Income (refer to below example).

**Chargeable Hours:** Hours charged on Client's jobs. You may work 50 hours a week, but only 30 "chargeable" hours are billed to the clients.

### Significance of the Average Hourly Rate

**For most businesses, the main "Scarce" resource is the number of hours.** Therefore, two areas of improvement are:

1. Increasing your Average Rate per hour.
2. Increasing the number of hours spent on producing income. (That is, improving your productivity).

### Example:

Joanne Tacks had run a successful Tax and Accounting practice in the Sydney Suburbs for over 10 years. Due to increases in competition and overheads in areas such as rent, salaries and seminars, her Net Income has decreased from \$100,000 to \$80,000 (2016 year). She wants to earn more Net Income but keep her hours the

same - She wants to still have a "Life". Her expenses will be the same.

The only area to improve is her Gross Income. For the Year Ended 30 June 2017:

- Gross Income \$176,000
- Chargeable Hours per Week 30

She works 45 hours a week. 30 hours of this are chargeable.

Total Chargeable Hours for the Year (30 hrs x 48 weeks = 1,440). She does all the chargeable work.

**Gross Income Average Hourly Rate = (\$176,000/1,440 hrs) = \$122 per hour.**

Joanne set a goal at the start of the 2016/17 year to increase her Net Income by \$20,000 to \$100,000. Therefore, her Gross Income would have to increase to \$196,000.

**What Rate does Joanne require to Earn Gross Income of \$196,000?**

Gross Income	\$196,000
Chargeable Hours are	1,440
Gross Income Average Hourly Rate Required:	\$136

**How does Joanne Increase her Average Rate from \$122 to \$136 per hour?**

A lot of business people would say "We cannot achieve this increase without rising prices and losing a lot of our existing income" - therefore not achievable. **However, it is possible to obtain this increase. You may need to change what type of work you do in your chosen industry.** In every occupation there is "bread and butter" work at low rates per hour, and *there is specialised "niche" work which clients are willing to pay higher rates for. They pay more because of the value you provide for their business.* **For example:** Joanne analysed what type of work she was doing. She found the following:

	<b>% of Total Income</b>	<b>Rate Charge Per Hour - \$</b>
Personal Tax	20%	80
Corporate Tax	70%	130
Consulting Work	10%	150

Gross Income Average Rate per Hour = (20% x \$80) + (70% x \$130) + (10% x \$150) = \$122 per hour.

In the last two years, she had commenced providing consultancy services because clients can see their profits improving and she can charge higher rates per hour. **To achieve her goal, she decided to make a hard decision - sell her personal tax clients to the local H&R Block Tax practice.** She then directed her attention to growing her consulting work. When she reviewed the results at 30 June 2017, she was pleasantly surprised.

**Did Joanne achieve her Goal?**

	<b>% of Total Income</b>	<b>Rate Charge Per Hour - \$</b>
Corporate Tax	55%	130
Consulting Work	45%	150

Gross Income Average Rate per Hour = (55% x \$130) + (45% x \$150) = \$139 per hour.

Gross Income = (48 weeks x 30 hrs) x \$139 = **\$200,160. Yes, she was less than \$4,000 higher than her goal of a Gross Income of \$196,000. She did not increase the firm's Rate per Hour Charges and the Hours did not increase.**

**Therefore, she achieved her Net Profit goal of \$100,000 for the Year Ended 30 June 2017.**

*This information is for the benefit of our clients and interested parties. The commentary contained does not purport to be comprehensive advice. Please contact David Chambers if specific assistance is required in this area.*