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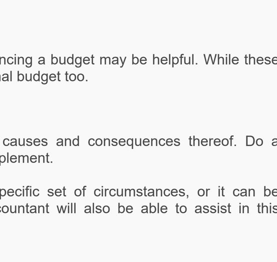
April 2024

Have Your Own Budget Shortfall? Here's What to Do...



"The cold, harsh reality is that we have to balance the budget." (Michael Bloomberg, former New York City Mayor)

Budget shortfalls are not uncommon across the public and private sectors, especially in these economically challenging times. A budget shortfall is a significant concern for any individual or organisation and should be corrected promptly.

To address the R15 billion shortfall in National Budget 2024, the South African government earlier this year did not cut its spending, but rather indirectly raised individual taxes by not adjusting personal tax brackets, rebates and credits for inflation, as well as proposing above-inflation increases to sin taxes.

Of course, these strategies are not available to South African individuals and businesses, but nevertheless, as Michael Bloomberg, former Mayor of New York City reminded us: "The cold, harsh reality is that we have to balance the budget."

This is because a budget shortfall – when financial obligations or liabilities exceed the amount of cash available – tends to impact negatively on business by, for example, necessitating spending cuts that could adversely affect critical operations, or by requiring an increase in debt to finance the shortfall.

On the other hand, maintaining a balanced budget ensures expenses do not exceed revenue, promoting financial stability and avoiding additional debt. By providing a clear demarcation of the available resources and financial capabilities, a balanced budget facilitates informed decisions, long-term planning and sustainable growth.

There are different types of budgets for various purposes, such as day-to-day operational budgets, cash flow budgets, long-term capital budgets, and master budgets combining various budget types for a comprehensive overview of the company's overall financial health.

These budgets include elements such as revenue estimates, fixed, variable and one-time costs, cash flow projections, and profit projections. We are able to assist you with choosing the right approach for your business' specific budgeting requirements.

Strategies for balancing your own business and personal budgets

If you are facing a budget shortfall, the tried and tested strategies below for balancing a budget may be helpful. While these approaches are business-orientated, each can be adapted to balance your personal budget too.

1. **Understand your shortfall**

   Effective budget shortfall management begins with understanding the causes and consequences thereof. Do a thorough analysis before deciding which budget balancing strategies to implement.

   For example, a shortfall can be temporary, perhaps the result of a specific set of circumstances, or it can be persistent, which might indicate poor financial management. Your accountant will also be able to assist in this respect.

2. **Spending cuts**

   This is the basic strategy for addressing budget shortfalls. However, cost-saving opportunities are not always easily found.

   Some of the tactics to consider include, for example, cutting all non-essential expenses, across-the-board cuts, targeted cuts in specific areas, or even financial modelling or projections that calculate the combined impact of various approaches.

   Not all cost-cutting measures are the same and it is more effective to prioritise cost cutting initiatives based on potential impact and feasibility. Prioritising high-impact initiatives can deliver quick wins, building momentum for further spending cuts.

3. **Process optimisation**

   Unnecessary expenses in a business are often the result of inefficient processes, bottlenecks or redundancy. Eliminating these will not only streamline operations but will also cut waste and unnecessary expenses.

   Process optimisation could involve re-organising workflows, automating processes, adopting lean management principles, or even outsourcing certain functions or utilising shared services.

4. **Increase revenue**

   Depending on your business model, there are numerous strategies that may be considered to increase revenue, which could contribute to balancing the budget. These range from re-engaging your previous clients to upselling existing clients, to diversifying your products or services, bundling your offerings, or extending your geographic reach.

   You might also consider partnering with other businesses or organisations, or embracing new technology, such as e-commerce, for generating additional income.

5. **Short-term finance**

   Debt may also be a short-term solution but be sure to understand the immediate and long-term consequences, given your current and projected financial situation.

   We can provide invaluable advice and assistance if you are considering this option.

6. **Monitor, adjust and communicate**

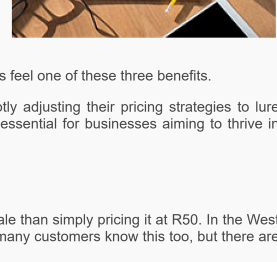
   Your budgets should be monitored as an ongoing process, including regularly assessing their effectiveness, making necessary adjustments, and tracking progress.

Remember to involve your employees, suppliers and other stakeholders, who often have valuable insights into areas where budgets can be optimised. Communicate clearly about the financial situation and reasons for any budget adjustments, acknowledging the impact on the team and stakeholders, and providing opportunities for them to provide input and ideas to mitigate the impact on their activities.

Maintaining a balanced budget is crucial to financial stability and sustainable business growth. It empowers business owners and managers in understanding the company's financial health, setting realistic goals, planning for contingencies, and capitalising on opportunities.

We can assist you to prepare a budget tailored specifically to your business, to monitor your team's budget performance, and to make budget adjustments as required, setting your business up for both resilience and sustainable growth.

Price Your Products for Profit with these Psychological Strategies



"Find the right price for an irresistible offer, which, by the way, isn't necessarily the lower price." (W. Chan Kim, Business strategy advisor and author)

A good businessperson pays attention to the price of their products. With accountants by their side, they wisely analyse every expense, tax and logistical possibility to ensure their product goes out at the best rate for maximum profitability. Like with everything in society, no matter how thorough the maths, pricing strategies can also be influenced by the underlying psychological principles that drive consumer behaviour and purchasing decisions.

Ultimately, customers want to know that they're getting either the best price point, the best quality, or the best value. Psychological pricing leans into that idea, and ethically uses price as a way to send the right signals to make customers feel one of these three benefits.

By decoding these subtle nuances, businesses gain a competitive edge by subtly adjusting their pricing strategies to lure customers and bolster profitability. Here we uncover the strategies and insights essential for businesses aiming to thrive in today's dynamic market landscape.

Price Appearance

All businesses know that **pricing an object at R49.99** is more likely to attract a sale than simply pricing it at R50. In the West people read from the left so the lower number on the left is attractive. Of course, many customers know this too, but there are other ways of making the appearance of the price boost sales.

The first of these is simply to **leave off the cents in a price.** Studies have shown that marking a product as R49 is more likely to make a sale than R49.00 simply because it looks shorter. In fact, according to The New York Times, even putting the currency sign at the start of a price can trigger purchasers into feeling the "pain of paying." The best route? **Remove the currency sign and cents altogether**.

Premium Pricing and Price Anchoring

- **Premium pricing** is when a brand chooses to price themselves at the top of the market rather than set a competitive price. This can work due to the public's long-established perception that higher prices equal higher quality or rarer products. This does not always work, but there is a far subtler way to take advantage of the same effect – price anchoring.
- **Price Anchoring** is where a business releases their first product at a premium price but releases subsequent products at more competitive rates. The existence of the premium product makes the other products seem that much more reasonable than they otherwise would and encourages sales. Price anchoring can also refer to a practice in retail where the store puts an expensive product alongside a cheaper one, thereby making the cheaper one's price seem like a bargain. For example, retailers, putting prime virgin olive oil at R89.99 for 500ml next to the sunflower oil, makes the latter seem cost-effective, even if they have priced it above the usual market price.

Discount language

Offering discounts is a great way to sell off stock that may be moving too slowly or to encourage people to try a new product for the first time, but did you know the words you use can influence how likely it is for people to take up those discounts? For instance, **telling people they get 50% more of a product for the same price** has been shown to be far more effective as a sales incentive than offering them 33% off. This is despite the fact that these are the exact same offer.

Then of course, there is the **crafted discount** offered by many large supermarkets these days. With the crafted discount you mark a product up significantly and then tell customers they can get the normal price if they buy two. For example: Bacon is usually R35 a packet, so mark it at R50 a packet and then offer the discount of "2 for R70". Not every business owner will be comfortable with using this tactic without ensuring that the customer does in fact get some benefit (by offering "2 for R65" perhaps) but it certainly should boost sales.

Decoy Effect

Decoy pricing is a strategy companies use to convince clients that **a slightly more expensive product is in fact the one offering the best value**. It takes advantage of how buyers weigh price relative to the value they perceive. With decoy pricing the salesperson will offer clients products they know they will not take simply to guide them to the one they actually want to sell. For instance, they might be trying to sell you a car that's a little out of your price range, but then say, "You are right, let's look at this one which is in the price range you were looking for." Of course, the new option is significantly lower quality, thereby highlighting the original car as the wiser purchase even if it is a little more expensive.

This gets even smarter when we take into account a psychological state known as **the compromise effect**, in which customers will gravitate toward the middle ground in any offer. If there are three choices for fibre connections with the fastest speeds being the most expensive, customers are more likely to take the medium speeds at the medium price. Some restaurants who know this make their second cheapest bottle of wine, the one with the highest mark up. Want to make your product seem better value? Simply offer the customer one that's much more expensive and one that's much cheaper as well.

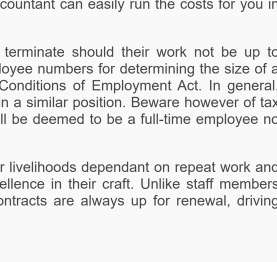
Tiered pricing

Let's say the product you want customers to buy is, in fact, the most expensive one. Then what you need is tiered pricing. This strategy lays the benefits of the highest priced product out in a way that makes it seem like a bargain compared with the others.

For example: Your lowest tier product has 3 features for R50, the middle tier has four features for R75, and the top tier has eight features for R100. In this case the middle product is a kind of decoy that could have been priced with one or two more features, but by giving the top tier product that sudden jump-up in feature numbers, the salesperson can be sure the client is much more likely to buy that.

We can help you formulate a pricing strategy tailored to your business model.

Freelancer vs Employee: How to Decide



"People are not your most important asset. The right people are." (Jim Collins, author, speaker and consultant)

Knowing whether to hire a freelancer or full-time employee for any particular role is vital for the successful running of a modern business. With budgets constantly being constrained and the pressure to perform going up, ensuring you maximise your workforce is absolutely essential if you want to build a successful company.

Here is our quick guide to help you decide whether the roles in your company should be filled by a full-time employee or a freelancer.

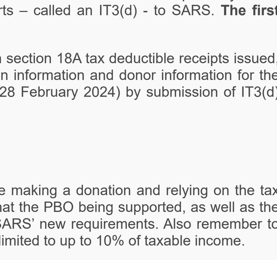
When to bring on an employee

- **Training**: If the role requires specific knowledge or a significant amount of training, it will always be better to bring in a full-time employee. While the risk always exists that you will train an employee only for them to leave, this risk is far greater with a freelancer given the fact that they are already working with multiple companies.
- **Oversight:** If the role requires careful oversight, it is also a good idea to make it full-time. Freelancers work with multiple clients and as such schedule work to their calendar and not strictly to when your managers and supervisors are online.
- **Culture and brand awareness:** Freelancers are exceptional at delivering on their specific tasks but may not have the same general awareness and knowledge of your company. This is important to consider especially when choosing staff who will be interacting with your clients and customers, where it's vital they are living the company culture and fully cognizant of the nuances of the brand.
- **Recruiting a leader:** Anyone who is set to take a senior role in your business should be a full-time employee, simply because these roles require someone who is fully dedicated to the business and not distracted by other roles and concerns.

When to bring on a freelancer

- **Budget:** If the budget is a concern, then you should definitely be using a freelancer. Even if that freelancer is charging a premium your company will often save money on benefits such as health insurance, paid holidays, retirement annuities and bonuses, while also saving on their office space and supplies and equipment. With freelancers the company only pays for the hours worked, and dead time around the coffee machine is no longer an expense. If you find the job is larger than expected the option exists to take the freelancer on a retainer for a set number of hours each month at a set rate, which can activate even more savings. Your accountant can easily run the costs for you in each scenario, making this decision an easy one.
- **Risk:** As freelancers aren't employees, they are significantly easier to terminate should their work not be up to standard. Further, they aren't generally considered when tallying the employee numbers for determining the size of a business, and their working conditions are not regulated by the Basic Conditions of Employment Act. In general, taking on a freelancer runs far lower risks for an organisation than hiring in a similar position. Beware however of tax and labour law rules on when a freelancer or "independent contractor" will be deemed to be a full-time employee no matter the terms of your contract – ask us for help in need.
- **Quality:** For the freelancer in particular, quality reigns supreme. With their livelihoods dependant on repeat work and satisfied clients, freelancers must be the epitome of dedication and excellence in their craft. Unlike staff members whose performance might fluctuate, freelancers understand that their contracts are always up for renewal, driving them to consistently deliver their finest work.

Donating to a PBO? Check SARS' New Requirements (and PBOs Note Your New 31 May Deadline)



"[The new requirements] enable… a more efficient process to make deductions available to qualifying donor taxpayers and to help prevent section 18A claims abuse." (SARS)

Public benefit organisations (PBOs) are engaged in public benefit activities for example religious institutions, day care centres, disaster relief organisations, health clinics, etc.

Many are dependent on donations and, to encourage the public's generosity, a tax deduction for certain donations made by taxpayers is provided.

Qualifying PBOs (i.e. section 18A-approved organisations) may issue tax certificates - called section 18A receipts - to donors. This tax certificate - or section 18A receipt issued by a section 18A-approved organisation - entitles you or your company to a deduction from taxable income for *bona fide* donations in cash or of property.

While approved section 18A institutions were previously required to keep records of all section 18A receipts issued, the requirements have changed, affecting both PBOs and their private and corporate donors.

PBOs: New requirements, and a 31 May 2024 deadline

Previously, the information that had to be provided by a PBO for a valid section 18A certificate was limited to the details of the PBO; details of the date, amount or nature of the donation; confirmation of how the donation would be used; and the name and address of the donor.

Last year, SARS issued further requirements for more detailed information to be included on all section 18A certificates issued from 1 March 2023. This includes the nature of the donor; the donor's identification or registration number; donor trading name (if different from the registered name); donor income tax reference number; donor contact number and e-mail address; and a unique receipt number.

In addition, this year - like other third parties such as the banks, medical schemes and fund administrators required by law to send data to SARS - all PBOs are now also required to submit bi-annual reports – called an IT3(d) - to SARS. **The first deadline for PBOs in this respect is 31 May 2024.**

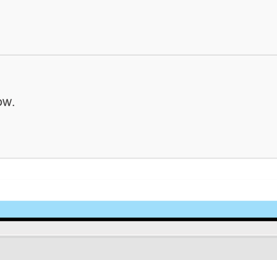
From this date, approved section 18A tax exempt institutions must submit data on section 18A tax deductible receipts issued, which includes information on the S18A approved tax exempt institution, donation information and donor information for the 2023/2024 year of assessment (i.e. S18A receipts data from 01 March 2023 to 28 February 2024) by submission of IT3(d) data via efiling.

Professional assistance is essential

While it has always been best practice to check with your accountant first before making a donation and relying on the tax break, it is now more crucial than ever for companies and individuals to ensure that the PBO being supported, as well as the tax certificate - or section 18A receipt - issued to obtain a tax deduction, meet SARS' new requirements. Also remember to check the limits: the amount of donations which may qualify for a tax deduction is limited to up to 10% of taxable income.

We can also help PBOs to ensure they can meet the new requirements and deadlines, to ensure compliance and that their donors can enjoy the tax breaks that will encourage generous giving.

Your Tax Deadlines for April 2024



- 05 April - Monthly Pay-As-You-Earn (PAYE) submissions and payments
- 25 April – VAT manual submissions and payments
- 29 April - Excise Duty payments
- 30 April - Value-Added Tax (VAT) electronic submissions and payments & CIT Provisional payments where applicable.

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