

Profit Enhancement Through Cost Reduction: The Time Is Now

Our federal government must reduce its expenditures. It cannot continue to spend more than it brings in. Sure, it could increase taxes to balance the budget, but this would make our companies less competitive internationally. It would also lower the standard of living for each of us. The only sane answer is a smaller government spending less and wasting less.

But federal spending is not our only problem. The current financial crisis is the result of excessive debt-fueled spending at every level — individual, business and government. The remedy is simple: spend less, waste less.

There's a technique to expense minimization.

At the business level, it is not always apparent where expenses can be reduced. The accepted way to increase profit is by raising revenue, but a dollar of revenue rarely delivers a dollar of profit because it costs money to market, sell and deliver a product or service. Not so for a dollar of savings. A dollar of expense eliminated delivers a full dollar of profit.



To illustrate, let's assume your company has \$2 million in revenue, a gross profit margin of 40% and operating profit of 5%. We can deduce that cost of goods consumes \$1,200,000 per year of revenue and operating expense consumes another 35% or \$700,000. What remains is \$100,000 in operating profit (5% of revenue).

Now, let's say you implement a cost reduction plan that succeeds in reducing your cost of goods expense by two percentage points — from 60% of revenue to 58%. On \$2 million in revenue, you'll put the full \$40,000 on the bottom line. That's a profit increase of 40%! To deliver the same

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From the Editor

If you are a regular reader of this publication, you're accustomed to our clear, direct style. Given the unprecedented decline in financial markets and the frightening funk in the economy, I'm going to cut to the chase. Are you ready?

If you are unsure what to do, let me tell you:

- In your business and personal life, reduce costs.
- In your investment portfolio, buy equities.



David L. Perkins, Jr.

Consult your investment and business advisors. I suspect they will agree. If not, have them call me.

Now is the time to buy equity investments (publicly traded stocks) **no matter what your age**. If you are fortunate enough to have cash available for investment, begin putting it into the market. Use dollar cost averaging (see the article on the topic in this issue). If you don't know what to buy, talk to your financial advisor. Ask him or her about just putting it all in a low-cost index fund such as the Schwab 1000.

U.S. equities are having a once-in-a-lifetime fire sale. You can buy stakes in U.S. companies at 1990s prices (inflation adjusted): Apple, Wal-Mart, Microsoft, Citigroup and General Electric.

With this issue, we begin a multipart series on profit maximization through cost reduction. We cover proven strategies for wringing cost from your company. Now's the time, and you don't have to wait on anything or anyone else to get started and benefit from the results.

Sincerely,

A handwritten signature in black ink, appearing to read 'D.L.P.', written in a cursive style.

David L. Perkins, Jr.
Publisher and Editor

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PROFIT ENHANCEMENT

Profit Enhancement Through Cost Reduction: The Time Is Now, continued from cover

\$40,000 profit increase through additional sales, you'd have to sell an additional \$66,667, calculated as follows:

Additional profit desired = A* times Gross Profit Margin**

\$40,000 = A x 60%

* sales needed to deliver the additional profit desired

** gross profit margin is 1 minus the cost of goods percentage (1 - .40 = .60 or 60%)

Now, use simple algebra to solve for x as follows:

A = \$40,000 / .6

A = \$66,666

The above assumes you could add an additional \$66,000 in revenue and hold operating expense (also known as sales, general and administrative expense) steady. But if operating expense grew so that your operating profit margin remained at 5%, you'd have to sell an additional \$800,000 (\$40,000/.05) to add that same \$40,000 to your bottom line. That'd be a pretty tough feat for a \$2 million revenue company, especially today!

What's our point?

- Don't neglect expense reduction as a means to enhance profits!
- Expense minimization is absolutely essential for running a profitable business.
- Expense reduction has a greater impact on your bottom line than increased revenue.

At the business level, it is not always apparent where expenses can be reduced.

In recessionary economic periods, expense reduction may be the only way to improve the bottom line. But reducing expense is not as simple as saying "no" to certain expenses. The where and how are not readily apparent. So there's a technique to expense minimization.

Some companies anchor their entire competitive strategy on skilful expense minimization. They compete by being able to earn higher levels of profit than their competitors on every sale. In bad times, the difference may mean survival vs. failure. In good times, it means higher profit, which can be paid to the owners or reinvested in a way that will enhance the ability to compete and win in the future.

To be sure, you do not want to compete against a company that has a lower expense structure, especially during tough times. You want to *have* the lower expense structure. Over time, in good times and bad, the company with the lower expense structure (and higher profit margins) will almost always win.

This issue of *The Business Owner* focuses on expense reduction strategies. In fact, we're going to dedicate the entire year to expense reduction techniques and strategies.

Why are "techniques and strategies" needed? Because expense reduction is not as simple as just spending less. The techniques, when applied, will show you where to cut, how to cut, and open your eyes to what is possible. Apply them and you'll become a better company. A more profitable company. The time is now. □

First Step Toward Profit Enhancement? Break Down Employee Resistance

Harry Lay is an expert on profit maximization in small and midsize companies. He has received extensive training on the subject; designed, implemented and managed profit maximization programs in private companies; and speaks and consults regularly on the topic. He says the first step must be to break down employee resistance to higher profits.

If your employees think that higher profits will just go to line your pockets, good luck getting them to work hard to make it happen.

Lay insists that employees will resist efforts to maximize profit because they automatically assume that additional profit will simply pad the pockets of the owner(s). Why work to maximize profit to make the fat cat even fatter?

Well, as a business owner, you know that profits are necessary to keep the doors open, to keep

employees employed, to pay back debt on borrowed funds that went into the business and bought the equipment and inventory and funded accounts receivable.

As a business owner, you know that you plow most of the profit back into the business. Improved profits enable facilities upgrades and new hires to support growth and drive revenue.

Growing companies are fun to work for. Growth requires cash. Cash comes from profits.

And so, the employee's impression of what it means to own a business is, once again, different from reality. If your employees think that higher profits will just go to line your pockets, good luck getting them to work hard to make it happen. Sure, they may care for you, but come on!

As the motivation legend Zig Ziglar says, "Everyone listens to the radio station WIFM, 'What's In It For Me.'" So tell your employees what's in it for them:

- job security
- new equipment or facilities
- additional hiring
- more money for marketing
- promotions through company growth
- incentives and bonuses

Exactly what the benefits will be for your employees is specific to your organization, its needs for cash, and any incentives you may choose to provide. But you better speak to them through radio station WIFM if you want to move your plan beyond talk to actual results.

Harry P. Lay provided the expertise for this article. You can reach him at harryl@laypsi.com or (918) 743-5800. □

Dollar Cost Averaging: Get Your Money in the Market at Reduced Risk

Not many people today think about getting their money into equity markets, but they should. As Warren Buffett says, "Stocks are on sale." But if you have a lump sum you want to invest, what should you do? Just invest it all together in one lump sum? Many investment advisors would counsel against it. They'd tell you to dollar cost average into the market.

Dollar cost averaging is an investing technique intended to reduce the risk inherent in placing money in the market with a single large purchase. Doing so is risky, of course, because we don't ever really know which way the market is headed and we want to avoid the risk that the market happens to be high and poised for a fall just after we put all our money in.

So, the idea with dollar cost averaging is simple: spend a fixed dollar amount at regular intervals (e.g., monthly) on a particular investment or portfolio regardless of the share price. In this way, more shares are purchased when prices are low and fewer shares are bought when prices are high.

Here's an example. Let's say you want to put \$100,000 into an S&P Index fund. You decide to dollar cost average and divide your \$100K into eight equal amounts to be invested every 90 days. Here's the result:

Periodic Amount	Purchase Date	Share Price	Shares
\$12,500	1/1/09	\$105	119
\$12,500	4/1/09	\$110	114
\$12,500	7/1/09	\$106	118
\$12,500	10/1/09	\$100	125
\$12,500	1/1/10	\$97	129
\$12,500	4/1/10	\$92	136
\$12,500	7/1/10	\$90	139
\$12,500	10/1/10	\$98	128

Average: \$99.33 Total Shares: 1007

If the future were accurately reflected in the above chart, at the end of two years you would have 1,007 shares of the S&P index fund at the average cost of \$99.33 per share. In this case, your decision to dollar cost average would be rewarded. The S&P index fund happened to be at a high when you established your investment plan. If you had invested all of your \$100K on January 1, 2009, you would have just 952 shares and a cost basis of \$105 per share. Instead, you have 1,007 shares and a cost basis of \$99.33 per share. The result? Your investment is worth \$98,664.83 rather than \$93,333.33. Nice.

If the S&P index had risen continually after January 2009, your strategy would have lost money. Unfortunately, you don't know what the future holds. That's why many people espouse dollar cost averaging.

Note: The example above assumes the investor places money in the market for a long-term hold, i.e., buy and hold vs. trade. Dollar cost averaging is a means for getting money into the market for a buy-and-hold strategy, i.e., a time horizon of greater than five years, not a trading strategy. □

How to Create and Sustain Superior Profits

A goal of every business should be to achieve superior profit. *The Business Owner* defines superior profit as:

- A. Profit margins that exceed those earned by competitors
- B. Real-dollar profits that rise at rates that exceed the growth of the industries served

By earning superior profits, your ability to compete grows each day because you have greater resources to invest in building stronger barriers to competition and bridges to higher profits.

The path to superior profit over the long term is finding and developing a *competitive advantage* over your competitors. A company enjoys a competitive advantage over its competitors when it possesses a superior ability to deliver value to customers. Such ability is gained through successful execution of an appropriate and achievable *competitive strategy*.

Value is delivered to customers in one of two ways:

1. **Cost Leadership** — Ability to offer products and services that deliver value comparable to the offerings of competitors, but at lower prices.
2. **Differentiation** — Ability to offer products or services that deliver *unique* benefits that more than offset higher cost to produce and premium price charged.

Competition is at the core of the success or failure of every company. Your competition determines which strategies are more profitable. Competitive strategy is the search for a favorable competitive position in your industry — the arena where competition occurs. Competitive strategy is the search for competitive advantage.

Basic Strategy Option 1: Cost Leadership

If your product or service is similar or identical to that of your competitors, or perceived by your customers to be so, then the price you receive will be the lowest at which your competitors sell. If your costs are identical to your competitors', and they are willing to accept break-even profitability, then your hopes for profit will go unfulfilled. If your costs are higher than your competitors', then you have a problem — at whatever price sales are being made, your competitors will gain on you financially. In sum, with products that have no real uniqueness to the buyer, the only way for you to earn superior profits is to have lower costs.

When a company pursues cost leadership, all energy is focused on delivering a product that has value to customers at least on par with that offered by competitors — but at lower cost. This strategy requires that cost be wrung out of the system at all levels — sourcing, operations, packaging, marketing, sales, distribution and service. Of course, if it is possible to offer a product with more value than that offered by competitors but at lower cost, all the better — but this is rarely achievable. This is referred to as “stuck in the middle.”

Generally, companies with sizeable market share are better able to attain cost leadership. This is because volume offers

purchasing power and heightened opportunities for efficiency. As such, a cost leadership strategy is often not a viable tack for companies that face larger, high-volume competitors.

Basic Strategy Option 2: Differentiation

Unless a company's products or services are perceived by customers to have features or benefits that are superior, customers will not be willing to pay a premium. When this is the case, the competitor that can deliver acceptable value at the lowest price will win. The company with the lowest cost structure is the one that can afford to sell at the lowest price. The firm that sells a “me too” product against a low-cost provider will avoid extinction only by successfully developing competitive advantage. If low-cost provider status is not achievable, as is often the case for firms with inferior market share, then a differentiation strategy is the only option.

A differentiation strategy requires that the firm develop ways to deliver value, or perceived value (aside from price) exceeding that offered or perceived to be offered by competitors. Developing such value typically requires added cost in the form of additional product development, expanded service, heightened training or additional marketing.

Potential sources of differentiation are everywhere in a firm. Common strategies include sourcing product of higher quality and “selling” to the customer the benefits of such (e.g., Colombian-grown coffee beans). It might entail more precision, higher resistance, easier access, lower defects, longer life or better after-sales service and training. All of these efforts require added expenditure, so the efforts must command a higher price — one that exceeds the added cost incurred. This is the goal of differentiation.

When differentiation is the strategy, customer perception is the reality. In fact, it is possible to develop the perception of differentiation, and thus a heightened ability to compete (i.e., competitive advantage), when none in fact exists, through branding. Branding is developing an image or perceived value using highly focused marketing and advertising. Are Colombian coffee beans really better, or do we just perceive them to be so due to branding efforts of those with a financial interest in such things?

Although branding can be used as a means for creating competitive advantage by differentiation, it is generally more sustainable and defensible when the subject product or service offers features and benefits of real value and uniqueness to buyers. If differentiation is not real, rather based on perceived differences, there is always risk that customers, through experience, may learn that no real additional value exists to justify the premium price.

This article is based on the published work of Michael E. Porter, particularly Competitive Strategy and Competitive Advantage, as interpreted by David L. Perkins, Jr. □

Cost Drivers and Where to Look to Lower Cost

Every customer is price sensitive. Price is a key characteristic of your offering, whether your business strategy is to offer value through low prices or superior quality at a premium price. If you price your goods too high, the customer may purchase elsewhere.

For this reason, every business is under immense pressure to lower prices, especially during economic downturns

The only way to survive is to continually lower the cost that it takes to produce each unit.

when every company is competing harder to win fewer orders. Struggling companies may even be willing

to accept business at break-even prices — just to cover fixed overhead.

The only way to survive and profit is to continually lower the cost that it takes you to produce and deliver each unit. The marketplace largely dictates the price that buyers will accept. The only thing we control, besides our product or service itself, is our own cost structure. And we have much more control over our own costs than most business owners realize.

This article presents key drivers of cost. Each “driver” describes an area in which costs arise and can be reduced. Costs are described in terms of “value activities,” which are the many discrete activities

Businesses should organize themselves in a way that allows for volume processing.

a business performs in designing, producing, marketing, delivering and supporting

its product or services. Take time to understand each cost driver, and then consider how each may be contributing to costs incurred within your business. Better yet, find ways to lower costs associated with each driver.

Economies of Scale

Economies of scale arise from the ability to perform activities differently and more efficiently at larger volume, or the ability to

amortize the cost of things over a greater sales volume. An example of the former might be a roofing contractor that focuses on obtaining a higher concentration of jobs in a small geographic area to allow for reduced drive times and more efficient sharing of personnel and equipment between jobs.

Economies of scale can be found to some extent in almost any part of a business’ operation, including purchasing, processing, advertising, sales, marketing, billing and collection. Scale economies can be achieved by increasing total sales or by restructuring a product line to offer fewer choices and therefore more volume per product offered.

Given the economies that volume or scale can provide, businesses should organize themselves in a way that allows for volume processing. The first place to look is where natural advantage over competitors may be. For example, a printing company that has a piece of equipment that allows for more efficient processing of a certain type of job might attempt to increase the amount of business it does of this type. It is naturally positioned to win this type of business over its competitors, and higher volumes will allow the cost of the machine to be amortized over larger volumes, thereby enabling higher profit per job.

Learning

The cost of an activity can decline over time due to learning that increases efficiency. Learning can provide ideas for reducing costs through such changes as floor layout, improved scheduling, labor efficiency improvement, product design modifications, yield improvements, or improvements in installation and shipping procedures. Performance improvements derived from learning typically accrue gradually and incrementally over time.

The rate of learning in an organization tends to depend on the degree to which management emphasizes its importance and empowers workers to conceive, investigate and implement process improvements that reduce cost, improve efficiency or add value to products or

services. The rate of learning can be greater during times of light workload because it is during these times that additional time and energy may be focused on process improvement and idea generation.

Learning also can occur from one firm to another through the movement of employees or through facilitators such as trade organizations or schools. But because a sustainable cost advantage results only from proprietary learning (learning that is not possessed by your competitors), some care should be taken to protect your proprietary learning from being transferred to your competitors. This can be done by limiting turnover

of personnel and taking steps to protect the dissemination of information that is proprietary to your company.

Capacity Utilization

Where a value activity has a large fixed cost associated with it, the cost of the activity will be affected by capacity utilization. For example, a school supply retailer has high fixed costs associated with its physical “store” but can handle a very large volume with minimal increases in cost. As sales rise, the fixed cost of the space and staff are amortizing over a larger sales volume, thereby enabling higher profit.

Fixed costs also create a penalty for underutilization, and the ratio of fixed costs to variable costs determines the sensitivity of a value activity to utilization. For example, a firm that uses independent reps to sell its goods reduces sensitivity to capacity utilization compared to an in-house sales force. This is because when reps are paid only when they sell (commission), they don’t contribute to fixed overhead as a salaried salesperson would. Of course, the incremental profit on sales of reps is typically lower, but fixed overhead is less.

The rate of learning in an organization tends to depend on the degree to which management emphasizes its importance.

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Cost Drivers and Where to Look to Lower Cost, continued from previous page

The pattern of utilization is also a key factor. It is smooth volume at optimal utilization that is desired. We all know that operating at low capacity is inefficient, but operating at or near capacity can cause inefficiencies and higher costs as well. Company policies and practices should be designed to produce smooth demand and work flow. For example, heat and air conditioning contractors often provide incentives to entice customers to contract for repairs and maintenance at times of the year that tend to have lower service call volumes.

Linkages

The cost of a value activity is frequently affected by how **other** activities are performed. These are called linkages. Some of the most common linkages are between direct and indirect activities (e.g., machining and maintenance), quality assurance and other activities (e.g., inspection and after-sale service), activities that must be coordinated (e.g., inbound logistics and operations), and between activities that are alternative ways of achieving the result (e.g., advertising and direct sale).

Identifying linkages requires that we ask, “What are all the other activities elsewhere that have or might have an impact on the cost of performing this activity?” Important linkages exist within a company and between a firm and its suppliers and channels (sales reps, distributors, delivery systems). A firm can identify linkage costs or inefficiencies by examining how the behavior of suppliers or channels affects the cost of each of its other activities and vice versa.

Linkages with suppliers tend to center on suppliers’ product design characteristics, service, quality assurance procedures, packaging, delivery procedures and order processing. For example, a supplier may be delivering items that are packaged in a way that require too much time to unpack and ready for processing, thus hurting your productivity.

Channel linkages, such as those related to how you sell or distribute the goods you sell, mirror those of supplier linkages

and include such items as the mode of transportation, location of distribution hubs, manner of delivery and services provided.

Vertical Integration

Vertical integration is the expansion of the value activities that a firm provides in-house as opposed to outsourcing to a third party. For example, a company has the choice of making parts in-house or having a vendor make them. Or a firm could choose to handle its deliveries with its own trucks and drivers, or it could outsource this value activity to third-party carriers. Every value activity should be evaluated periodically to assess what method will reduce costs and best meet the value-added process adopted by the company. The goal is always expense reduction, improving the delivery to the client of your particular value-add, and solidifying your uniqueness compared to your competition.

Timing

Timing itself can drive cost. When you begin in business, or enter a new business or add a new product or service, can greatly affect the cost required to establish operations and educate the marketplace that you exist and why they should choose you. Often, the first company to offer a service enjoys easier and less costly penetration/customer awareness. Established competitors might also enjoy lower cost because they have already paid for all or a part of their physical assets and they may be able to operate more efficiently because of their experience.

Later entrants might also be able to enjoy cost advantages over their competitors that have been in business longer. For example, older firms may be stuck with older technology that is much less efficient and may not have the capabilities offered by newer machinery. Older firms may also be stuck in a location that is now less than ideal.

Almost any firm can use timing to reduce costs over competitors by simply buying during times of lower prices. This skill alone could produce a powerful cost advantage over

competitors. Businesses that depend on the purchase of capital equipment can significantly reduce costs by buying used equipment or during time when prices are depressed. Inventory purchase costs can sometimes be influenced as well.

Interrelationships

Interrelationships are how businesses or business units share the cost of a value activity. Sharing a value activity serves the purpose of increasing volume and therefore reducing per-unit costs and improving efficiency. The sharing of a costly technology or piece of equipment might be a way of reducing the cost of delivering a value activity, such as the sharing of prepress equipment and personnel by several print shop locations. Additionally, the pursuit of knowledge and learning can be considered a value activity in itself, indirectly. As such, a franchiser may help franchisees move down the learning curve faster by becoming a storehouse of knowledge and best practices, and disseminating this information to all franchisees. Trade associations play the same valuable role.

Identifying linkages requires that we ask, “What are all the other activities elsewhere that have or might have an impact on the cost of performing this activity?”

Discretionary Policies

Ways of doing things, such as policies and procedures, often reflect a firm’s strategy and involve deliberate trade-offs between cost and differentiation. Some of the choices that tend to have the biggest impact on costs include:

- product configuration
- performance and features
- mix and variety of products offered
- level of services provided
- spending rate on marketing

Almost any firm can use timing to reduce costs over competitors by simply buying during times of lower prices.

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- delivery time
- buyers served
- channels employed
- technology chosen
- scale, timing or other cost drivers
- specification of raw materials
- wages paid and amenities provided to employees
- human resource policies such as training, hiring and employee motivation
- procedures for scheduling production, maintenance, sales calls and other activities

Location

Geographic location of a value activity can affect cost, as can its location relative to other value activities. Though location frequently reflects a policy choice, it can also stem from history, the location of inputs and other factors. Hence, location should be treated as a separate cost driver. Location affects costs in a number of ways. Locations differ in the prevailing cost of labor; talent pool; raw

material quality, cost and availability; energy costs; tax rates; climate; cultural norms, tastes; and other factors. Location relative to suppliers is an important factor in inbound logistical cost, while location relative to buyers affects outbound logistical cost. The effect that location can have on the various parts of a business should be considered when a site is selected.

The basis of this article is the work of Michael E. Porter as described in his two books, Competitive Strategy and Competitive Advantage. □

Want to Improve Profit? Everything's Negotiable

When I was a younger business person I wanted to be well-liked and do things right. Well-liked by vendors, customers, employees and investors. I wanted to solve not just my own problems but their problems, too. I'd pay bills in full even when a vendor failed to meet basic standards of performance. I'd coddle employees who did not give me reason to retain them. And I tried to "do things right," such as volunteer work for philanthropic causes.

Over the past 15 years, my focus has changed. I'm now free to spend more time on what is really important – building a successful business. I'm convinced that my old route was a recipe for failure. I no longer strive to please others. I simply try to please myself. I do so by consistently doing what I believe is right for all interested parties — me, my family, my employees, vendors, customers, investors, community, country and world.

There is a big difference. I know what I must do to please myself. I've given it a lot of thought. In contrast, I can never be sure what others want from me. Pleasing myself is much easier. There's much less uncertainty and the results are guaranteed. If I know how I want to live my life, and then live it, then I enjoy great personal peace and satisfaction.

For example, I believe that the best thing for my community is that I build a successful business. Then, once I secure success, I can spend more time and money serving in ways outside of my business, such as philanthropic endeavors. Some will not agree with this approach, but some do. If my goal was to please others, I'd be caught between the two. I've made my decision, and now I can live in peace — knowing that I'm doing what is best for me, my family, my employees, and my community.

Lou Holtz coached the Notre Dame football team while I was in graduate school there. He makes it very clear that he's not in a popularity contest. His goal is not to be liked but to build a winning football program. To do this, he's gonna drive the heck out of each player, coach, administrator and alumnus in an effort to do all that it takes to succeed. It's not going to be easy

and some are not going to like it. But he believes that, when his players are older, they will look back and say, "Lou Holtz was a son-of-a-gun, but he cared for me and made me a better person."

I've also come to realize that I can't solve problems for people. People can solve only their own problems. My attempts to do so are simply arrogance. I have plenty of solving to do in my own life and affairs. Sure, if someone asks for my opinion or advice, I am obliged to offer it. If they deem my ideas to hold merit and be worth applying, then so be it.

There are plenty of opportunities each day to demonstrate trustworthiness and ability to pay. If I manage my business prudently and properly, enough will be said.

I must protect my business and those who depend on it, and if that means standing up for what is right with a vendor or employee, then that's my duty. My call to help the weak and give to the hungry is exercised elsewhere.

But I now know that I must protect my business and those who depend on it, and if that means standing up for what is right with a vendor or employee, then that's my duty. My call to help the weak and give to the hungry is exercised elsewhere.

A logical extension of this is reflected in the title of this article. I assume that in business, people are "big boys and girls." They alone know what is right and wrong for them. They're fully empowered to say "yes" and to say "no" on the sole basis of what is right for them or theirs.

To build a profitable business today, you must be tough. Tough with expense reduction and revenue generation. In my experience in banking and financial services, I've seen the financials of thousands of businesses. The 80/20 rule holds true — 20% make all the money. The rest break even, or worse. To secure the future, you need to make money. In doing so, everything is negotiable (except ethics). I suggest that you don't buy a single item without negotiating for a discount.

If you have a hard time being cheap, consider that your ability to consistently lower costs may be your only hope for ensuring long-term viability. Also, ask yourself — if you were in the shoes of your vendor, would you rather get the call and hear the offer, or not get the call at all? □

Beware of Scams Using IRS Name and Logo

The Internal Revenue Service has issued several recent warnings on the fraudulent use of the IRS name or logo by scammers trying to gain access to consumers' financial information to steal their identity and assets. Current scams include phony e-mails that claim to come from the IRS and lure the victims into the scam by telling them that they are due a tax refund.

If you receive a suspicious e-mail that claims to come from the IRS, relay the

In a new scam, both a form and cover letter are faxed to people with instructions to fax the completed form back to the number contained in the form.

e-mail to a new IRS mailbox, phishing@irs.gov. The IRS can use the information, URLs and links in the suspicious e-mails you send to trace the hosting Web site and alert authorities to help shut down the fraudulent sites.

Unfortunately, due to the expected volume, the IRS will not be able to acknowledge receipt or respond to you.

When the IRS learns about schemes involving use of the IRS name, it tries to alert consumers as well as authorities that can shut down the scheme, if possible.

There are many different types of IRS-related scams being attempted. For example, in a new scam, both a form and cover letter, supposedly from the IRS, are faxed to people with instructions to fax the completed form back to the number contained in the form. The letter says that the IRS requires an update of the recipient's tax information and promises to deposit a nominal tax refund to the recipient's bank account in return. The form is a "substitute and recertification" Form 1040, titled "Certificate of Current Status of Beneficial Owner For United States Tax Recertification & Withholding." The form requests detailed personal and financial information, such as mother's maiden name and bank account and PIN numbers, that can be used to steal the identity and access the bank accounts of anyone who responds to this scam.

In reality, there is no such form and the IRS does not ask taxpayers to provide the type of information specified on the form.

The IRS does not initiate taxpayer communications through e-mail.

Some people have received phone calls about the economic stimulus payments, in which the caller impersonates an IRS employee. The caller asks the taxpayer for his/her Social Security and bank account numbers, claiming that the IRS needs the information to complete the processing of the taxpayer's stimulus payment. In reality, the IRS uses the information contained on the taxpayer's tax return to process stimulus payments, rather than contacting taxpayers by phone or e-mail.

Another scheme has been reported in which a tax refund form is e-mailed, supposedly by the Taxpayer Advocate Service (a genuine and independent organization within the IRS that assists taxpayers with unresolved problems). It is particularly blatant in the amount and type of information it requests. The top of the form tells the recipient

that he/she is eligible for a tax refund for a specified amount.

Again, there are many variations of the above described schemes. Remember:

- The IRS does not initiate taxpayer communications through e-mail.

- The IRS does not request detailed personal information through e-mail or fax or phone.

- The IRS does not send e-mail requesting your PIN numbers, passwords or similar access information for credit cards, banks or other financial accounts.

For more information, go to OnGuardOnline.gov. You'll find practical tips from the federal government and the technology industry to help you be on guard against Internet fraud, secure your computer, and protect your personal information. □

Some people have received phone calls about the economic stimulus payments, in which the caller impersonates an IRS employee.

TAXES

Don't Forget to Fund Your Retirement Savings Plans by April 15!

Plan Type	IRC Section	2008 Max
Defined Benefit	415(b)(1)(A)	\$185,000
Defined Contribution	415(c)(1)(A)	\$46,000
Elective Deferrals 401(k) and 403(B) Plans	402(g)(1)	\$15,500
Elective Deferrals 457(B) and 457 (C) Plans	457(b)(2) and 457(c)(1)	\$15,500
Catch-up Contributions 401(k), 403(B) and 457 Plans	414(v)(2)(B)(i)	\$6,000
SIMPLE Retirement Accounts	401(k)(11)(B) and 408(p)(2)(B)	\$10,500
SIMPLE Catch-Up Contributions	414(v)(2)(B)(ii)	\$2,500

13 Rock-Solid Reasons It's Time to Buy, Not Sell (Public Equities)

1. **Buy Low, Sell High.** When we boil it down, life is not that complex. Just adhere to a few simple rules and we'll do pretty darn well. One simple rule of investing is "buy low, sell high." So why are you considering selling now when equities values are low? You should be buying.
2. **If You Don't Need the Money Now, Chill Out!** Get over your myopic focus on today. Today will be over in a blink. Next year will be here and gone before you know it. If you don't need today the money that you have in equities, why are you so concerned about their value today? You should be more concerned with future values. The value at the time you need the money. And, given that equities are at record lows, maybe it would make sense to have a little patience?
3. **Equities Are a Hedge Against Inflation.** We're all concerned about the federal deficit. Economists will tell you that if it becomes a big problem, one of the few solutions will be for the government to allow inflation to rise and "work its magic." That is, let inflation erode the real cost of the debt. True, this would create a lot of financial pain, but, if it occurs, the place you'll want your money is equities. Equities are a hedge against inflation.
4. **In a Volatile World, the U.S. Will Thrive.** The United States is so very well established in its rule of law, systems of justice and national security. Sure, we're not impervious, but we're an incredibly safe place relative to the rest of the world. So when things get rough, the world sends its money to the United States, and when they do, the U.S. economy is buoyed and the value of U.S. assets, such as public equities, rise.
5. **Don't Be Chicken Little.** My goodness, is the sky falling? Nobody respects Chicken Little. Sure, a storm may be at hand, but the world is not coming to an end. Just hunker down and wait it out. Better times will return sooner than you ever thought.
6. **Statistics Indicate That Stocks Are Undervalued.** Based on corporate earnings, stocks are the least expensive they have been in 21 years, and within 10% of the lowest readings in the past 52 years. Looking simply at the percentage decline, at the November closing lows the S&P 500 was down 52%, very close to the declines in these indexes during most of the really severe bear markets in modern history.
7. **Don't Base Your Decisions on Highly Unlikely Worst-Case Scenarios.** I keep hearing people justify their exit from equities by saying, "This could be like the Great Depression" and "What if it the market falls to ..." Look, the odds of these worst-case scenarios coming home to roost are very low and it doesn't make sense to base your decisions on them. You don't have all your money in the market anyway, and nobody is suggesting that you should. You have a home, a business, a car, some cash in the bank, and probably some other less risky investments such as bonds. Such are your worst-case scenario hedges. Besides, if a worst-case scenario comes to pass, you're going to be suffering no matter what your current investment decisions.
8. **Follow the Leader.** Nobody disputes that the world's financial leader, the guru, is the "Oracle from Omaha," Warren Buffett. What's he doing? Buying stocks. Equities. And he'll most likely make another fortune in the next 10 years by doing so. So be like him. Follow the leader.
9. **You're Buying Companies, not Tulip Bulbs.** When you buy a stock in a company, you should think of it as buying actual ownership in a company. If you buy a mutual fund, you're buying an interest in a lot of companies. These companies are not going to just go away. If you buy Apple, or IBM or Wal-Mart today, at a deep discount from a year ago, how risky do you really think it is? Let me tell you — not very. These companies are not going away. You're getting ownership in some world-class companies that will be world-class 10 and 20 years from now as well.
10. **We Have Learned from the Past.** The Great Depression was caused by flawed government policies. Taxes were raised to balance the U.S. deficit although we were in a recession. Government spending was cut although we were in a recession. World trade plummeted due to protectionism. Huge financial institutions were allowed to collapse, causing fear and chaos. But, hey, the U.S. and world governments learned from the past. They are not making these mistakes again. The world is not going to decline into another Great Depression.
11. **View Stocks Today as Being on Sale.** You own stocks along with a whole lot of other people. Each day, some decide to sell — and they decide what price to sell at. Today, there are people who own stocks that were recently selling for \$100, but now they are offering them for \$60. Well, better them than you, right? Maybe it's time to buy because these silly people have offered theirs for sale at deep discount. Common sense would certainly say it's not a good time for you to be selling. You're better off buying.
12. **View It as an Offer to Buy or Sell.** Warren Buffet says we should view the stock market as simply a mechanism that provides us each day with the price at which we can trade that day. We, as investors, get to decide when to accept the invitation. Logic would hold, then, that we should wait to buy until the price is very attractive for buying, and wait to sell until the price is very attractive for selling. It's pretty simple. Be patient. The price you want will be around soon.
13. **Look at the Great Depression!** If you had owned stocks — public equities — at the beginning of 1929 — right before the Great Depression — and did not sell, the value of your portfolio would have dipped to just below 50% of its value over the ensuing five years. Not far from what's happened this year. But by 1937, equities were at 80% of the pre-crash prices and were "in the black" by 1947. To be sure, you would not have gained much wealth during that period, BUT YOU WOULD NOT HAVE GONE BROKE. Said another way, even if the current financial tumult were to mirror the Great Depression, stocks would be a LOT higher in five and ten years than they are today. □

Investment Losses: Use Them to Reduce Taxes

We know that investments go up and down, and that different types of investments tend to go up and down at different times. We also know that the IRS provides us with a couple of avenues for using our investment losses to lower our tax bill. The trick is to know the rules and then manage our investments in a way that gives us maximum tax advantage.

Here are the avenues for using investment losses:

Right of Offset: Realized investment losses can be used to offset realized gains — dollar for dollar. Assuming you have a diversified investment portfolio, you probably have some winners and some losers. If you could offset gains with losses, you'd save considerable tax.

Example: You have \$10,000 in paper profit in a handful of investments and more than \$10,000 in paper losses on another handful of investments. Why not sell both (turn them from paper to real)? This way you're no worse off in the losers (they are simply worth today what they are worth today, and you can place

the money back in the market after you've used them to shelter the gains on your winners), but your winners netted you more (i.e., you avoided paying tax on the gain).

Again, realized gains will be taxed unless you have losses that can be used to offset them. Typically, a portfolio will have a lot more winners than losers. So, the losers are at a premium, if you will. When your portfolio contains losers, such as during bear markets, try to "harvest your losses" and use them to shelter gains on winners. This doesn't mean you have to get out of the market. Just turn some unrealized gains and losses into realized gains and losses — for the purpose of lowering your tax bill — and put your money right back in the market (but beware of "Wash Sale" rules).

Net Loss Deductibility: Each year, the IRS lets you deduct from taxable income up to \$3,000 in investment losses*. So if each year you find \$3,000 in losses and use them to shelter taxable income, you reduce your taxes each year by \$1,050 (assuming you are in the

35% tax bracket). But if your net losses are more than \$3,000, you can allocate the excess to future years — \$3,000 per year. Time value of money reduces the value of future deductions, of course, so savvy management will pay dividends.

* *Realized* losses. Paper losses don't qualify. Talk to your financial advisor.

This year has been abysmal for investments such as publicly traded stocks and bonds. Both are down. The silver lining is that you can use investment losses to reduce taxable income so long as you are willing to turn paper losses into real profits and work around IRS offset rules and annual net-loss deductibility limits.

Wash Sale Rule: If you sell a stock or bond and then buy it (or something very similar) back within 30 days, IRS may take away any tax deduction you attempt to take: the "wash sale" rule.

Note: Unused capital loss credits expire when the taxpayer dies. That is, the surviving spouse or estate will not be able to use unused capital loss credits of a deceased. □

TAXES

IRS Announces 2009 Standard Mileage Rates

The Internal Revenue Service has issued the 2009 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.

Beginning on Jan. 1, 2009, the standard mileage rates for the use of a car (also vans, pickups or panel trucks) will be:

- 55 cents per mile for business miles driven
- 24 cents per mile driven for medical or moving purposes
- 14 cents per mile driven in service of charitable organizations

The new rates for business, medical and moving purposes are slightly lower than rates for the second half of 2008 that were raised by a special adjustment midyear in response to a spike in gasoline prices.

The rate for charitable purposes is set by law and is unchanged from 2008.

The business mileage rate was 50.5 cents in the first half of 2008 and 58.5 cents in the second half. The medical and moving rate was 19 cents in the first half and 27 cents in the second half.

The mileage rates for 2009 reflect generally higher transportation costs compared to a year ago, but the rates also factor in the recent reversal of rising gasoline prices. Though gasoline is a significant factor in the mileage rate, other fixed and variable costs, such as depreciation, enter the calculation.

The standard mileage rate for business is based on an annual study of the fixed and variable costs of operating an automobile. The rate for medical and moving purposes is based on the variable

costs as determined by the same study. Independent contractor Runzheimer International conducted the study.

A taxpayer may not use the business standard mileage rate for a vehicle after using any depreciation method under the Modified Accelerated Cost Recovery System (MACRS) or after claiming a Section 179 deduction for that vehicle. In addition, the business standard mileage rate cannot be used for any vehicle used for hire or for more than four vehicles used simultaneously.

Taxpayers always have the option of calculating the actual costs of using their vehicle rather than using the standard mileage rates.

Revenue Procedure 2008-72 contains additional information on these standard mileage rates. □

Hire and Employ Wisely to Reduce Employee Termination Problems

When it's time to terminate an employee, most of the cards have already been dealt. If you've failed to play the game wisely and thereby hold a bad set of cards, there's not a lot you can do to improve your hand.

The good news is, there are just a few basic things you need to do to reduce employee termination-related problems such as litigation. Here they are:

Have a Written Employment Policy That Contains the Following:

Statement of Non-Discrimination. To get one, just ask your attorney to send you a boilerplate policy or call your local EEOC (Equal Employment Opportunity Commission) office. Post the policy on the wall (it's the law) in your break room and place the language in your employee policy or manual.

At-Will Employment Statement. Get one from your attorney. Add the statement to your written employment policy. Of course, remove any language from your policy that might be construed as limiting your rights to terminate.

Non-Solicitation and Confidentiality Statements. Get the language from your attorney. Place the language in your employment policy and also state that each employee will be required to sign non-solicitation and confidentiality agreements prior to employment. Develop standard agreements and enforce them as a condition of employment.

Focus on and Document the Business Purpose: The best defense against claims of discrimination is for every hire and fire decision to have a business purpose. Document the purpose and any claimants will have to prove that your real purpose was in fact discrimination.

Have All Job Applicants Sign a Written Application: Include on the job applications form a notice that only written representations and promises of the employer will be enforceable. Include a detailed job description in the application; one that lists the tasks an employee will have to perform satisfactorily to qualify for and maintain the position.

Have Written Job Descriptions: List the tasks an employee will have to perform satisfactorily to qualify for and maintain the position. Be sure the job description covers all the tasks the employee will be expected to perform. A worker dismissed for an inability to perform a task not listed in the job description may be able to file a wrongful discharge claim.

Quarterly Inform All Employees of the Following: Warn supervisors and managers not to give oral assurances of job security to applicants or employees.

Hold and Document Periodic Employee Reviews: They should be candid, concise and clear. Ambiguous, flattering comments should be avoided. Problems should be identified and remedial actions and timetables specified. Of course, they should

be in writing and the employee should be required to read and sign them, and add comments if they wish. This step establishes a clear record that will be hard to deny or dispute if the appraisal is questioned in the future. Finally, if an unsatisfactory employee appraisal is inconsistent with earlier evaluations, management should investigate the matter and include a written report of the review in the employee's personnel file.

Develop and Put in Place Uniform and Progressive Disciplinary Standards: Your attorney can help you develop a basic plan. This will help you avoid charges of discriminatory treatment.

Hire Based on Skill, Ability and Experience: The best defense against claims of discrimination is to not discriminate. Hire based on the skill, ability and experience of the applicant. Advertise the qualifications needed for the job. Interview and rate, in writing, the degree to which each applicant meets the criteria. Hire a candidate who ranks at or near the top.

Have Your New Hires Sign a Confidentiality Agreement: Your attorney can help you draft one.

Have Your New Hires Sign a Non-Solicitation Agreement: Your attorney can help you draft one.

Document Employee Misconduct or Underperformance: Record all significant employee problems so that subsequent discipline or discharge actions are documented and can be justified.

Maintain Employee Complaint Procedures: Make sure complaint resolution procedures are credible and work properly. This is one of the most effective ways to prevent wrongful discharge lawsuits because it provides opportunities to correct misperceptions and to rectify mistakes internally.

Mike Lissau, an employment law expert with Hall Estill, and William O'Connor, an attorney with Norman Wohlgenuth, each provided his expertise for this article. □



"So, with just a few extra lines and a splash of color, our dismal earnings become a lovely mountain scene."

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Have to Let an Employee Go? Read This First!

It is true that your defense against a wrongful termination suit is almost entirely developed when the employee is hired and during employment. But handling the termination itself in a professional manner will also help reduce the incidence of problems. So, here's what smart companies do:

Pause Before You Terminate: Avoid spur-of-the-moment terminations. Don't terminate when tempers are high and don't let your managers do it either. Use suspensions (provided for in a pre-established disciplinary procedure) to provide time for investigation, documentation and careful analysis. This process can provide an objective review of the documentation and steps leading to termination and can help assure that the process is being administered fairly and consistently and that the termination action fits the circumstances.

Conduct the Termination Notification Privately but with a Witness: The witness should be another company manager or your attorney. Make sure any termination is discussed only with persons on a need-to-know basis to limit the potential for claims of defamation, invasion of privacy or emotional distress.

Have a Written Termination Statement: Make sure it is carefully and accurately written to minimize allegations of defamation or intentional infliction of emotional distress. Give the employee the opportunity to review, comment on, and sign the statement, and if the employee refuses to sign it, make a note of that fact.

Conduct an Exit Interview: In addition to letting the employee know the business reason for the termination, give the employee ample opportunity to share his or her feelings. Better than that, ask for them in private and listen to the answer. Take the opportunity to correct misperceptions about the termination and to uncover and defuse a potentially litigious situation. If the results lead you to want to talk to your legal counsel, do so.

If You Have Special Concern, Talk to Legal Counsel Before Termination: If you suspect that a legal problem has developed or could develop, talk to your lawyer before you terminate the employee. For example, it might be smart to try to negotiate with the employee a general release of claims. There also may be certain circumstances where such agreements are not appropriate.

Protect the Employees' Interests as Well as Your Own: Your employees will want and need to know what the reason was for the termination. They have a right to know, but you don't want to open yourself up to a defamation or disparagement suit. Be professional and respectful. Focus on the questioning employees' relationship with the company, the future of the company, and how employees can gain and retain employment security with the firm.

Don't Withhold Compensation: Do not withhold for any reason any accrued and unpaid salary, benefits or reimbursable expense. Either pay them in full upon termination or when they would have otherwise been paid.

Mike Lissau, an employment law expert with Hall Estill, and William O'Connor, an attorney with Norman Wohlgenuth, each provided his expertise for this article. □

“You gain strength, courage and confidence by every experience in which you really stop to look fear in the face. You are able to say to yourself, ‘I have lived through this horror. I can take the next thing that comes along.’ You must do the thing you think you cannot do.”

Eleanor Roosevelt

About the Publisher



David L. Perkins, Jr. owns, writes, edits and publishes *The Business Owner*, the

newsletter of choice for more than 30,000 business owners who are serious about building wealth through successful private business ownership.

Perkins draws editorial ideas and inspiration from his own life as a business owner and investor, and his daily work as a mergers & acquisitions consultant, where he has advised on more than 100 purchase/sale transactions involving both private and public companies. His M&A consulting firm is Acquisition Advisors, which he founded in 1997 and which specializes in transactions valued between \$5 million and \$75 million. Visit AcquisitionAdvisors.com to learn more.

Perkins holds a bachelor of arts degree in psychology from the University of Oklahoma and an MBA from the University of Notre Dame, and has completed the executive education course titled “Mergers and Acquisitions” at The Wharton School, University of Pennsylvania. He also pulls editorially from prior experience in commercial real estate leasing and brokerage, commercial bank lending and private company financial management.

Perkins is the author of *A Concise Overview of Business Valuation* and co-author of *The Business Sale, An Owner's Most Perilous Expedition*. You can buy the former at www.TheBusinessOwner.com.

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Sway: The Irresistible Pull of Irrational Behavior

By Ori Brafman and Rom Brafman

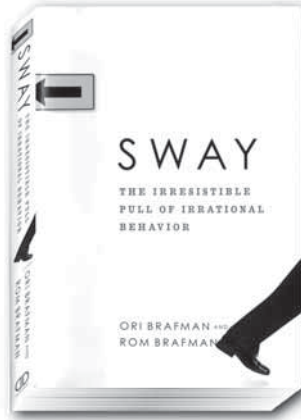
Reviewed by David L. Perkins, Jr.

Ever said to yourself, “Why in the world did I do that?” Of course you have. After all, as Roman Catholic Cardinal Melchior De Polignac declared, “*Errare humanum est* (to err is human).”

But **why** do we behave in ways contrary to our own self-interest? Why, when we place so much pride in our ability to be rational and prudent, do we at times behave with such irrationality?

Why does a billionaire oil executive and commodities trader double down on trading losses again and again until all is lost? Why do NASA scientists ignore data that clearly show O-rings fail?

According to the Brafman brothers — as described in the book — we simply fall prey to one of a handful of “psychological forces that derail rational thinking.” The promise of the book is that, if we can become aware of them, we might be better able to avoid falling victim. And so *Sway* is filled with incredible stories about smart and successful people that, the Brafman brothers contend, fell victim to one of the “sways” ... with disastrous consequences. I suggest that you pick up a copy. It’s a fascinating read that just might help you avoid disaster.



to get us to accept flat-fee service to avoid the risk of getting a surprise bill. Loss aversion combined with commitment bias is a powerful force that has led many to their financial grave.

It’s the investor who watches his entire stake slowly evaporate for his inability to accept defeat and change course. It’s the gambler who keeps doubling down to catch up. The solution is to focus on long-term goals.

Value Attribution: We tend to imbue people and things with the qualities of their presentation or surroundings. It’s why packaging matters so much. It’s why Mercedes dealerships are spotless, spacious marble palaces. But context clouds our ability to see real attributes. We may turn down a pitch or idea presented by the “wrong” person, or blindly follow the advice of someone we highly regard. Similarly, our expectations of “context” influence our assessments. Value attribution

bias hinders our ability to objectively assess value. Studies show that the price we pay for a ticket affects our enjoyment of the performance. So make a conscious effort to see things for what they really are and not just how they appear to be. Differentiate between “packaging” and real attributes. Initial impressions can be wrong.

Procedural Bias: We tend to emphasize process and procedure instead of product or outcome. This makes us susceptible to irrational decisions if the process meets our needs or expectations and diverts our attention away from the actual value of the product or service or outcome. Try to recognize when “process” is influencing your perceptions. Try not to lose sight of what you want to get as a final product.

Group Conformity: We like conformity. When a group reaches consensus, members of the group feel pressure to “go along to get along.” This can lead to irrational behavior such as groupthink. The good news is that a single dissenter can help the group break out of groupthink and make more rational decisions. □

Sways That Derail Rational Thinking

Diagnosis Bias: We make hasty judgments about people and things based on limited, subjective information, and then holding too tightly to our judgments (though they were formed from weak and/or incomplete data), accepting only information that conforms to our established views. Diagnosis bias is powerful and prevents evaluating new information objectively. When we label people, they tend to take on the characteristics of our “diagnosis” (the chameleon effect). The solution is to be open to new facts and ideas.

Commitment Bias: Irrational loyalty to an old strategy that was previously successful (staying the course) is not in our best interest. Some catastrophic airplane crashes have been the result of pilots’ commitment bias. They focus on on-time arrivals and departures, ignoring warning signs and safety factors. Businesses fall prey to confirmation bias, too. But they need to step back from projects and ask, “If I were just arriving on the scene and reviewed the facts, is this solution the rational one?”

Loss Aversion: We go to great lengths to avoid loss. Sometimes our desire to avoid loss causes us to act irrationally. Car rental companies prey on this by getting us to buy additional “damage waiver” insurance. Phone companies try

“A storm comes, you relocate, and no matter where you end up, you work hard, learn to have fun again and live your life. Ultimately, it’s about moving on, healing up and getting the job done.”

Jeremy Shockey
NFL Football Player

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 Accelerate Cash Flow: Offer an Early-Pay Discount? (M/A 08, 787 Words)
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 Incremental Cost Analysis: A Quick Way to Save Money on Quantity Purchases (M/A 08, 648 Words)
 Before You Borrow from (or Lend to) Your Company (M/J 08, 549 Words)
 How to Compute the True Cost of a Loan (J/A 08, 2,918 Words)
 Debt Reduction When the Going Gets Tough (J/A 08, 407 Words)
 Use of Subordinated Debt (J/A 08, 223 Words)
 Life Insurance Cautions (Sept/Oct 08, 201 Words)
 Ask the Editor: Auto Lease Assumptions (Nov/Dec 08, 772 Words)

Investments

- Making Sense of the Sales Multiple (M/J 08, 636 Words)
 How to Protect Yourself from the Coming Capital Gains Rate Hike (Sept/Oct 08, 231 Words)

Legal

- C-Corp Status: A Killer When You Sell (J/F 08, 144 Words)
 Where to Keep Important Documents (M/J 08, 430 Words)

Management

- Manage Effectively in a Recession (M/A 08, 596 Words)
 The One Thing You Need to Know (M/J 08, 375 Words)
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 Virtual Labor: Talent on Call, Competitively Priced (J/A 08, 233 Words)
 Book Review: The Future of Management (Sept/Oct 08, 543 Words)
 Protect Your Customer Lists, Other Confidential Information (Sept/Oct 08, 338 Words)
 How to Handle the Current Economic Tumult (Nov/Dec 08, 481 Words)

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 Quick, Effective Business Writing (M/J 08, 482 Words)
 More Questions, Fewer Statements Key to Effective Communications (M/J 08, 781 Words)
 Business Etiquette: A Soft Issue That Moves Hard Dollars (Sept/Oct 08, 859 Words)
 Avoid Wasting Tie & Money on Prospective Business Deals (Sept/Oct 08, 875 Words)
 Your Guide to Holiday Gift Giving (Nov/Dec 08, 756 Words)

Profit Enhancement/Cost Reduction

- Generate Higher Profit, Fast (M/J 08, 1,544 Words)

Purchase, Sale and Valuation of Private Companies

- How to Value an Intangible Asset (M/J 08, 929 Words)
 The Logical Buyer for Your Small Business (J/A 08, 781 Words)
 Getting the Highest Possible Sale Price for a One-of-a-Kind Asset (J/A 08, 2,735 Words)
 How to Maintain Confidentiality When Selling Your Business (J/A 08, 947 Words)

Real Estate

- Rented Space: Are You Actually Getting What You Pay For? (J/A 08, 271 Words)

Risk Management

- Fraud Prevention: Lessons Learned from Societe Generale's \$7.2 Billion Loss (M/A 08, 821 Words)
 Common Types of Fraud Perpetrated on Small Businesses (M/A 08, 1,104 Words)
 Reduce Your Dispute-Related Legal Costs (Sept/Oct 08, 300 Words)
 What You Need to Know About Alternative Dispute Resolution (ADR) (Sept/Oct 08, 1,750 Words)

- Save Time and Money: Place ADR Clauses in Your Agreements (Sept/Oct 08, 658 Words)
 Drafting Your ADR Clause: The Basic Six (Sept/Oct 08, 793 Words)
 Drafting Your Arbitration Clause: A Checklist (Sept/Oct 08, 1,543 Words)
 Risk Management: A Business Owner Imperative (Nov/Dec 08, 371 Words)
 Eleven Steps to Smart Risk Management, Value Enhancement (Nov/Dec 08, 1,812 Words)
 Insurance: What's Available, What It Does and Why You Need It (Nov/Dec 08, 1,129 Words)
 Business Interruption Coverage Essential for Many (Nov/Dec 08, 662 Words)
 Know Your Property-Casualty Insurance Policy (Nov/Dec 08, 613 Words)
 Hidden Risk in Indemnities: Read Before You Sign! (Nov/Dec 08, 324 Words)
 Liability Is Your Biggest Exposure: Are You Covered? (Nov/Dec 08, 636 Words)
 Why Business Owners Should Use a Commercial Insurance Specialist (Nov/Dec 08, 254 Words)
 Commercial Multiline Policies: Easy, Economical, but Not Necessarily Sufficient (Nov/Dec 08, 455 Words)

Strategy

- 2008, Your Best Year Yet (J/F 08, 399 Words)
 Go for Something, Make It a BHAG (J/F 08, 1,223 Words)
 Serve Someone, Anyone, Just Not Everyone (J/F 08, 818 Words)
 Stand for Something – Success Takes Root When It's About More Than Money (J/F 08, 623 Words)
 Be Something, Anything but Boring (J/F 08, 1,070 Words)
 Sample Mission and Guiding Principles: McDonald's (J/F 08, 382 Words)
 Business Owners: What Color Is Your Parachute? (J/F 08, 929 Words)
 Taking Your Goals from Paper to Performance: Execution (J/F 08, 818 Words)
 Sample Mission and Guiding Principles: Google (J/F 08, 1,574 Words)
 Want Ideas for Improving Your Business? Attend Your Industry Conference (J/F 08, 622 Words)
 Eight Tips to Get You to Closing (M/J 08, 780 Words)

Scam Alert

- Scam Alert: International Profit Associates (IPA), International Tax Associates (ITA) (M/J 08, 749 Words)

Tax and Tax Planning

- New Rules for Tax Preparers Could Impact You (M/A 08, 865 Words)
 Cash Method of Accounting Could Reduce Your Tax Bill (J/A 08, 288 Words)
 Tax Relief Enacted for Forgiven Mortgage Debt (Sept/Oct 08, 163 Words)
 2008 Tax Information (Nov/Dec 08, 1,107 Words)

What Every Business Seller Should Know (Part V of VI)

SELLER REPRESENTATION

EMPLOYEE BUYOUTS

RECAPITALIZATION

To Maximize Value, Be Open to Seller Financing

Naturally, you want 100% cash at closing. We all do, but studies show* that you'll receive a much lower total sale price if you refuse to provide any seller financing. This is because the amount of cash the buyer has, and the amount the banks are willing to lend, are fixed amounts. If you don't accept seller financing, then the sum of the buyer's cash and bank financing will be the maximum you receive at closing. Now, would you like more? Well, then offer some seller financing. Worst case is you don't get paid your entire seller-financing portion (but you receive more than the all cash price!)

You see, we don't suggest that you agree to forgo up-front cash in lieu of a promise to pay. Of course not. Insist that the buyer contribute all the equity and bank debt they are able, but once these are maximized, why not get some additional "paper" from the seller? You have nothing to lose.

*Transaction Patterns by Toby Tatum



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