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Internal Benchmarking: Use Past Performance to Boost Future Profit

Would you like a proven profit improvement technique that's simple and requires neither outside consultant nor third-party tool nor report nor MBA degree? We've got it: internal benchmarking.

Internal benchmarking is a simple method to determine your company's profit potential. All you need is your own historical annual income statements. By analyzing each statement, line by line, you can identify the best historical performance by line item or department. You then can use the information to work toward putting all of your best line-item performances into future years. The result will be a vastly improved bottom line.

The logic is simple. Your bottom-line profit is what's left over after all the expenses have been paid out of revenue. So why not focus on each line item? If each is managed to hit a desirable target, the bottom line will take care of itself.

Here's How

To show you how, let's walk through an internal-benchmarking analysis for Chester Fields Corporation (CFS). We gathered the most recent five full years of income statements for CFS and lined them up, side by side, as in the table on page 4 titled *CFS Internal Benchmarking Worksheet*. We created it by loading income statement data, by hand, into Excel. We added percentage fields ourselves, too. Each year's percentages are calculated with total revenue as the denominator.

Due to space limitations, we used summary income statement data. Of course, you can go into as much detail as you wish.

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- **Health Insurance Costs Rising? Get Active, Start a Wellness Program**
- **Non-Competes as Part of a Business Purchase or Sale**
- **Credit Cards More Expensive, Riskier as Source of Funds**
- **Consistent Advertising Is Essential, Smart Strategy During a Recession**

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From the Editor

Greetings, Business Owner:

David L. Perkins, Jr.

This issue continues with our series on cost reduction and profit enhancement strategies. Internal benchmarking, the cover topic, is a smart strategy that requires no outside assistance, information or cost.

Simply gather your income statements for each of the past five years or so, "spread" the information in a spreadsheet program such as Microsoft Excel (or even by paper and pencil), analyze the data and attempt to match, in the current year, each historical-best line item (in dollars or percentage of performance revenue, whichever is appropriate).

It's a powerful, cheap and simple tool for profit improvement. Use it.

Regards,

David L. Perkins, Jr.
Publisher and Editor

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PROFIT ENHANCEMENT

Eight Easy Steps to Higher Profit

(Internal Benchmarking)

1. **Pull your historical annual financial statements.** Make it five or seven full years.
2. **View your statements side by side.** Decide whether you want to work on improving every line item/department or just a few key ones. It makes sense to focus on the ones that have the biggest impact on the bottom line. That is, the largest revenue-generating areas and the largest expense areas.
3. **Design your spreadsheet.** Enter the pertinent historical income statement data as in the sample CFS spreadsheet on page 4 that accompanies the cover article in this issue (Internal Benchmarking).
4. **Identify the historical-best line-item performance for each line item.** Circle or color them for ease of visual identification (as we did with the CFS sample).
5. **Create your pro forma "best of" income statement.** Take care to transfer the correct type of data — dollars or percentage of revenue. Revenue and fixed-expense items should be plugged in as dollar figures. Costs of goods and variable expenses should be plugged in as percentages of revenue.
6. **Assign one person to each line item you wish to tackle.** Make it clear. Make them accountable. Give them the support they need.
7. **Investigate strategies for hitting the "historical best."** Every line item will need a strategy, execution of strategy and rigorous monitoring.
8. **Track results and pay incentives for success.** It's out of sight, out of mind. Make the effort and the results part of your daily and weekly routine. It won't be comfortable at first, but stick with it. ❑

"Here's where we stepped up our efforts, and here's where we took the elevator."

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Internal Benchmarking: *Use Past Performance to Boost Future Profit*, continued from cover

Analyzing the spreadsheet, we identified and circled each line item when it was at its most favorable. Then in the far-right column (i.e., the pro forma "best of" income statement), we plugged them in. For revenue line items and four of the six expense lines, we used the dollar figures (as opposed to their percentage of total revenue). [Percentages next to these items were calculated using revenue for this "best of" pro forma.] For revenue sources, we used dollars because we want to hit the best potential revenue number all in the same year (or future years). Revenue drives the business. For Sales and Marketing and Travel and Entertainment expense line items, we used percentages of revenue because they vary, at least to some degree, with revenue.

For cost of goods line items (Materials, Labor and Direct Overhead) we used percentage of revenue (instead of dollars). [The dollar figure has been calculated using the percentage and pro forma total revenue.] This is because these expense categories are variable. That is, they vary with revenue. As sales are made, expenses must be incurred to deliver the product or service.

Similarly, for four of the six expense line items (Payroll, Rent and Utilities, Office Supplies and Misc. Office and Professional) we plugged in the dollar amounts. This is because these expenses are fixed (i.e., they do not vary much with revenue).

Show Me the Money

If you've done it before, you should be able to do it again, right?

Based on our analysis, CFS has the very real potential to do $1,420,000 in revenue and put $223,110 on the bottom line — a full 15.7% operating profit margin. This compares to a five-year high-water mark of $66,000 in profit and 5.5% operating margin.

How can this be? Simply by managing each line item to hit the historical-best line-item performance. Nothing new required whatsoever.

Easy? Maybe not, but definitely doable.

Get Focused, Rally the Troops

The beauty of internal benchmarking is that it's low-cost, relatively easy and effective. It can be your beacon of light for continuous improvement.

Yes, a key question will be HOW to hit your new line-item targets. The first step is to do the analysis. Then investigate how you achieved the desirable performance in that line item that "best" year you identified. For that task, get your employees involved.

Next, get your spreadsheet — just like the one for CFS — printed in wide format. Place it on the wall. Assign a single person to each line item and make it his/her responsibility to hit the target. Tell them that they have 100 percent support from you and the rest of the team (and make it so). Provide bonus incentive for results.

Track performance by month and year-to-date, and watch the momentum build. You'll develop line-item fanatics. Revenue enhancement missionaries. Cost reduction hounds. The result will be a soaring bottom line. ❑

CFS Internal Benchmarking Worksheet

	Year 1		Year 2		Year 3		Year 4		Year 5		Best of (Potential)	
	$	%	$	%	$	%	$	%	$	%	Est. Rev.	%
Product Sales	$749,000	62.4%	$810,000	63.3%	$767,000	68.5%	$899,000	64.6%	$749,000	65.1%	$899,000	63.3%
Service Sales	$357,000	29.8%	$361,000	28.2%	$298,000	26.6%	$333,000	23.9%	$276,000	24.0%	$361,000	25.4%
Parts	$94,000	7.8%	$109,000	8.5%	$55,000	4.9%	$160,000	1.5%	$125,000	10.9%	$160,000	11.3%
Revenue	$1,200,000	100%	$1,280,000	100%	$1,120,000	100%	$1,392,000	100%	$1,150,000	100%	$1,420,000	100%
Materials	$187,200	15.6%	$193,280	15.1%	$184,800	16.5%	$236,640	17.0%	$190,900	16.6%	$214,420	15.1%
Labor	$304,800	25.4%	$332,800	26.0%	$293,440	26.2%	$349,392	25.1%	$296,700	25.8%	$356,420	25.1%
Direct Overhead	$204,000	17.0%	$230,400	18.0%	$200,480	17.9%	$250,560	18.0%	$189,750	16.5%	$234,300	16.5%
Gross Profit	$504,000	42.0%	$523,520	40.9%	$441,280	39.4%	$555,408	39.9%	$472,650	41.1%	$614,860	43.3%
Sales and Marketing Expense	$108,000	9.0%	$106,240	8.3%	$89,600	8.0%	$97,440	7.0%	$108,100	9.4%	$99,400	7.0%
Travel and Entertainment	$24,000	2.0%	$26,880	2.1%	$12,320	1.1%	$125,280	9.0%	$3,450	0.3%	$4,260	0.3%
Payroll (and related expenses)	$216,000	18.0%	$243,200	19.0%	$235,200	21.0%	$285,360	20.5%	$253,000	22.0%	$216,000	15.2%
Rent and Utilities	$44,400	3.7%	$44,400	3.5%	$44,400	4.0%	$51,000	3.7%	$51,000	4.4%	$44,400	3.1%
Office Supplies and Misc. Office	$27,600	2.3%	$26,880	2.1%	$33,600	3.0%	$27,840	2.0%	$17,250	1.5%	$17,250	1.2%
Professional (Acct., Legal, Tax)	$18,000	1.5%	$19,200	1.5%	$11,200	1.0%	$10,440	0.8%	$44,850	3.9%	$10,400	0.7%
Operating Profit	$66,000	5.5%	$56,720	4.4%	$14,960	1.3%	($41,952)	—3.0%	($5,000)	—0.4%	$223,110	15.7%

❑ Light Blue = Percentage of revenue should be used (because it's a variable expense) ❑ Gray = Absolute dollars should be used (because it's a fixed expense)

You've Placed Your Order and Paid, Now Pull Up and ...

Are you waiting for your breakthrough? Wondering when your time will come?

Been working long and hard to get to a better place and, uh, still just working long and hard?

Well, maybe your future is ready for you and you just don't know it.

Maybe your future is ready for you and you just don't know it.

Maybe it's there for you and you just don't trust that it is.

Maybe it's there and all you need to do is pull up and accept it.

This concept was presented to me maybe 10 years ago by Jim Stovall, the legally blind entrepreneur who has achieved considerable success (Narrative Television Network), author and public speaker. I was at lunch with him, inquiring about his ideas about success, the struggle for success, barriers thereto, etc.

So many of us try so hard and few make meaningful breakthroughs. You know?

Why do some seem to make it easily, even repeatedly, while the rest seem to perennially struggle?

Jim said, "You know, I think that, for many people, it's mental." He went on to explain that he thinks many people just never trust that it's there for them. That what they've been dreaming about for so long, and working toward, and telling everyone they want, is actually there and ready for them — they just need to step into that new life and accept it.

Just Pull up and Accept Your Big Mac

In an effort to simplify his point, he said, "Just pull up and accept your Big Mac."

Upon further questioning, he said, "You've placed your order and paid at the first window. Now pull up to the second window and pick up your order."

I did not really understand what he meant at the time, but in the years that have passed I've occasionally pondered what he said. The meaning has become clear, and you know, I think it may be true for many of us.

Step 1. Decide What You Want

What we're talking about is getting to someplace new. To someplace better. Reinventing yourself, your company, your situation.

You can get somewhere new only if you first envision it. Decide it.

You know, people who do not or cannot envision themselves being happy will never be happy. People who cannot really see themselves as "smart" or "a college graduate" or "a business owner" certainly never will be.

I suspect that many business owners' mental barriers or hang-ups prevent them from getting beyond what they have today. Maybe I do, too?

How about the business owner who can envision only "hanging onto" what he has? What a shame. If you can see only "hanging onto" or "maintaining," such will be your future, your limit.

Is this you? If so, snap out of it. Get to thinking big. Start dreaming.

So much is possible! Change happens every day. New creations happen every day. They began in the minds of ordinary human beings like you and me.

Step 2. Place Your Order

After you've decided what you want, write it down. Make it clear. Tell your spouse, friends, partners and employees. Most important, tell yourself each day and lay out a plan for how you will get there. A logical, workable plan.

Step 3. Do What It Takes to Get It

Once you've established your vision and developed your strategy for getting there, get to work. Do what it takes to get there. If you do, well, then you'll get there, right?

This might include investing money. Raising money. Buying something. Hiring new talent. Developing a new product line. Going back to school.

All of these things involve risk. Risk of failure. Risk someone might laugh at you. Risk that someone will say you're a dreamer. When you hear these thoughts or comments, say "Yes" to all of them.

"Yes, I'm taking a risk."

"Yes, I'm a dreamer."

"Yes, I might fail."

And feel the excitement. You're beginning to put on the clothes of your new life.

Step Into Your New Future

Most things in life are much simpler than we make them out to be. So is success. So is redesigning your future. Your life.

Envision for a minute that creating a new future has the same basic steps as picking up lunch at the McDonald's drive-through. You would not order, pay, then just sit there, would you? Of course not. You move up because you've learned how it works and you trust that your order will be there — hot and waiting.

Ditto for those plans you made and have been working toward. Have you forgotten to drive forward?

Trust that your order is there and waiting for you. Go on. There's a line behind you. ❑

Need to Refinance? Simply Incredible New SBA Programs

Don't tell the media, but if you need to refinance your debt — or need additional capital — it may never have been easier. That's right. You can thank President Obama and Congress for approving America's Recovery Capital (ARC) loan program last February as part of the trillion-dollar economic stimulus package.

Yes, the U.S. government has taken bold steps to keep companies afloat during the downturn. Small Business Administration (SBA) guarantee levels have been increased to as high as 100 percent on some loans. In addition, it has waived all fees through the end of the year, raised the maximum business size threshold, and in some cases will even make your interest payment(s) for you!

Loan proceeds can be used for most sound business purposes, including working capital, machinery and equipment, furniture and fixtures, land and building (including purchase, new construction and leasehold improvement), and debt refinancing (under special conditions). Loan maturity is up to 10 years for working capital and generally up to 25 years for fixed assets.

Government Guarantee Helps Banks Say "Yes"

You still go to a bank to get the loan or refinancing, but government guarantees help banks say "yes" when they otherwise could not.

"We believe these changes are making a difference," said Fred Munden, lead development specialist for the SBA's Oklahoma City office. "Commercial lending is increasing and some businesses that were at risk of closure due to inability to refinance debt are now getting the funding they need. In some cases, it's with a different bank, but the money spends just the same."

"The program was a godsend for us," said David LaGere, president and owner of Cherokee Architectural, a 12-person firm that manufactures ornamental staircases.

More Businesses Eligible

SBA loans are available to small businesses, and the definition of "small" has been temporarily expanded. From now until September 30, 2010, it's any businesses with a tangible net worth of under $8.5 million and average after tax-income of less than $3 million during two fiscal years.

Borrowers cannot use the money to pay down SBA-backed loans made prior to Feb. 17, 2009.

100 Percent Guarantee, No-Interest Loans

A 100 percent guarantee program began June 15 and has a maximum loan amount of $35,000. Even more, all interest and fees will be paid by the SBA. The borrower has to repay only the principal. The best candidates are small businesses that have been profitable for one of the past three years but are now struggling and starting to miss loan payments.

Loan proceeds are disbursed over six months and repayment does not have to begin for 12 months after the last loan disbursement. Further, repayment can extend up to five years. Loans of this type will remain available until either the allocated funding runs out or Sept. 30, 2010, whichever comes first. Businesses are limited to one ARC loan apiece.

"This type of loan is designed to provide a shot in the arm for struggling companies," said Munden of the SBA. "We want to help the qualifying companies make it through these tough times and come out the other end whole."

Not for Start-Ups

Munden stressed that ARC loans are not for start-up businesses. "They are designed to help existing small businesses deal with making other loan payments," he said. "Examples of qualifying loans include credit card obligations for your business, capital leases or notes payable to suppliers. They might also involve other loans made without an SBA guaranty."

Application Requirements

Although SBA programs may make loans available to businesses that otherwise would not be able to qualify, there are underwriting standards that must be met. Lenders and the SBA will generally need the following from you when you apply:

Business Profile: A description of your business. Include what it does, the type of legal entity, its products, whom it sells to, the number of employees, a brief history and who owns the business.

Loan Request: A description of how much money is needed and what the funds will be used for.

Collateral: Description of collateral offered to secure the loan. Include equity in the business, borrowed funds, available cash, and assets such as accounts receivable, inventory, equipment and real estate.

Business Financial Statements: Complete financial statements for the past three full years plus year-to-date. This includes balance sheets and income statements.

Projections: Of revenue, expenses and cash flow for the next three years. Must show that the business can support repayment of the requested funds.

Business Tax Returns: Most recent three years.

Personal Financial Statements: For each person who owns 20 percent or more of the business, current personal balance sheets (i.e., a listing of all assets and liabilities and personal tax returns for the past three years).

For more information, including a complete list of SBA lenders, go to www.sba.gov. ❑

Q&A: The New SBA Loan Programs

Tanner Eckler is assistant vice president for Bank of Oklahoma. He recently answered questions about new programs and guidelines implemented by the Small Business Administration (SBA) as part of the America's Recovery Capital (ARC) loan program approved by Congress as part of the trillion-dollar stimulus plan.

"We believe the program is set up to help our current customers retain jobs and to make loan payments for that six- to nine-month period."

Tanner Eckler, Assistant VP – Bank of Oklahoma

Q: Is your SBA lending more active now with the new programs initiated by the federal government?

A: Yes, it really made it attractive to people. The fee waiver and the increase in the guarantee level have created more demand for SBA loans.

Q: Will Bank of Oklahoma participate in the 100 percent guarantee program approved by Congress?

A: Yes we will, at least for existing customers with a viable business. We won't be taking on new customers with this loan program right now because our take is it's designed to help our existing customers first. We believe the program is set up to help our current customers retain jobs and to make loan payments for that six- to nine-month period.

Q: Are you seeing your loan demand increase?

A: Actually, I think we're seeing an increase in awareness more than anything. The program and all of its benefits have been in the news more and we're starting to get some questions answered. I think we have all the information as it pertains to the borrower, but there remain unanswered questions with respect to how the new programs will impact the lender.

Q: Are you still worried about loan quality even though the government guarantees up to 100 percent of the loan?

A: Actually, we don't have all the information about the program yet. We know it's a 100 percent guarantee, that the interest will be paid by the SBA, and the loan amount is $35,000. What we don't know is how and when the loans will be subsidized. Will it be 1, 2, 3 percent interest that is paid to the lender? It's certainly an attractive program, but we still care about loan quality. The SBA developed the program to bridge some gaps and to help eliminate credit risks that we might not be able to take on otherwise. But yes, the underlying credit qualities are still needed. We wouldn't want to put loans on the books that cost the bank money, which can occur even in a 100 percent guarantee situation because it costs a lot of money for a bank to service a troubled account. ❑

Know Your Net Worth

Net Worth: Synonymous with "equity." Calculated by subtracting the total value of all liabilities owed by the business from the total value of all assets owned by the business. A key question is how the assets and liabilities themselves are valued. One well-known method is "according to generally accepted accounting principles (GAAP)."

Tangible Net Worth: Net worth minus intangible assets.

Intangible Assets: Assets that have value but cannot be physically touched or easily valued, such as a brand, franchise, trademark or patent. Cash, receivables and payables are not difficult to value and therefore are considered tangible assets. Small and midsize private businesses may not have any intangible assets on their balance sheet, but if they do, it's typically goodwill, which may have been derived from the purchase of another business, or capitalized expenses such as organization or research and development costs.

Book Net Worth: Simply the net worth of your business as shown on your financial statements. Also described as "unadjusted."

Adjusted Net Worth: Derived by subtracting total liabilities from total assets *after* adjusting each to reflect its true value. For example, business assets almost always include accounts receivable. Let's say that XYZ Company's accounts receivable are shown on "the books" at $249,303, but the business owner knows that this amount includes $33,424 owed by PDQ Inc. that is past due and likely uncollectable. If the business owner were to prepare an adjusted balance sheet, he or she would amend the book value of receivables to reflect a more accurate estimate of value, including all assets and liabilities. ❑

The Business Owner Series on Cost Reduction and Profit Enhancement Strategies

January-February 2009 Issue:
- > Profit Enhancement Through Cost Reduction: The Time Is Now
- > First Step Toward Profit Enhancement? Break Down Employee Resistance
- > Cost Drivers and Where to Look to Lower Cost
- > Want to Improve Profit? Everything's Negotiable

March-April 2009 Issue:
- > Optimize Your Organizational Structure to Eliminate Waste, Increase Profit
- > Cost Reduction: Setting Priorities and Where to Look First

May-June 2009 issue:
- > Peer Benchmarking: Compare Your Company to Others, Find Out What's Possible

▶ This Issue, July-August 2009
- > Internal Benchmarking: How to Use Your Company's Historical Performance Data to Enhance Profit

September-October 2009 issue:
- > Assess Organization-Wide Productivity to Maximize Profit

November-December 2009 Issue:
- > Work Sampling: An Inexpensive Way to Assess Employee Productivity, Set Standards

January-February 2010 issue:
- > Using ABC Inventory Control to Carve Tax-Free Cash out of Inventory

March-April 2010 issue:
- > How to Improve Your Sales Forecasting

May-June 2010 issue:
- > Product and Service Pricing: Get It Right to Maximize Profit

Read This if the BBB Confuses You

If you're like me, the question "Should I join my local Better Business Bureau (BBB)?" is even more perplexing than "Should I join my local chamber of commerce?"

At least the local chamber usually:

- Tries to recruit new companies to your community.
- Lobbies for business-friendly legislation.
- Provides networking events that could help you add revenue.

For businesses that don't sell products that are bought by people who attend chamber of commerce events, the pitch is primarily one of guilt. "Come on, be a team player. Support your community."

The Better Business Bureau will track and make available to the general public, for free, the number of complaints lodged against a business and whether the complaints were eventually resolved.

But the Better Business Bureau is not your chamber. Its niche — and primary pitch — hits what many think is an even softer spot. Its domain is not "community support" but "integrity," "honesty" and "fair business practices."

Get Out Your Wallet

Some business owners just cannot live with themselves if they do not support their local chamber of commerce. Thank goodness for them because the chamber provides a valuable service to all members of a business community.

Ditto for the Better Business Bureau. Scams and unscrupulous business practices are the scourge of our society. So often, the victims are the weak and vulnerable. When I hear the mission of the Better Business Bureau, I want to just get out my wallet.

But does the BBB really reduce fraud? Stamp out unscrupulous business practices? Protect us?

What Is the Better Business Bureau?

The BBB is a basically a business just like yours and mine. It has a product it sells. It needs to sell to keep its doors open. If it succeeds — by adding and retaining members — it boosts salaries, adds employees, leases or buys nicer offices, adds executive or employee perquisites, etc.

BBB is a little different in that it is not-for-profit, but this does not make it vastly different from your business or my business. Local offices are basically franchises. The national office will help to get a local office set up by putting together a board of directors to oversee the local office. The board then will hire someone to run the office. If the local office is successful in bringing in more money than it spends, it will send a portion to the national office. The execs are motivated to grow the revenue (membership fees) for the reasons mentioned above.

The Better Business Bureau Mission

"Building marketplace trust is the mission of the BBB," says Rick Brinkley, president of the Better Business Bureau of Eastern Oklahoma.

So why do so many people think of BBB as just a place to complain?

"We're much more than that," he said. "We want to be the leader in resolving disputes between businesses and consumers. We also want to help protect consumers from scams and shield businesses from wrongful allegations by customers. Our ability to serve as a third-party mediator is often invaluable to businesses."

Complaint Tracking, Dispute Resolution

Local BBB chapters keep records of the businesses within their geographic area. Customers (consumers and businesses) that have a grievance with one of these organizations can file a complaint with the local BBB regardless of whether the customer or vendor is a member. BBB will then contact the vendor and attempt to facilitate a resolution.

BBB will track and make available to the general public, for free, the number of complaints lodged against a business and whether the complaints were eventually resolved or unresolved. A member organization must resolve all complaints to remain a member in good standing.

A Grade for Every Business

BBB maintains a grade for every business in its geographic region: A, B, C, D. The grade on any business, along with the number of resolved and unresolved complaints, is available to the general public by simply calling the BBB chapter nearest the subject company. Locating the appropriate office is easy on the Web. Just go to www.bbb.org and enter the zip code of the subject business. Automated reports are available over the telephone.

To test the system, we inquired on the automated telephone system for two companies — our own (DL Perkins, LLC) and one other, a known scammer. I'll elect not to name it here because it sued me for an article I previously wrote about it. It eventually dropped the suit, but litigation is no fun.

The BBB report (delivered by audio, over the phone) said that we are an accredited member (true), our grade was A+ and we have had no complaints in the past 36 months (true). It also correctly listed (mentioned) the other business names associated with our business — The Business Owner and Acquisition Advisors.

For the firm that we know has scores of unhappy clients and that I feel certain is basically a scam? Well, the firm is not a member, had five complaints in the past 36 months — all resolved satisfactorily, and had a rating of A-.

Dear goodness.

Pay to Join Your Local BBB?

Well, when scam businesses receive a rating of A-, the whole BBB Jupiter Jump loses air, as far as I'm concerned.

The annual fee to be an accredited member is $390 to $950.

continued on next page

Is Your Self-Esteem Derived from Your Income Statement?

Business owners who struggle or fail financially feel humiliated. Robbed of their identity and self-worth. This was certainly the case with Tim Farley. He filed personal bankruptcy after his business failed. After months of trying to turn it around, and a brief hospital stay, he heeded the advice of his trusted accountant. Closed the business and liquidated the assets for half what was owed. Bankruptcy filing followed, then the loss of his home. Then the loss of his financial freedom, friends and self-esteem. He felt like a complete failure and could hardly even face his own children.

According to Dr. Jay-Kent Ferraro, this is quite common. "A great many business owners derive their identity solely from their business or financial success," he said. "The only place they feel alive is in their business. Most are Type-A personalities. Success-oriented. So long as they're successful, their sense of self-esteem remains intact, but it's a shallow and tenuous existence."

Just a Matter of Time

"The thing is, businesses and careers are filled with peaks and valleys," says Claire Cornell, assistant director of the Family Owned Business Institute at the University of Tulsa. "No one achieves success perennially. Business is about persevering through the peaks and valleys. It's about resilience." Ferraro, a counselor, life coach and organizational consultant, says business owners who have a more healthy and diversified set of self-esteem anchors will be more resilient. Better able to endure the ups and downs. Less likely to turn to self-destructive behaviors when things aren't going their way. Ferraro urges business owners to find activities that provide them with meaning and enjoyment, such as hobbies, community service or more involvement in their loved ones' lives.

What About You?

Unfortunately, most business owners don't know how unbalanced their lives are until it smacks them in the face. So Ferraro encourages owners to look at their lives objectively. Take, for example, the business owner who describes himself as a devout family man but spends only two hours a week with his wife and children. Or the business owner who travels 150,000 miles a year on business but never takes a family vacation. "Imbalances such as these show a huge disconnect between what a person thinks and actually does," says Ferraro. "You may think you're a family man, but your actions show otherwise."

Epidemic

"This problem — the tendency for business owners to over-rely on their financial success for their happiness, identity and sense of self-worth — is more prevalent than people think," says Ferraro. "Today, a lot of business owners are being exposed. They're finding out the hard way. Personally struggling mightily because they're not proud of how their business' financial statements look. Even so, few are talking about it because they're either brain dead and don't know what's going on or they think that talking about it, or acknowledging it, is a type of weakness — a vulnerability they cannot allow. To these people, to admit vulnerability is almost a sign of failure, so there's a tendency to avoid that type of discussion."

This Too Shall Pass

Cornell says failure presents an opportunity for growth. Tim Farley agrees. It's been eight years since Farley lost his home, business, identity and sense of self-worth, but he's recovered. Now he says, "We're on our feet financially. I have a good job and little stress. I know who I am and think my self-worth is robust and is spread across a much wider base. I'm not sure if I'd even change a thing. I now know that I was in an unhealthy place long before the financial problems. My self-worth rested squarely on one narrow leg — business success. It's like the hand of God gave me exactly what I needed — a major life shake-up. Incidentally, I think I'm wiser as a business person now. Much more realistic. Much more respectful of what it really takes to start, capitalize and grow and succeed in business. I may even venture out again into the world of business ownership. If so, I think I'd have a greater chance of success and also a greater ability to handle struggle or failure." ❑

MANAGEMENT

***Read This if the BBB Confuses You*, continued from previous page**

Why join? There's really just one reason that I can see: to make a statement that you stand for integrity and business ethics. Unfortunately, shady players can join as well, and will, to provide a cover. Sure, they could eventually get booted if grievances are filed and remain unresolved, but we all know that few disgruntled persons actually log complaints with the BBB. So scammers could go on virtually forever with a good BBB rating, especially rather small operators. Very large firms that scam a lot of people would tend to accumulate some complaints.

Still, throw the baby out with the bath water?

It's a tough call. One that's not made logically, I don't think. More of a gut call.

Will membership in BBB result in higher revenue for you, over time?

I doubt it.

Will it make you feel better about yourself and what you stand for? If you are in fact credible and scrupulous — maybe. It's at least something you can do to say, "I stand for something."

No doubt, BBB depends on both types to support its business with membership fees — from those who are passionate about ethics and from those who join to provide a cover for their lack thereof. ❑

Should You Pay for Audited Financial Statements?

Should you, the owner of a privately held business, pay for an accountant or accounting firm to compile, review or audit your financial statements?

In cases where such is required by a governmental agency, lender or bonding company, the answer is pretty simple — you have to pay to play. But for the vast majority of business owners, it's a choice. The correct answer to "should I" is not readily apparent. It's a judgment call.

First, by way of review, the issue is one of "quality of financial statements." Of course, by "financial statements" we mean your income statement, balance sheet and statement of cash flows. Generally, compiled statements are deemed to be of higher "quality" than company-prepared statements. Reviewed statements are viewed as higher quality than compiled, and audited statements are viewed to be of higher quality still. Here's a description of each:

Company-Prepared Financial Statements: Also referred to as internally prepared and/or management statements, these have not been organized, reviewed or validated in any way by a certified public accountant (CPA). Of course, your accounting firm could have helped you set up your accounting system and the methods you use to keep your books and generate your statements. Or you could be an accountant yourself and your company-prepared statements are well-organized, prepared according to GAAP, and represent fairly in all respects the performance and financial condition of the business. But unless an accountant or accounting firm compiles, reviews or audits the statements, they are simply company-prepared and — given that no independent person of authority (i.e., certified public accountant) attests to their "quality" — investors and creditors have little way of knowing what methods were used to prepare them or how fair or accurate they are.

Compiled Financial Statements: These are financial statements that have been created by an accountant or accounting firm from the company-prepared statements. The firm simply took the information provided by the subject company and created financial statements that conform to how statements are supposed to be organized. "Supposed to look like" is dictated by GAAP. Compiled statements don't carry any warranty or pledge of any kind by the accountant or accounting firm as to accuracy or whether or not the books were maintained or developed in conformity with GAAP. In essence, one could say compiled statements are just made to look pretty and professional. And, as we know, this is worth something since people judge a book by its cover.

Obtaining a compilation for a small or midsize private company might cost between $1,000 and $7,500, depending on the audit firm, geographic location and complexity of the subject business.

Reviewed Financial Statements: As the name implies, reviewed statements have been reviewed by an accountant or accounting firm. The extent of the review is limited, not nearly as thorough as a full audit. Reviewed statements should and will include a letter from whomever did the review. This letter will explain the extent of the review, notes about how or where the statements may deviate from GAAP, and any opinion or representation that the reviewer can provide about the statements. When reviewing reviewed statements, one should keep in mind that a review is limited and does not guarantee accuracy.

For the vast majority of business owners, it's a choice. The correct answer to "should I" is not readily apparent. It's a judgment call.

Obtaining a review for a small or midsize private company might cost between $4,000 and $20,000, depending on the audit firm, geographic location and complexity of the subject business.

Audited Financial Statements: Audited statements have undergone in-depth review and testing by a qualified third party. Similar to reviewed statements, they should be accompanied by a letter from the auditor. Among the important things revealed in the letter is the extent to which the auditor is able to render an opinion of the accuracy and fairness of the statements. An unqualified opinion means that the accountant has no reservations or concerns. As far as third-party assurances go, an unqualified audit opinion is the highest level of assurance about the quality of a firm's financials. A qualified opinion means otherwise, so take caution.

The audit firm also issues a letter to management, which can be helpful to the owners and managers, and contain suggestions for improving accounting methods and processes.

Obtaining an audit for a small or midsize private company might cost between $7,000 and $50,000, depending on the audit firm, geographic location and complexity of the subject business.

Even GAAP Leaves a Wide Gap

Business owners, investors and creditors should keep in mind that two identical businesses could generate financial statements that look very different. Furthermore, both could receive unqualified audit opinions. How could this occur? Well, quite easily, really. GAAP allows considerable room for management to interpret and apply GAAP rules, primarily because many of the rules require management to assess situations and apply the rules accordingly. To be sure, different people see situations differently. One executive could deem a receivable highly collectable while another feels strongly that the account is at risk. The accounting would likely reflect the divergent views. Similarly, one firm could be aggressive in how

continued on next page

Should You Pay for Audited Financial Statements?, continued from previous page

it applies the rules — in an attempt to show maximum current income, for example — while another set of managers could be conservative and less motivated to maximize today's book profit and/or equity.

Quality and Credibility of the Auditor

As we all learned in the 1990s, the credibility and quality of the audit firm is an all-important factor. Arthur Andersen audited the books of Enron (among others) and year after year issued unqualified opinions. We later learned that its accounting was an abomination. Those who relied on the statements, and trusted the opinion of the auditor, lost billions.

As another case in point, in a recent M&A transaction (i.e., business purchase/sale) that I was involved in, the selling company had an audit. All things being equal, the existence of an audit is a good thing to the extent it adds to one's ability to rely on the statements to present a fair picture of the financial health and performance of the business. This was true in this case, but the buyer also noted that the audit firm was not one we recognized or could easily find much information about. Not even a Web site.

Then, early in due diligence, the buyer found that the cost of the audit was well below standard rates — another red flag. So the buyer conducted his own audit and found material deviations from GAAP. The auditor was a solo artist and old friend of the controlling shareholder of the selling company. In the end, there really was no audit conducted. Still, the books and records of the business were fairly well organized and buyer was able to assess the business, develop his own view of its performance and health, and eventually complete the purchase.

For the Business Sale?

I commonly hear business sellers say, "I got an audit because I was told buyers require it." Well, I've worked on a lot of business purchase and sale transactions, and my experience is that selling firms do not need an audit. First, few small and midsize private companies have reviewed or audited statements. As such, buyers of small and midsize companies (along with their debt and equity sources) are used to dealing with company-prepared financials. Second, whether or not the selling firm has compiled, reviewed or audited statements, the buyer will have to investigate how the selling firm prepares its books. No buyer will just rely on the audit stamp as proof that the financials are "fair."

And so, I would say that — for the business owner who wants to sell his or her business in the near future — reviewed and/or audited statements are a "nice to have," not a "need to have." The bigger issue is the overall health of your business and whether your books are kept according to GAAP and in a fair and reasonable manner. Buyers just want to know how much money the business is making. So long as you can help them get a pretty good feel for this, your accounting and financial statements will serve their purpose.

For General Principles?

For many businesses, there are no clear and convincing reasons to pay for improved financial statements such as a compilation, review or audit. And so, I think it comes down to personal preference. Some business owners like to do everything "first class."

"We do things like the big boys," I think I heard one business owner say as he proudly presented his audited financials.

To be sure, it's not going to hurt. The question is what is the highest and best use of those dollars? In some cases, maybe it's an audit? Or in some cases, one might be able to consider it more of a personal expenditure of the owner. Let's say the audit has no real business purpose and the business owner would not pay for it unless there were excess profits to be had. So, in this way, the business owner could take the $50,000 out of the business as a return on investment or pay for the audit. The business owner can do whatever he or she wishes with his money — save it, buy a boat, give it to charity or buy an audit. ❑

My experience is that selling firms do not need an audit.

Do you have an opinion on these matters? If so, send them to editor@thebusinessowner.com. We'll share them in the next issue of *The Business Owner*.

Brent Johnson, assurance partner with HoganTaylor, contributed his expertise to this article.

OWNERSHIP/INVESTMENT/STRATEGY

Time to Exercise Your Option to Buy Out a Partner?

Do you have a buy-sell agreement? If so, does it give you the right to buy a shareholder out anytime you wish, based on a valuation methodology that keys off current revenue or profit? Well, now might be the ideal time.

For most businesses, profits are down. Revenue is down. No doubt, valuations based on profit or revenue are down. So if you'd like to increase your ownership percentage, would you like to buy when the price is high or low?

Low, of course.

So how about now?

Just food for thought. Of course, if your partners also hold this right and could buy you out at a predetermined formula price, don't show them this article! ❑

Health Insurance Costs Rising? Get Active, Start a Wellness Program

The cost of health care and health insurance continues to rise at rates higher than the rate of inflation. Currently, $1 of every $6 spent in the U.S. is for health care. Within the next 10 years, it's projected to be $1 of every $5.[1]

The primary reason for the continued rise is twofold:

1. People's willingness to pay for health care is virtually limitless, so health care providers continue to roll out more and more expensive tests, treatments and procedures.
2. Insurance companies foot most of the bills, but patients and doctors determine the treatments, so there is little incentive to keep costs down. The only recourse for insurance companies is to raise rates.

These things you don't control. But you DO have some control over the cost of YOUR health insurance, and of the insurance you provide your employees. It's pretty simple.

Healthy people are cheaper to insure. Similarly, unhealthy people are more costly to insure.

Now, who doesn't want to be healthy? Who would not like to be in an environment that makes it easier to be healthy? So do what makes sense for both you and them. Care about yourself, your business and your employees. Develop a wellness program. It's a win-win.

Research shows that health and wellness programs reduce medical costs and lower absenteeism. Yes, you'll spend a little money on the program, but studies show that for every dollar spent, you'll get between $3.50 and $6 in return. That's a heck of a return on investment.

It Starts with You

It starts at the top. You must design the program (or have it designed), participate in it and lead it. For it to work, you need to get excited about it. Sell it, enlist participants, track progress and keep the fire burning.

As The Wellness Councils of America say, "Nothing spurs attendance at an aerobics class like the chance to see the boss lead the exercises."

How to Get Started

Creating a wellness program is not as difficult as you might imagine. The Wellness Councils of America recommend the following steps:

- **Appoint a wellness team to oversee the effort.** At a small business, this might be a single individual, even the boss, but involving employees is the best bet. Let it be their project. Let them get creative and be accountable for results.
- **Collect data.** You can't change what you can't measure. Data collection can run the gamut, from having employees participate in health screenings to weighing the entire workforce on a grain elevator scale to establish a weight-loss benchmark.
- **Create a simple plan with simple goals.** If excess weight is the primary concern, your employees might set a goal of losing 500 pounds in 12 weeks. Or if resting heart rate is the target, plan to reduce the workforce total by 50 points.
- **Choose the appropriate intervention.** This could be anything from providing information on healthy eating to arranging for exercise time at work.
- **Create a supportive environment.** Replace unhealthy drinks and snacks with healthy ones. When you go out to lunch together, make it a healthy place. And it's important that you make it clear to workers you approve of and support their participation.
- **Carefully evaluate outcomes.** If the desired result isn't being achieved, it may be necessary to make the environment even more supportive. More fun. Get a key leader involved. Post the results. Peer pressure is okay and a powerful motivator. Use it by posting individual results.

Make It Fun!

Make it easy for employees to behave in healthy ways. Encourage them to walk during the day at lunchtime and breaks. Buy inexpensive pedometers and challenge employees to walk 10,000 steps a day — equivalent to five miles. Of course, this means that you must lead the pack and set the right example. At the end of each month, reward the top male and female workers. Maybe a $25 gas card or the right to leave work one hour early.

Offer classes in aerobics or other activities that promote health and reduce stress. Maybe join an athletic league for softball, basketball or volleyball. These are sports that allow anyone to participate.

Secure membership discounts from local fitness centers for employees who decide to join. In addition, bring in certified fitness trainers for a blood pressure fair. It involves just a simple setup in your conference or break room. Most workers are unaware of their own blood pressure and how it increases with weight gain and stress. At least once a year, sponsor a health screening for employees.

Big Cost Reductions

In 2002, a U.S. government report revealed that companies with physical activity programs enjoyed a 20 percent to 55 percent reduction in health care costs, a 6 percent to 22 percent decline in short-term sick leave and a 2 percent to 52 percent increase in worker productivity.

Yes, the costs of health care and health insurance will almost certainly continue to rise, but you do have some control over the costs you bear for yourself, your family and your employees. So instead of lamenting, try implementing. Take some action. Start a wellness program for your company. You'll find that it's fun, builds camaraderie, reduces turnover and sick leave, adds to your bottom line and actually improves lives. What more could you want? ❑

[1] According to the U.S. government's National Health Statistics Group, as reported by CBS Radio News.

Non-Competes as Part of a Business Purchase or Sale

In a business purchase/sale transaction, both buyer and seller have a lot at stake. Business purchase and sale transactions are complex, and one key area of importance and complexity is the future activities of the seller — himself or herself. The weight of the issue rests on the degree to which he or she has been the lead dog, primary rainmaker, industry icon or technical guru. That is, the degree to which the nexus for the web of important relationships that permeate the business and its vendors, customers, employees and industry contacts is the seller himself or herself.

Every business buyer wants to know, "Mr. Seller, are you going to be working for us or against us?" Without certainty that it's the former, few buyers will be willing to purchase at any price.

There are also two related but altogether different issues at play:

1. What is the true interest, or desire, for the seller going forward?
2. What are the legal rights of the seller going forward, or constraints therein?

Buyers want to know the answers to both questions.

The first question is important but more difficult to assess. The second is easier to assess, but its importance swings with the degree to which certain post-closing actions could harm the buyer/purchased company.

Seller Non-Compete Agreements

Business buyers should be very cautious not to place too much reliance on legal protection provided by a non-compete with a seller. Many a non-compete has been rendered unenforceable by the courts when challenged.

Why? Because one of the basic freedoms that our laws grant us, as humans, is the right to employ ourselves and support ourselves by engaging in commerce. Free trade.

While courts have been more willing to uphold non-compete agreements that arise in business purchase/sale transactions, skilled legal advice is absolutely essential for business buyers wishing to protect themselves with a non-compete type of agreement.

Similarly, business sellers need to think long and hard — and consult with legal counsel — before agreeing to forgo their right to freely ply their trade and enter into commerce.

Among the myriad of issues that the business buyer will want to nail down in the non-compete agreement with the seller:

- undisputable documentation of ample payment in exchange for a seller's agreement not to compete
- limited time of non-compete (2 or 3 years)
- limited geographic area
- limited industry sector

Courts of law will throw out a non-compete in its entirety if they deem the agreement too broad, long or onerous on the seller.

Tax Implications

Also at issue with non-compete agreements is taxation. Non-compete agreements are generally taxed as ordinary income to the seller (less than desirable) and expensed as incurred by the buyer (more favorable). But in some cases, the seller may be able to gain capital-gain taxation (favorable) by wrapping the non-compete payments into the general goodwill of the business and/or labeling and justifying all or a portion of the payment as "personal goodwill." In these cases, the buyer would be prohibited from expensing these payments as incurred (not favorable) but amortizing them as goodwill payments.

In this way, how the non-compete is structured becomes a negotiating point between buyer and seller.

Deals are complex, risky and time-consuming. Smart buyers and sellers will be aware of these issues and deal with them in a way that maximizes their interest. It starts with educating oneself and obtaining skilled and experienced specialized assistance. ❑

About the Publisher

David L. Perkins, Jr. owns, writes and publishes *The Business Owner Journal*, the newsletter of choice for more than 25,000 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.

Contact him at 800-634-0605 or DPerkins@DLPerkins.com.

Credit Cards More Expensive, Riskier as Source of Funds

Credit cards are a significant source of capital for small businesses. In fact, The National Small Business Association (NSBA) recently surveyed 288 small businesses and found 86 percent use credit cards as either their primary or sole source of funds! Nearly a quarter reported juggling more than four credit cards used for business purposes.

Every business owner should endeavor to move beyond credit card dependence as a primary source of funds. It's just too expensive.

Pretty shocking, given the punishingly high cost. And since respondents reported using their credit cards as sources of funding, we can safely assume they carry balances. Add to this the turmoil in the credit card market today and we have at hand a real challenge for small companies.

In the NSBA's recent study, conducted between April 27 and May 5, some 79 percent of the companies that responded reported worse terms on their cards (i.e., higher interest rates and fees) compared to the prior year. To be sure, credit card companies are paring down their loan limits, raising interest rates and fees, and reducing their risk. They're doing so to try stemming their losses. See the accompanying tables that show the spike in delinquent accounts and bankruptcies.

Capital Is Critical

The issue here — funds needed to operate your business — is deadly serious. Run out of money and it's game over. So what's a business owner to do?

Of course, the best option is to build a business that generates cash and allows you to fund its operations through cash flow. Many business owners do achieve this, and you can, too.

This publication gives many tips for building such a business. And, of course, doing so is a long-term project. Furthermore, even businesses that generate strong operating cash flow may choose to use debt to fund rapid growth, enhance return on equity, or smooth the hit to cash caused by periodic capital expenditures.

So, what are your options?

Traditional Bank Financing

Have you tried to obtain traditional bank financing? Despite what you read in the press, banks are lending. More than that, they're lending at all-time low rates of interest. So if you already have a relationship with a banker, give him/her a call to discuss paying off or paying down your credit card debt. If you don't have a lender, get a referral from one of your business owner peers.

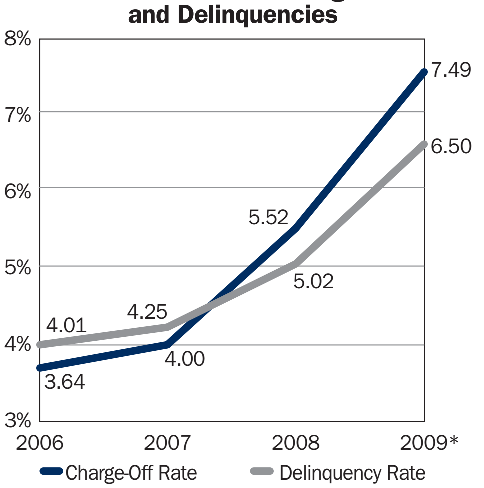
Keep in mind that new SBA loan programs are incredibly attractive. Your lender will be able to help you evaluate the programs and assess the opportunities.

In summary, business owners must get the funds they need. Credit cards are a substantial source of funds for small businesses and, at times, one of the only sources available. Every business owner should endeavor to move beyond credit card dependence as a primary source of funds. It's just too expensive. Credit cards should be used for emergencies only. A short-term funding source of last resort.

To qualify for a regular business loan, all you need is to build a relatively stable business that is profitable, has organized books and records, pays its income taxes and maintains modest levels of leverage.

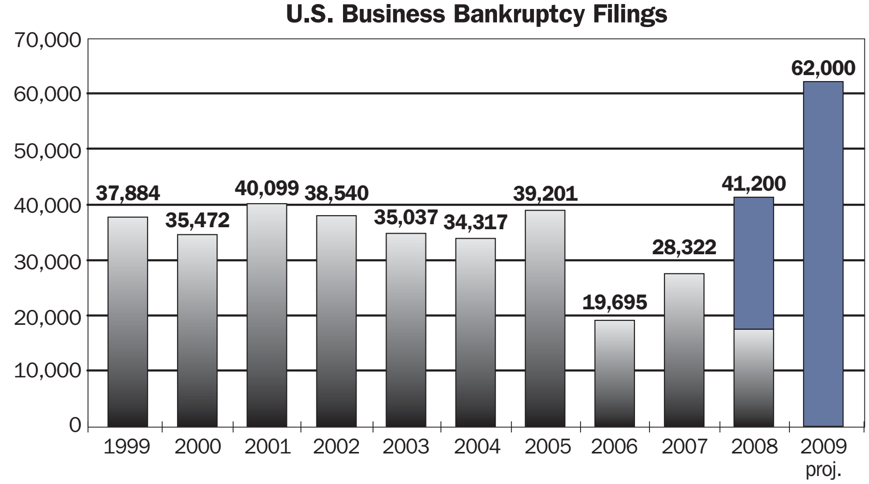
You can get there. *The Business Owner* can help. ❑

Rate of Credit Card Charge-Offs and Delinquencies



* 2009 figures reflect first quarter only
Source: Federal Reserve Board

U.S. Business Bankruptcy Filings



© CaseyResearch.com by Kevin Brekke
Source: Administrative Office of the U.S. Courts; Euler-Hermes forecast

Consistent Advertising Is Essential, Smart Strategy During a Recession

Consistent, continuous advertising, marketing and sales efforts are essential to building and growing a successful venture. Gaps or lapses tend to cause an inordinate amount of damage. It's like deciding not to water your orchard for a while. Long-term damage can result.

McGraw-Hill Research analyzed 600 firms in 16 different industries from 1980 to 1985. It found that business-to-business firms that maintained or increased their advertising expenditures during the 1981-1982 recession averaged significantly higher revenue growth — both during and after the recession — than those that did otherwise. In fact, "aggressive advertisers" during the recession saw their revenue rise 256 percent during the five-year period over firms that let their advertising expenditures slip.

In analyzing the 1970, 1974-75 and 1979 recessions, research firm Meldrum & Fewsmith discovered that firms keeping an aggressive advertising campaign maintained and increased their sales and profits. In January 1982, the Cambridge-based Strategy Planning Institute released a study showing that businesses increasing their advertising efforts during a recession gained an average of 1.5 points of market share.

Ad Cutbacks Convey Weakness

A recent study by Ad-ology Research found that advertising appears to play a key role in consumers' views of how a business is doing. In fact, it found that 48 percent of U.S. adults believe that a lack of advertising by a retail store, bank or auto dealership during a recession indicates the business must be struggling.

Don't Kill the Message, Change It

If any industry knows the importance of consistent advertising, it's the auto industry. Despite its terrible predicament of late, it's still advertising. It knows that if it stops advertising, it'll find itself in even worse shape. But it IS responding to the changing economic climate. It's rolling out campaigns such as "Lose your job and we'll make your payments for six months."

Firms that maintained or increased their advertising expenditures during the 1981-1982 recession averaged significantly higher revenue growth — both during and after the recession.

Other types of businesses are doing the same. Restaurants are promoting economical selections and health clubs are urging you to "bring a friend."

Savvy Business Owners, Advance!

To be sure, now is not the time to retreat. In fact, it's prime time to advance. Your competitors are almost certainly attempting to save a buck by pulling back their ad spending. Don't fall for similar, faulty logic. Instead, it presents a prime opportunity for you.

Think of it as a long-term investment. Yes, it may hurt, but you're in it for the long haul — to win. Find a way to continue advertising, and trust that you'll get a handsome return on your investment.

Consistent, continuous advertising, marketing and sales are essential to building and growing a successful venture. You should not allow gaps or lapses. If you're lucky, some of your competitors will become unwilling or unable to continue to invest in these important ways during challenging economic times and thereby provide you the opportunity to gain on them — if you stay the course. ❑

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

SELLER REPRESENTATION | **EMPLOYEE BUYOUTS** | **RECAPITALIZATION**

Business Buyers Prefer You Not Have an M&A Advisor

Of course they do.

Buyers want to get the very best deal possible from you, right? To that end, they certainly don't want you to really know what your business is worth. To know all the little areas in which a deal can be tweaked to one party's favor or another. To have limited ability to secure top-notch competing offers.

Yes, buyers prefer to deal with you and your attorney directly, without a skilled and experienced M&A advisor. So, hey, go ahead and make them happy!

Free articles, information and case studies at our website, or give us a call.

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