19 ways to help Your company Grow in a challenging economy

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CBIZ

ISBN 978-0-9785617-2-7

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INTRODUCTION

Are you afraid? In his 2004 letter to shareholders of Berkshire Hathaway, investor Warren Buffet wrote, “Be fearful when others are greedy and greedy when others are fearful.” Today, many small- and medium-sized business owners are fearful. They’re afraid they won’t get the credit they need to run their businesses. They’re afraid their customers won’t buy their products, and they’re afraid they won’t make their payrolls. As a result, they focus on survival, not growth.

Smart business owners, however, have a different perspective. They see challenging economic times as opportunities to streamline expenses, maximize profits, and grow their bottom lines — in other words to “be greedy,” as Buffet puts it. Any business owner can take simple steps to make sure his or her company grows when times are tough and emerge from a downturn more efficient, more competitive, and more profitable.

Growth vs. Survival

GROWTH VS. SURVIVAL

Every business wants to grow and prosper, not just survive. It may seem like an insurmountable challenge to do that in the current business environment. Fear causes business owners to question every expenditure, and many feel comfortable cutting costs without too much thought as to where or why, in order to protect their bottom lines. Even businesses that are doing well are holding on to their cash and not investing. But owners need to find ways to cut costs while growing their top line — and their bottom line as well.

It's up to the owners of small- and medium-sized businesses to plan to thrive, not just survive. Companies can position themselves to do well in this down cycle, as well as when the economy recovers. Fortunately, downturns are great times to look at a business' health and make sure it's being run as efficiently and effectively as possible. When times are good, many business owners don't have the time or inclination to do this; good sales numbers hide internal inefficiencies. But when things are slow, wringing out inefficiencies and maximizing revenue are keys to growing and prospering.

19 Steps for Success

19 STEPS FOR SUCCESS

Planning and thinking ahead — being proactive and not reactive — are what will separate winners from losers in this recession. The following chapters describe 19 ways that your business can not only survive this downturn, but actually thrive and grow during it and long after it is yesterday's news.

CHAPTER 1

Don't Overpay Sales and Use Taxes

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Don't Overpay Sales and Use Taxes

One important way that your business can save money is one that is often overlooked — saving on your sales and use taxes. Sales and use taxes may seem insignificant, especially on small purchases or items paid for with petty cash, but it's important to remember that sales and use tax payments for businesses are typically double the amount you'll pay for corporate income taxes. Clearly, this represents an area for savings that is far too large to ignore.

This being the case, why don't more companies take advantage of the savings to be found in not overpaying sales and use taxes? Quite simply, they don't have the resources, whether it's assigning personnel to track how taxes are paid, having automated systems in place to track payments, or understanding what taxes are due and what taxes can be refunded. Add in the fact that sales and use taxes typically are paid on every purchase the company makes, and a company can quickly find itself combing through thousands of transactions to uncover a tiny amount of potential savings per transaction. Still, the cumulative impact of these many small savings can be substantial.

It's easy to consume valuable company resources assigning and training employees to track sales and use tax, develop tracking systems, and learn the ins and outs of the tax codes in all 50 states. A better approach is to work with an expert tax professional who is skilled in identifying these savings and who can implement systems quickly and efficiently. Working with an external partner is even more vital if a company hasn't been tracking sales and use tax payments over the course of the budget year and now wishes to retroactively identify their true tax liability and potential savings. When facing a deadline, it's a daunting prospect to review a mountain of months-old records to look for hidden treasure. At these times, it's even more important to allow a skilled partner firm to tackle those records and prepare findings for the business, leaving ownership and management free to address more pressing problems and issues.

On a proactive basis, companies can take advantage of the varying sales and use tax laws of different states to maximize their sales and use tax savings.

There are several reasons why it's difficult to locate savings in sales and use tax payments, in addition to the sheer volume of work that it involves for the typical business. First, opportunities for savings will depend on the states involved in the transaction and the types of goods and services purchased. Additionally, definitions of what's taxable and what's not vary by state. For example, while one state may tax certain kinds of food purchases, another may not — and even defining food can be problematic. Does "food" mean groceries, meals at a restaurant, vending machine purchases, or even alcohol? Similar ambiguity arises when trying to define and categorize things such as leases of items, purchases of warranties, and computer software. Understanding how each state has classified these items and ruled on their taxability is key, especially when trying to determine savings after the fact.

On a proactive basis, companies can take advantage of the varying sales and use tax laws of different states to maximize their sales and use tax savings. Two simple examples are making purchases from out-of-state vendors that are responsible for charging lower use tax rates and taking advantage of sales tax holidays. Longer-term examples include locating manufacturing plants, warehouses, and distribution centers in the most lucrative states. This requires an analysis of the company's customer base and current operations to maximize the return gained from locating operations in tax-advantaged states.

In less lean times, states may have been more lax about identifying and collecting sales and use taxes owed by companies doing business within their borders. However, with most states in the Union facing significant budget deficits, nearly all have become very aggressive in making sure sales and use tax payments are collected. Typically, this is done through an audit process. While an audit always sounds menacing, it need not be a negative experience and can actually help the company identify more savings.

It's important to communicate up front with the audit team before the inspection begins. Knowing their expectations and relaying your capabilities can mean all the difference. If your record-keeping systems don't allow certain levels of detail, share that up front. In the end, a positive verdict from the audit team may mean you're actually overpaying sales and use taxes. If they don't find any transactions in which they question whether you paid the taxes that were due, you may have been too generous and need to reassess your tracking of sales and use tax payments.

Once you determine that you have overpaid sales and use taxes, the laws in the state in which the taxes were paid determine how you go about getting a refund. One route is to go through the vendor to whom the company paid the taxes and seek the refund. However, the vendor may be unwilling or unable to refund the tax for various reasons. First, the vendor gains no benefit from returning taxes that it may believe were legally collected. Second, it may have to then apply to the state for its own refund if it has already paid the taxes. Lastly, because of the complexities of sales and use tax laws, the vendor may not be in a position to determine if taxes are even due to be refunded.

Another route is to appeal directly to the state for a refund. However, the best approach is always not to pay sales and use taxes unnecessarily in the first place. By working with a knowledgeable and skilled partner, companies can identify savings on a real-time basis and put their cash to work for them, rather than allowing it to sit in the state coffers.

CHAPTER 2

Uncover Hidden Tax Savings with R&E Credits

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Uncover Hidden Tax Savings with R&E Credits

Additional hidden tax savings that may be available to your business are federal and state Research and Experimentation (R&E) credits. R&E credits were created in the early 1980s to help keep U.S. business and industry competitive with the rest of the world from a technological standpoint. R&E is the same as what is commonly known as "R&D" or "research and development," and odds are that your company commits resources to it. In short, an R&E credit can be a reward for something your company already does.

Many people think of R&E as scientists with goggles and white lab coats or engineers and programmers hunched over computers; however, R&E can be much more than this. R&E involves activities that are technological in nature and require a process of experimentation to eliminate technical uncertainties. Whether it's improving a production process, identifying alternative materials, or creating new ingredients or products, each of these activities should be analyzed to determine if they qualify as R&E. Anyone from furniture companies to food processors can do work that may qualify for an R&E credit.

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Usually, companies that engage in R&E are manufacturers. This is because qualified R&E activities must include the use and application of one of the following fields: engineering, the computer sciences, the biological sciences, or the physical

sciences. While companies may conduct market research, for example, their research doesn't lead to a technological innovation.

Like the sales and use tax credit, the R&E credit is a savings that many companies can attempt to find after the fact. And like sales and use taxes, it too can be difficult to identify. One reason is that most owners and managers don't truly understand what constitutes R&E. Also, they can become overwhelmed in the search when they try to retroactively allocate staff time and materials. However, the windfall for a typical small- to medium-sized business can be $250,000 to $1 million or more — too much money to leave on the table.

Fortunately, an external partner can help identify which past activities and expenditures qualify for the credit. This same partner can help establish systems to track and tabulate R&E activity going forward. Your company can look back as many as three (for the federal credit) to four (depending on the state) years to analyze R&E activity and file an amended return to claim the credit and potentially receive a refund.

Many companies may be tempted to make "quick and dirty" estimates of their past R&E activity. In these cases, you can pick your cliché: "you get what you pay for” or “garbage in, garbage out.” Your tax credits — and your ability to pass an IRS audit — are only as good as the effort you and your professional advisors put into identifying your R&E activity. Government definitions of R&E activity can be vague, so it’s important to understand what activities have qualified for the credit and what have not. In the process, your CFO or accounting firm should not rely solely on the R&D staff to determine what qualifies and what doesn’t.

Determining what qualifies as past R&E effort requires an internal audit of your company’s expenditures, including outside consultants, materials purchases, and payroll. Determining qualifying R&E expenditures on a prospective basis requires establishing a system to track eligible projects and types of work. This can typically take the form of a log that is completed by R&D employees with input from HR, purchasing, and other departments. Again, a trusted outside partner can help establish these systems.

Never assume that your company is too old or too new to qualify for R&E credits. New companies may spend the most time on R&E activities as they develop and fine-tune products for their initial entry into the marketplace. Conversely, an established firm with a mature product offering may spend less time on R&E activities, but may have similar costs because it is more likely to have longer-tenured, and therefore higher paid, R&D staff. And if you’re considering selling a company, R&E credits on the table can add value and reduce the tax liability for the seller.

CHAPTER 3

Write Down Inventories and Receivables

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Write Down Inventories and Receivables

Cash is king, right? Unfortunately, inventory and receivables are not — they're the ghosts of cash past and cash future. But there is hope even for the largest inventories and oldest receivables; they can be written down or written off completely. This produces reduced tax bills, which generate — you guessed it — more cash in hand. And cash is the liquid that can keep your business solvent while it weathers the recession.

Financial reporting rules permit business some leeway with allowances for doubtful accounts. Doubtful accounts are those that are unlikely to be collected in a given reporting period. However, the IRS says that accounts that are merely doubtful cannot be written off as bad debt expense. To be written off, your questionable accounts receivable must be truly uncollectible.

To determine what debts are not collectible, your company has to go through a careful and deliberate process to identify bad debt. Fortunately, receivables owed by customers that are out of business altogether or bankrupt can be deemed uncollectible. For the rest, it's necessary to document what efforts you took to determine if the debt can be collected. These might range from phone calls

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asking if and when the bill will be paid, to letters, to threats to stop sending further shipments if the customer's account is not brought out of arrears.

If an account that is determined to be uncollectible is subsequently collected, your company needs to record the income when it is collected.

The other drag on cash is your product inventory, especially when the inventory is aging, losing value, or slowly becoming obsolete. Your company may be using the "lower of cost or market" method of valuing your inventory. With this method, differences in inventory value may be written off. This reduces your ending inventory, which increases the cost of your sales and — bingo — reduces taxable income.

For example, if in January your per unit cost for widgets was $50, and you sold them for $100, you would realize a $50 gross profit per unit. However, suppose a competitor introduces the new-and-improved widget, which turns your widgets into expensive paperweights. In this case of obsolete technology, your entire investment in the widgets can be written off.

Your company should perform several steps to take advantage of these write-downs. First, consider a change in how the company accounts for its inventory to take advantage of the ability to write down your inventory. Second, conduct an internal audit to identify laggard and obsolete inventory. Even if sales trickle in, it may be more to your advantage to write off the slow-moving inventory in the warehouse. Lastly, you'll need to accurately value the inventory. A qualified outside partner can help you make these determinations. It's important to keep good documentation on how you valued your inventory and got to your market price. For example, you may use other vendors' prices, prices fetched at auctions, or data from your own sales.

CHAPTER 4

State Incentives: Find Training Grants and Tax Credits for Jobs Created

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Tax savings don't come only from lowering your income or reducing the value of your inventory. There are great savings to be found in a place you may least expect — your training budget. Additionally, you may also be eligible for tax savings for doing something many employers see as a drag on their cash — hiring employees. That's right…by strategically taking advantage of state tax incentives for job training and job creation, you can actually save your business money.

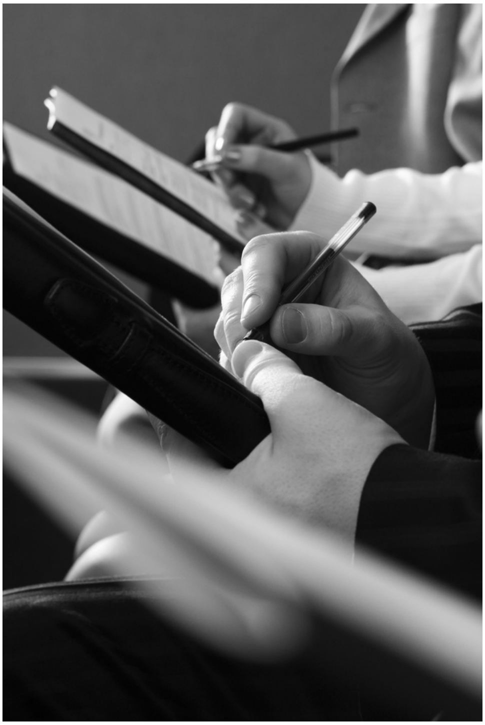
Many if not most states have special incentive programs for businesses that generate revenue from outside the state and bring it into the state. Also, they may have similar programs for businesses that are willing to set up or relocate in specific communities or enterprise zones for the purpose of directing economic development activity into underserved or underdeveloped parts of the state. And don't forget about local incentives. Many localities will offer a property tax reduction if you locate in their community.

Additionally, many states have incentive programs for employers who hire and train new employees or who retrain their existing workforce. For example, suppose your business has employed workers with a certain set of skills for years, but the technology has changed and the local population base no longer produces employees with the skills you need. Rather than moving your business or off-shoring production, some states will provide incentives for you to retrain your existing workers and train the new hires. In many cases, states also provide tax incentives for large-scale job creation projects. Often these grants will require a match. In other words, for every dollar the state provides your company in tax incentives, your company must expend a set dollar amount as well.

Normally, state incentives for training and job creation run on state fiscal years, which run from July 1 through June 30, unlike the business calendar year. So, some careful planning to take advantage of the incentives may be required. In addition, the grants and incentive programs may be competitive. The state will issue RFPs (requests for proposals) and award grant monies and incentives to those businesses that best meet the state's criteria — usually those companies that can provide the most high-paying jobs for the least cost to the state.

These tax incentives usually take the form of a cash reimbursement to the employer, rather than a tax credit or deduction. Once your company has demonstrated that it has met the criteria for receiving grant funds, the state will simply cut a check. Withholding-based credits are also becoming more and more common. Reimbursable training costs may include:

- instructor salaries
- curriculum development expenses
- travel
- meals
- lodging
- facility costs



However, the time employees spend in training is generally not reimbursable.

Oftentimes the state may require that a local community college be involved in the training. Local community colleges provide an excellent and affordable resource for job training and are often eager to work with local employers to meet employee needs.

Funding may be capped at a maximum amount per employee or a total amount available per employer. Particularly attractive industries like manufacturing, distributing, biotech, or any company looking to establish headquarters may be able to obtain more money per employee hired or trained. Additionally, tax incentives may require that a certain minimum wage be paid to employees or that health benefits are offered. They may also require certain kinds of capital investments in facilities or other infrastructure, or mandate that a certain number of net jobs be created. (Net jobs equals new hires minus layoffs.)

Depending on the state, some training and job creation tax credits may be transferred to other businesses or individuals. Also, these credits may be applied against income taxes, franchise taxes, sales tax, or other taxes, again, depending on the state.

Existing businesses that are considering moving or expanding should carefully survey the landscape to determine what incentives are available before acting.

Existing businesses that are considering moving or expanding should carefully survey the landscape to determine what incentives are available before acting. This is where an experienced business partner who is familiar with the training and job creation landscape can be of tremendous benefit to your company. By quickly identifying which states offer the most lucrative incentives, you have more time to run your business and can spend less time doing tedious research. Typically, a business partner with expertise in this area will prepare several different packages of options for your company and present them to you for review. He or she can also help you sort through the funding for training coming from the federal government stimulus package.

CHAPTER 5

Don't Take Your Property Tax Assessment at Face Value

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Don't Take Your Property Tax Assessment at Face Value

The past ten years in America produced a real estate bubble the likes of which we hadn't seen for quite some time. Residential and commercial property values rose to the point where they exceeded revenues and incomes. When companies and families could no longer afford to buy property or make the payments, the bubble burst. Falling real estate prices mean bad news for the economy, but they can mean good news for your business.

Let's examine the commercial real estate bubble in more detail. The tremendous demand for commercial property had real estate investors, who were eager to get into the real estate market at any cost, accepting unrealistically low returns on their investments. Investors were willing to sacrifice quality, and sellers raised their prices in response to the higher demand. (Ultimately, the model was unsustainable, and moving forward, investors are likely to return to quality investments with higher returns. This will have the opposite effect. Sellers will be forced to lower their prices in response to reduced demand.)

At the same time, local municipalities were able and willing to raise real property assessments to stay abreast of property prices. However, those assessments may no longer match the reality of the marketplace. Therefore, it's important for your business to examine its property assessment to determine if it's a fair and accurate representation of current property values.

Most local taxing authorities rely on models, such as the mass appraisal approach, to value certain kinds of properties as a group. However, the underlying

assumptions behind these models can be incorrect. Additionally, when it comes to valuing assets, banks and other lenders as well as real estate appraisers are likely to be more conservative in 2009 than they were in 2007 due to the financial meltdown. This further contributes to a growing disparity between the cost of government services, which are not likely to decrease, and what can be collected from property taxes.

A trusted business partner can help your company examine its assessment relative to the marketplace, your investment in the property, and your desired return on that investment.

Don't think of your property tax bill as a "given" or a fixed expense. A trusted business partner can help your company examine its assessment relative to the marketplace, your investment in the property, and your desired return on that investment. This professional can also help determine if your company should appeal its assessment. If so, he or she can help you take your case before a city or county board of appeal and lay out the rationale for lowering your property tax payment. If that appeal fails, your partner can help you proceed to a state board of appeal or district court.

In addition to analyzing and appealing your property tax assessment, there are other ways to lower your property tax bills. First, look into local, state, and federal incentives for making improvements to the property, especially "green" or energy-saving improvements. These can save your company money at a time when you may already be planning energy-saving upgrades. Warning: Don't let these improvements raise your property value and defeat the purpose. Make sure to examine the fine print to avoid any pitfalls that exist. You can also seek abatements to ensure that your property tax doesn't increase due to your improvements.

Be sure to depreciate equipment and update your asset listings on your business and personal property filing. Your company certainly doesn't need to continue to pay taxes on that antique typewriter that's collecting dust in the closet. Also, double-check what is taxable in your municipality; don't list items that you don't legally have to list.

CHAPTER 6

Reduce Income and Franchise Taxes

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Reduce Income and Franchise Taxes

The current economic downturn is impacting state government budgets in a dramatic way. Unfortunately for taxpayers, most state governments based their current budgets on the more favorable economic projections that existed when the current fiscal year budget was being prepared in the spring of 2008. However, the recession has resulted in dramatic reductions in consumer spending and job losses. That means less revenue in state coffers. Unlike the federal government, states have a limited ability to run deficits, and most must balance their budgets every year. This has them looking under every stone for tax revenues.

What does this mean for small business? It means that state taxing authorities are more aggressive. In addition, many state legislatures have recently passed legislation that significantly changes the way they tax businesses. State governments must walk a narrow tightrope. They want to raise revenue, but at the same time they don't want to discourage new business from locating and expanding in their state.

State tax laws are complex — and now, with all the recent changes, even more so. There are two questions that business owners and managers should ask themselves. First, do I know how the changes in the laws impact my business in the states in which I operate? Second, am I in a position to fully comply with changes to the state code and "get it right"? No one likes unpleasant surprises. Without an expert partner who understands recent changes to the state laws, your business could find itself owing unexpected tax liabilities and even penalties.

Even if you don't own property or have any employees in a certain state, you may still have a large income tax liability if you generate a lot of sales there.

The Uniform Division of Income for Tax Purposes Act (UDITPA) includes a formula that nearly all states and the District of Columbia follow in whole or in part to divide a company's income or loss among the states in which it does business. The formula uses apportionment methodology to determine a company's sales, payroll, and property within a state relative to the company's sales, payroll, and property everywhere. The resulting ratio determines how much income is taxed in each state.

In previous years, most states weighted each factor evenly in determining how much tax was due. However, today some states weight the sales factor more heavily. This benefits in-state taxpayers vs. out-of-state taxpayers. In other words, even if you don't own property or have any employees in a certain state, you may still have a large income tax liability if you generate a lot of sales there. This is to the clear benefit of in-state companies, whose in-state property and payroll are taxed less heavily to the detriment of out-of-state companies.

Once a taxpayer understands the business from a tax perspective, it's important to properly file in the required states. Most states have statutes of limitations that govern how long a tax year is "open" for the taxing authority to audit and assess more tax. However, these statutes generally only apply when tax returns are filed and the clock starts ticking.

For example, suppose your company earns a nominal amount of income in a given state. You may decide not to file a return due to the small amount of corresponding tax. However, failing to file this return doesn't start the clock on the statute of limitations for that year. Years down the road — long after the statute of limitations would have ended — that state can audit your business and potentially collect tax, interest, and penalties many times greater than the tax you would have originally paid.

Because every state is different, a knowledgeable business partner is invaluable to navigating your way through the changing tax landscape. Focus on "getting it right," not taking shortcuts or going after small savings that may cost you down the road. A partner can make sure you stay on the straight and narrow and, at the same time, maximize your income and franchise tax savings.

CHAPTER 7

Maximize Your Cash Flow

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Maximize Your Cash Flow

Adequate cash to pay bills and meet payroll is the lifeblood of any small- to medium-sized business. Never get too caught up in the day-to-day operations of the business or closing sales to forget to collect your receivables. Having an automated collection system in place will provide you with a tool that automatically generates invoices, statements, past due notices, and other tools you need in order to collect from your customers.

Always negotiate terms with your customers that allow you the fastest access to your cash. For example, require deposits up front and specify that payment is due upon fulfillment of the order. If you extend payment terms out to 30 days or more, your customers are getting a free loan from your business. Likewise, try to negotiate terms of 30 to 60 days or more with your suppliers. That way, you can have the cash in hand from your customers to pay vendors when their bills are due.

Another important way to ensure a steady stream of cash is avoiding a single-client situation. Not only does over-relying on one customer (such as a local government or major local manufacturer) threaten the viability of your business, it puts you over a barrel when it comes to payments as well. Simply put, if your sole customer can't or won't pay, you don't have cash. Seek out multiple customers and spread your business around if possible.

> Always negotiate terms with your customers that allow you the fastest access to your cash.

CHAPTER 8

Renegotiate Loans and Leases

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Renegotiate Loans and Leases

A long-term loan or lease can be a tremendous drag on your business. Unlike other expenses that can be lowered through actions by management, a lease or loan is a binding agreement with fixed terms. Especially in a tight economy, buying property outright or going through the expense and hassle of a move to cheaper quarters is not an option. However, there is still hope. Landlords don't want to see you go into arrears or default on your lease. They have bills to pay as well, and without your rent payment each month, they would find themselves in a pickle.

Likewise, a lender doesn't want to see its customers default on their loans. Lenders realize that many real property assets simply aren't worth what they were

when they were financed, through no fault of the borrower or the bank. With the current rash of loan defaults and foreclosures, lenders are overwhelmed with responsibility for properties they have seized. This includes paying the insurance on the properties as well as upkeep, security, and other carrying costs. Most importantly, lenders don't realize any cash flow when borrowers don't make their monthly loan payments, making it difficult for lenders to keep their balance sheets healthy.

Lessees also have a significant opportunity to save money by working with their landlord. A two-fold strategy that seeks to lower both your rent and the landlord's costs in the property may work best.

All of this works to your advantage as a borrower or lessee. There are several strategies you can pursue to obtain more favorable loan terms or renegotiate a more favorable lease. Rely on a trusted business partner to help you prepare a detailed and convincing presentation for your lender to make the case for more favorable loan terms. A well-thought-out strategy showing realistic figures for what your business can afford to pay, what other measures your company has taken to reduce costs, and how you project your business will move forward will go a long way toward convincing a lender to work with you.

Lessees also have a significant opportunity to save money by working with their landlord. A two-fold strategy that seeks to lower both your rent and the landlord's costs in the property may work best. An expert consultant in this field can help you make a case to your landlord to lower your base rent, which typically covers the landlord's debt service, as well as any performance- or percentagebased rents. You can also ask for a rent holiday, especially if you've been good tenants and paid your rent on time over the years.

Naturally, the landlord's costs don't go away because you asked nicely. However, it's in the landlord's best financial interest to keep you as a tenant, even at a lower rent. With your business advisor in tow, you can present options to your landlord to help lower his or her costs, including debt service on the building. For example, the landlord may be able to consider alternative debt holders, especially with interest rates at historic lows and many lenders eager to lend to well-qualified borrowers. Depending on location and federal, state, and local laws, there may be government-subsidized community development grants or low-interest loans available to landlords who restructure debt. Odds are that your landlord has considered his or her debt service to be a fixed cost – much like your rent could be. However, you and your advisors could very well be the landlord's hero by opening his or her eyes to potential savings.

There may also be some relief for overburdened debtors in the stimulus package passed by Congress. While details are still making their way to the public, laws that affect the debt provisions under section 108 of the IRS code have changed. Businesses can now defer income earned from debt restructuring in tax years 2009 and 2010 all the way until 2014 and then take five more years, through 2018, to report all of it. This can be a tremendous tax savings for your business. Rely on your advisor to translate the new changes brought about by the stimulus package and maximize savings for your business.

CHAPTER 9

Outsource Back-Office Services

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Outsource Back-Office Services

What does your company really *do*? What's your purpose or your mission? Odds are your answer won't include bookkeeping, payroll processing, or buying newspaper ads. Yet, your employees probably spend a tremendous amount of time performing functions that have nothing to do with your core business. Think about it. If your company manufactures steel, how many employees do you have on the payroll that never set foot in the mill or don't know the first thing about steel manufacturing?

> Rather than trying to internally develop expertise in a wide variety of support fields, companies should do what they do best and outsource everything else to the *real* experts.

The answer is probably "too many." Yet due to the demands of running a business — the business behind the business — owners and managers are required to keep experts in a variety of fields on the payroll. In many cases, these specialists are doing jobs that management doesn't know or understand. Plant managers may understand the steel-making process, but they don't keep abreast of the latest trends in tax law. Due to this antiquated model of staffing, every company reinvents the wheel as it staffs itself with its own small army of experts who support the core business. Also, it expends considerable expense to keep all of these back-office experts trained.

This model flies in the face of common sense. Rather than trying to internally develop expertise in a wide variety of support fields, companies should do what they do best and outsource everything else to the *real* experts. But where to begin? If there is a benefit to economic downturns, it's that they help highlight inefficiencies in your business. In order to really get down to the brass tacks of where your company could spend its support services dollars more wisely, you need to analyze your expenditures.

One way to analyze expenses is to categorize and compare them with your peer group. General peer group data can usually be found in many published records and industry reports. One such source is to find information categorized by standard industrial classification (SIC) codes, which are broken down by business type. They show what the normal expenditures are for a variety of expense categories. However, rarely do business owners have the expertise and resources to thoroughly analyze their business and determine where their back-office inefficiencies lie.

Experienced consultants can help you determine if these same services, which you are providing in-house, can be obtained elsewhere for lower cost — or if not, for better quality at the same cost. Even if you can't lower expenses, you can get more "bang" for your buck! Common examples of services that business owners and managers can outsource include:

- Bookkeeping
- Marketing/PR
- IT
- Janitorial
- Legal
- Payroll

Marketing, IT, and legal are prime candidates for outsourcing. Not only are they expensive and require on-going training and equipment, they also require contacts and expertise. For example, a good marketer knows the media and who to call to get your business placed where your potential customers can see it. That kind of savvy is expensive and inefficient to develop from scratch. In addition, be especially careful about keeping legal services in-house. Well-intentioned employees can fail to see loopholes or errors in contracts that any good lawyer would spot in a flash, costing the company both time and money.

Often, employees who are released by a company seeking to outsource some services will actually be hired by the vendor providing the services. The company gets the advantage of working with people whom they know and who know the business, and the vendor gets veteran employees who can also be assigned to work with other companies to meet their needs.

Sharing resources with complementary businesses is another strategy. For example, under the old, inefficient model, a plumbing company, an electrical company, and an HVAC company may all have kept a bookkeeper on staff to handle their needs. In today's climate, these companies would be better off sharing bookkeepers, thereby reducing their total cost by two-thirds! Everyone wins because these are complementary, not competing, businesses.

CHAPTER 10

Negotiate More Favorable Terms with Vendors and Analyze Product Sourcing

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Negotiate More Favorable Terms with Vendors and Analyze Product Sourcing

A key component in business success is maintaining strong relationships with the companies providing your enterprise with its raw materials — your vendors.

Maintaining a successful relationship with your vendors is a little like buying a car. You know the salesman wants to maximize his profit by charging as much as he can for the car, and you want to get the car for as little money as possible. But if neither of you budged from those positions, a deal would never be cut. The salesman wouldn't make sales, and you'd still be driving that old car. The best deals occur when both the salesman and the car buyer feel they've negotiated a good deal with a minimum of hassle and the expectation that you'll do business together again.

Now, picture that same scenario, but imagine the car salesman is desperate to sell cars because times are tough. You've purchased cars from this same dealership for years and have been treated well, but the economy is making you consider that other dealership down the street and that brand you've never bought. You've considered asking the salesman to throw in the custom trim package, lower his price, and speed up his delivery time because you know he's anxious to sell cars. But the salesman is wondering if you're worth the trouble. After all, business is slow, but there are probably other customers who won't be as demanding.

This is exactly where many vendors and manufacturers find themselves today. Despite years of successful partnerships and relationships based on trust and mutual benefit, vendors and manufacturers are at odds. How did this happen? It's all tied to the credit crunch. Lenders no longer feel comfortable extending letters of credit as they once did. With their credit lines drying up, manufacturers are forced to seek terms from their vendors, who must assume much more risk than ever before. With the credit crunch spilling over into the broader economy, manufacturers are seeking lower prices from their vendors while also trying to cut costs and compete.

Fortunately, in most cases, there is room for negotiation with your vendors. The bottom line is that they need your business. They understand the global economic situation, and they can't expect to be immune from it. However, that doesn't mean that business owners and purchasing managers should call up their vendors and absolutely demand better terms and lower prices. A strong business relationship is built on good communication and trust. A full frontal assault will likely result in the vendor telling you to look elsewhere for your material inputs — much like the car salesman who will only bend so far to make a sale.

Explain that you want to continue doing business with them, but to survive the recession you have to ask them to work with you so that you can both continue to make money.

Take the time to explain your situation to the vendor — costs are up, sales are down. Remind the vendor of your long and successful relationship. Explain that you want to continue doing business with them, but to survive the recession you have to ask them to work with you so that you can both continue to make money.

It's important that you and your vendors understand your supply chain logistics and that you ensure your design and production process is as efficient as possible. Keep a tight inventory and do short production runs because quick turns of inventory equal more cash on hand. When your vendors understand your needs and see that you've done all you can to cut costs on your end, they'll be more sympathetic to your cause.

Don't squeeze the vendor too hard. As your relationship continues and the economic situation changes, it's important to keep vendors in the loop. As your cash situation improves, see if vendors will lower their price if you pay in 30, not 60, days.

Another set of strategies to pursue involves an analysis of your overall sourcing. As important as your relationships with your vendors are, you have an obligation to seek the lowest price for your company, all other things (service, quality, and timeliness) being equal. That's why it's always wise to shop around from time to time. It's not necessary to end a relationship with a vendor in order to sample the product of one of the vendor's competitors. As a business owner or manager, you'll gain an understanding of what's available in the marketplace. Then, if your relationship with your preferred vendor should sour or if they should cease product lines, go out of business, or for some reason be unable to provide you with your inputs any longer, you won't be caught flat-footed with nowhere else to turn.

Ideally, you'll have entered the recession with long, rock-solid relationships with your vendors. If not, negotiating with a vendor who may see you as a stranger or who may mistrust you will be difficult. But that doesn't mean you can't start building that relationship now. Difficult times can bring people together. If you and your vendors work together when times are tough, you will have formed a bond that will benefit everyone when times are better. Above all, remember that loyalty, honesty, and integrity in all your vendor interactions are the keys to success.

CHAPTER 11

Improve Financial Management Practices to Focus on Core Business and Long-Term Goals

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Improve Financial Management Practices to Focus on Core Business and Long-Term Goals

It's a delicate balancing act — managing the core business (the goods or services your company sells) and managing the business behind the business (those functions that support the business, like HR, finance, and marketing). No business owner or manager can afford to do just one at the expense of the other. Yet while most leaders know their core business well, they struggle with understanding the other aspects of the business. Finance, in particular, is a trouble spot. Not only is financial data cumbersome to manage, it requires a strategic view that looks to past trends and projects into the future. The sheer volume of data and types of reports that may be generated can overwhelm anyone.

In these times, improving your company's financial management practices can mean the difference between steering your company through troubled seas in once piece and crashing the ship into a fog-shrouded iceberg. Financial management allows owners to better assess performance, improve operations, and maximize profitability and cash flow. You simply can't afford not to have clear, understandable financial management practices and reports that allow key leaders to see where they've been, know where they're going, and avoid hazards.

Good financial management doesn't come from hiring another employee or buying new software. You need to rely on a trusted business advisor who can analyze your entire operation and determine how best to organize and present

The true strength of financial management practices comes when financial reporting can be combined with non-financial and even non-numeric data.

financial data to decision-makers. The goal is a simple, accurate, and reliable system that allows better identification, management, and monitoring of key financial and operating drivers of the business.

All of this starts at the top. Business owners and managers should buy into the notion that better financial management practices will help everyone do their jobs more effectively, make decision-making easier, and make the company more profitable. Too many decision-makers practice the "close your eyes and hope everything turns out okay" method of financial management. Instead, it's important that these leaders use good financial management tools in their day-to-day roles.

Work with a business advisor to implement and maintain an adequate and efficient accounting and reporting system. This means an integrated system that is accessible to everyone who needs financial information. Ideally, information is entered once and is then made available throughout the system. In a perfect world, the system would also be integrated into other vital functions that incorporate financial data, such as HR, benefits, purchasing, and payroll. From counter sales to receivables to equipment depreciation, an integrated system, rather than a collection of single-purpose systems, reduces data entry, helps eliminate errors, and allows for easier, more affordable upgrades and maintenance.

Your professional advisor, financial staff, and managers can work together to devise easy-to-use, legible dashboards that contain information specific to the needs of various staff. For example, sales managers will want daily, weekly, monthly, and quarterly sales totals. Supervisors will want information on absenteeism, sick days, overtime, and employee leave time. Common types of reports can include financial and operating results (balance sheet, income statement, and cash flows), budgeted to actual results, historical trends, comparisons to the rest of the industry or competitors, and ratio analysis. The exact type, amount, and frequency of the data made available will depend on the role of the person accessing the data; however, the common threads are availability and ease of use.

If a report is confusing or cumbersome, then it won't be utilized fully. The format in which the dashboard is presented is important as well. Busy shop foremen will want a hard copy that they can read while walking the shop floor, while a traveling sales representative may want something that can be accessed remotely via PDA on the company intranet.

The true strength of financial management practices comes when financial reporting can be combined with non-financial and even non-numeric data. This may include integrating financial data with data from customer satisfaction surveys, employee feedback, opinions from industry leaders, marketing information, and other types of data. For example, suppose inventory data reveal that returns of product "A" spiked during a six-week period last quarter. Was this an anomaly? Perhaps, but combined with customer feedback, managers can determine that a faulty run from the factory amounted to higher-than-normal product failures, and maybe it's time to seek a new supplier.

Whatever the situation, an integrated financial system doesn't happen overnight. Work with an advisor who can analyze your company's needs and determine what components and what reports your system will require. By carefully matching your financial management practices with your needs and those of your vendors and customers, you can maximize your profit while minimizing expenses during this difficult recession — and beyond.

CHAPTER 12

Develop an Effective Benefits Strategy

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Develop an Effective Benefits Strategy

Many employers view healthcare benefits as a line item that needs to be cut during an economic downturn. The common practice is to increase cost-sharing with employees by raising their deductibles and increasing their co-pay amounts. However, this is a mistake. Providing employees with a competitive benefits package actually increases the bottom line. This seems counterintuitive at first. However, it's important to remember that in any organization, the most valuable asset is the employees. Not only are employees valuable in terms of the skills, education, and experiences they bring to the company, they're also valuable in the sense that good ones are hard to train and even harder to come by. A competitive package of healthcare benefits can help to obtain and retain top employees.

Any time an employee leaves, it impacts the company beyond the immediate loss of his or her contributions. Everyone else's productivity decreases because other employees now have to shoulder that employee's workload. The people who relied on the departed employee for information or instruction may see a decrease in their productivity as well. Morale can

Know the companies with which you compete for your top employees, and make sure your health plan is in the same ballpark as theirs.

decline when top employees leave, which further negatively impacts productivity. Moreover, the costs to the company are great — lost relationships and missed sales with clients, losses due to employees who are unfamiliar with the position they are filling in, and the high cost of finding and training a replacement. Some experts have pegged the cost of losing an employee and on-boarding a new one at up to $1 million.[1]

Still, it's easy to risk losing money in the long term when there are employer insurance premiums to be paid in the near term. How can you provide quality health insurance benefits now without emptying the coffers? First, benchmark yourself against your peers — others in the industry with a similarly sized workforce. To be competitive, your plan needn't be in the top one percent of all employers. Being in the top 25 percent will allow you to cut costs while still providing quality coverage. It will also let your employees know that you've researched what's out there and how your offerings stack up. Also, know the companies with which you compete for your top employees, and make sure your health plan is in the same ballpark as theirs.

Another new trend is creating a culture of health and implementing value-based benefits. When a company creates a culture of health, it makes healthy living and active lifestyles a part of the company's day-to-day culture. Employees are encouraged through a variety of means, monetary and otherwise, to make better choices about their lifestyles and their healthcare. For example, there may be company-sponsored sports teams, walking trails on the corporate campus,

[1] Nathan, S. (2008). Help execs grip the flying trapeze. Business Insurance Industry Focus, January 2008. Retrieved Dec. 11, 2008 from http://www.businessinsurance.com/cgi-bin/industryFocus.pl?articleId=23874&issueDate=2008-01-20

or weight-loss contests. The thinking is simply that healthy employees are less expensive to insure, show up to work more often, are sick less often, and are more productive overall. As Capital One's chief HR officer Matt Schuyler said, "Reducing the need for healthcare services in the first place by improving associate health – creating a 'culture of health' within the organization – appears to be an effective strategy for reducing costs over the long term."[2]

Furthermore, sick employees who come to work (a phenomenon known as presenteeism) are a major drain on resources. A study by AdvancePCS, a health management company, showed that of the quarter-trillion dollars in losses U.S. businesses incur every year due to illness nearly three-fourths come from presenteeism.[3] A culture of health can reduce employee illness and help to shorten recovery time, saving businesses literally billions of dollars in lost productivity.

Similarly, value-based benefits encourage employees to care for and prevent serious and chronic medical conditions that would keep them from being as productive as they might be otherwise. The medications and preventive treatments that add the most "value" to an employee's life — those that address killers like heart disease, cancer, diabetes, or depression — are made the most available by reducing or eliminating deductibles and co-pays for them. Likewise, non-essential or voluntary procedures and medications are the most expensive. In this way, employers monetarily motivate employees to take better care of themselves, which in turn boosts productivity and the bottom line for the company.

[2] Schuyler, M. (2008). Creating a culture of health: the new corporate mandate. Employment Relations Today, fall 2008, 35-41.

[3] Stewart, W., Matousek, D., & Verdon, C. (2003). The American Productivity Audit and the Campaign for Work and Health. The Center for Work and Health, Advance PCS.

CHAPTER 13

Take Advantage of Available Tax Incentives

CHAPTER 13

Take Advantage of Available Tax Incentives

In addition to death and taxes, one more thing is certain in this world: no one — employee or employer — wants to pay any more for healthcare costs. While companies can strategically position their healthcare efforts to improve employee health and increase morale in the interest of making the company more profitable, at some level strategy must give way to tactics. The way your company sets up its healthcare plan can dramatically impact your bottom line.

Simply stated, not all healthcare plans are created equal. Working with your benefits advisor to select the right plan can save your company money. Federal tax benefits and incentives encourage employees to take responsibility for their healthcare while educating them on the true costs of their coverage. An increasingly popular mechanism is the health savings account (HSA). An HSA allows employees and employers to contribute money to a special savings account pre-tax. This account may only be used for qualified healthcare-related expenses; otherwise, the account owner may face penalties and owe taxes on the money. As long as the money taken from the account is used for qualified healthcare expenses, it won't be taxed.

> The way your company sets up its healthcare plan can dramatically impact your bottom line.

Every HSA must be tied to an IRS-qualified high deductible health plan (HDHP). An HDHP is a type of medical insurance plan that offers employees significantly lower premiums in exchange for the employee shouldering a significantly higher annual deductible. For any medical services purchased throughout the year (with the exception of most preventive care), the employee pays the full amount until the deductible is met. After the deductible is met, the insurer pays all or most of the cost of care for the remainder of the year.

Thus far, this sounds like a wash in terms of employee or employer benefit. The insurer charges the employee and the company a lower premium, but doesn't pay as much when the employee is checking out with the receptionist at the doctor's office. However, there are key differences. One, the employee is paying his or her deductible with pre-tax money from the HSA, whereas with a PPO or HMO plan employees usually pay their co-pays with post-tax money. Two, the employee, by virtue of the high deductible, becomes acutely aware of the cost of his or her healthcare coverage.

The psychological aspects of this can't be understated. With traditional plans, employees have very little understanding of where their healthcare coverage comes from or what it costs. They see a doctor, pay a small co-pay, and leave. Even though the employer understands these costs very well and factors them into the total cost of the employee, employees think of healthcare as a somewhat abstract perk with no true dollar value attached. They're very likely to think of themselves as earning a set rate per hour or so many thousands per year, with the value of their benefits left out entirely and never attached to their gross earnings total.

The HSA and HDHP change all this. Because employees set aside money from their own paycheck to cover expenses and pay for them with their own money until the deductible is met, they become highly aware of the value of their benefits as the dollars pass through their hands. The end result is that employees are less likely to abuse their benefits and more likely to engage in healthy behaviors that help prevent the need for medical care. Money is a powerful motivator, and the fact is that HSAs and HDHPs help the company's bottom line.

If your company decides to offer an HDHP, the key to success is communication. These plans are new and unfamiliar to employees who are used to an HMO or PPO system. Early communication when the plan is created and frequent follow-up can raise participation rates and begin to impact company expenses positively. Another important consideration is the size of the deductible. If it's too high, employees won't participate. It the deductible is too low, it will not realize any savings for the company.

Your company can also make company-sponsored HSAs available to facilitate employee participation. The fewer steps they're required to take, the more likely they'll be to sign up. The company can further encourage participation in the plan by offering an employer contribution to the employee's HSA, making it less expensive for the employee than a competing HMO or PPO offering. While these may seem like large up-front expenses, the investment will be worth it as employees take charge of their own healthcare and ultimately create less expense for your company.

Finally, another tool that is available under some benefits plans is the flexible spending account (FSA). Like HSAs, FSAs are exempt from federal, FICA, Medicare, and state taxes in most states for employees or payroll taxes for employers. The tax savings garnered for employers, combined with the fact that any money remaining in an FSA at the end of the year reverts back to the employer, means that companies may actually turn profits by implementing an FSA program. Communication with employees is essential to participation in an FSA. New IRS rules allowing over-the-counter drugs to be paid with flex dollars and flex debit cards can help sell this type of benefit to employees.

CHAPTER 14

Improve Benefits and Administrative Efficiencies through Technology

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Improve Benefits and Administrative Efficiencies through Technology

Clearly, establishing values-based benefits strategies combined with alternative and innovative benefits plans can both reduce costs and increase overall employee health, morale, productivity, and job satisfaction. However, these strategies won't be as effective as they could be if the staffing resources to implement them are unwieldy. Anyone who's had benefits experience knows what a nightmare making a change in benefits or adding a child to the employee's coverage can be. Oftentimes

> Systems should be integrated with the employer's financial, payroll, and HR systems so that when an employee makes changes to his or her coverage, it's reflected immediately system-wide.

an employee has to make a special trip to the HR office, fill out forms, and fax them to the insurer — not to mention all the paper pushing that the HR and benefits staff does. Fortunately, there is another strategy your company can implement to cut down on inefficient benefits management: utilize technology.

In broad strokes, there are essentially three main categories of systems in employee management: payroll management systems, human resources information systems, and benefits management systems. While there are solutions for each that do a particular job well, few systems cover all three applications with ease, and those that do can be cost-prohibitive. This is where a business advisor can help tailor a solution specific to your business and help answer two key questions: what problems are you trying to solve, and how can technology help?

It's important for any technological solution to be more than simply a whiz-bang way to accomplish the same old red tape. Just as the personal computer was much more than a replacement for the typewriter in 1980, a benefits administration system should be more than a replacement for an abundance of complicated forms and inconvenient trips to the benefits office. Access to the system by employees and managers is vital. There's no reason that benefits information should be locked in an office on the fifth floor. Employers should allow employees to access their benefits information by a variety of means, including the Internet, by phone, and in person.

Another feature that any benefits management system should have is integration. If a company provides medical insurance through company “A”, dental through company “B”, vision through company “C”, and life insurance through company “D”, employees should be able to access all four through the employer’s company intranet, 24-7 or through benefits kiosks placed throughout the workplace. Systems should be integrated with the employer’s financial, payroll, and HR systems so that when an employee makes changes to his or her coverage, it’s reflected immediately system-wide. If an employee chooses to increase his or her weekly contribution to an HSA, the requested change should immediately be transmitted electronically to payroll so the change shows up in Friday’s paycheck — with no forms, signatures, or special trips required.

Not only do integrated systems reduce paperwork, they reduce the chance for errors because data is entered into the system only once. Additionally, integrated systems can provide powerful reporting tools for the employer. By combining benefits data with other numeric and non-numeric data, managers can wield powerful dashboards that can help them spot problems quickly and solve them before they spread and fester. For example, if a manager notices that employee participation in the high-deductible health plan is trending downward, he or she may relay the information to the benefits department to determine if a new round of employee informational meetings on the company benefits package could be useful.

CHAPTER 15

Reduce Costs for Payroll

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Reduce Costs for Payroll

Human beings are the most important and the most expensive part of any company. It seems like common sense, but all business owners and managers need to step back from time to time and realize that the best long-range plans, the best strategies, initiatives, marketing efforts, machinery, equipment, and production processes are completely useless without skilled, motivated, and dedicated people to make them go. Because people are the largest expense any company has to bear, it follows that you should seek strategies that your company can implement to reduce its people costs while still getting the most from employees. After all, not only are people important and expensive — they're inefficient and illogical at times as well.

The overarching theme of finding savings in your payroll expense is *wise resource management*. Expensive resources must be applied judiciously and with care and foresight. Therefore, owners and managers should make good time

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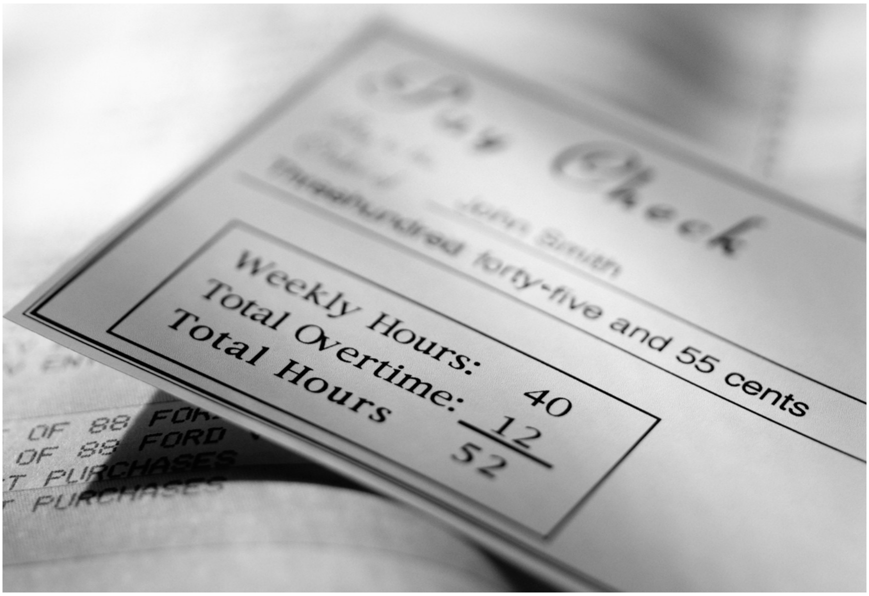
management part of the culture of the company. Businesses will often reward employees for coming up with money-saving ideas, but how often do they reward them for ideas that save time? Too often, managers assume that salaries and wages are a fixed cost and that money-saving measures matter most since everyone is paid for 40 hours, regardless. That's an unfortunate attitude. Instead, managers should reward employees who are consistently on time and recognize work units that complete projects and production runs ahead of schedule without sacrificing quality or safety. Make it clear to your employees that time is money, and a time-saving idea or suggestion is as good to you as money in the bank.

When it comes to payroll savings, one of the simplest steps to take is to automate the timekeeping system.

Another strategy to employ is managing work hours wisely. Overtime can either be a godsend or the demise of your company. While it's often cheaper to pay overtime rather than hire new employees when your company needs to extend production hours or add shifts, it can become expensive when time-and-a-half turns to double and triple overtime pay as the hours rack up. Skilled managers will utilize their financial dashboards and determine the "sweet spot" where overtime saves money as opposed to new hires. Once you exceed that optimal point, it's time to hire more workers.

As with any cost-saving strategy today, technology can play a key role in making efforts more efficient and easier to implement. When it comes to payroll savings, one of the simplest steps to take is to automate the timekeeping system. Automating your timekeeping system provides multiple benefits for your company. It helps reduce tardiness, long lunches, and "it's five o'clock somewhere" syndrome at the end of the workday. When employees know they're accountable for their time, they police themselves better. Automated timekeeping systems can also reveal trends such as which employees are consistently on time and which are late. When tied into payroll, an automated system can even-handedly apply penalties. Suppose there is a three tardy per quarter policy that results in an hour's docked pay when violated or an hour's pay reward for no tardy occurrences in a month. The system can transmit this data to the payroll department instantly, ensuring that all employees are treated fairly and applying company policies without the need for human intervention.

Managers should also understand how every employee uses his or her time. No employee likes someone looking over his or her shoulder, and that's not the point here. Managers should be concerned with two things: the tasks assigned to an employee and how long it should take to complete them. When an employee consistently takes longer than he or she ought to, managers need to step in. Likewise, managers should know when a little extra discretionary effort by an employee can result in getting a rush job or a top priority project out the door. Sometimes, things can only be done so quickly — concrete only sets so fast — but a good manager will know how employees use their time and when it's okay to push.



A final strategy is to utilize flexible or mobile work schedules. Although these innovative work environments are best suited for white-collar or administrative employees, there are many aspects that can be applied across the board. Flexible work environments allow workers to set their own work schedules and are results-based rather than work hours-based. Essentially, an employee has goals to meet and a work product to produce in a given time period. How and when they accomplish it is up to them. If they need to go to a teacher conference at 3 pm at their child's school or wish to see an afternoon movie, that's their choice — but they're accountable for getting the work done. Technology, such as cell phones, laptop computers, and company intranets that can be remotely accessed, helps to make these kinds of work environments possible. For the right employees and companies, these arrangements can improve productivity and actually reduce overtime.

CHAPTER 16

Reduce Property and Casualty Insurance Costs

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Reduce Property and Casualty Insurance Costs

When looking for ways to reduce property and casualty insurance costs, don't risk a lot for a small amount of premium savings. Analyze your risks, and consider the odds. Don't risk more than you can afford to lose. Consider the basic principles of risk management:

1. What losses can you avoid?
2. What losses can you prevent through loss control and prevention?
3. What losses can you afford to retain?
4. What losses can you transfer to someone else via contract or other method?
5. What losses do you want to insure against?

When you decide which potential losses you wish to insure, don't focus solely on price. Instead, look for broad coverage with an insurance carrier that understands your business or niche and is financially secure. Work with a trusted agent or broker who performs periodic reviews of the company's insurance program, its claim history, and its loss prevention activities. Obtain evidence of insurance coverage and certificates of insurance from your vendors, suppliers, and subcontractors so you don't get stuck paying a claim that should be paid by someone else.

Another way to lower premium costs is to increase deductibles. You can look at higher deductibles for your auto comprehensive and collision coverage, property coverage, building and contents, and general liability. In many states, businesses can have a small deductible on their workers' compensation plan, ranging from $100 to $25,000, which creates savings of anywhere from one to 15 percent of the premium.

Every business owner needs to review his or her claim frequency and severity and analyze risk retention capabilities. If you can afford to take more risk, consider loss sensitive insurance programs, which charge a premium based on the company's actual claim history.

Review the amount of insurance you have on your building and contents and be sure it is current with the appropriate replacement value. This exercise prevents you from over- or under-insuring your property. Are the values accurate? With a downturn in the economy, are you reducing inventories and supplies, and if so, should you lower your contents' coverage amount? If you have not had appraisals done on your property recently, now is the time.

When you decide which potential losses you wish to insure, don't focus solely on price. Instead, look for broad coverage with an insurance carrier that understands your business or niche and is financially secure.

At no time should you cut corners on risk management programs, loss prevention, and claims management processes and review. If you lose focus on safety initiatives or workplace safety standards, fail to use protective devices and equipment, or fail to properly maintain plant, equipment, or production standards, you may see higher future insurance premium expenses. These will come through higher workers' compensation experience modification factors and higher claim frequency, which will add to insurance costs. You may also incur extra hidden costs in terms of lost productivity, lower employee morale, and loss of reputation and standing.

CHAPTER 17

Increase HR Focus on Compliance, Efficiency, and Employees

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Increase HR Focus on Compliance, Efficiency, and Employees

Despite your best efforts to save money and cut costs without cutting people, you may decide that you need to reduce your workforce…at least temporarily. Layoffs have a negative connotation and conjure up images of lowered morale, decreased productivity, foreclosures, unemployment lines, and other unpleasant situations, but the reality is that restructuring your workforce can be a healthy and important part of coping with business slowdowns. It can also help you emerge as a stronger, more viable company when the business cycle returns to health. Ultimately, as your business grows from a stronger base, you'll be in a position to employ even more workers to make your business growth happen.

But just because workforce reductions are "tough love" and can be good for you doesn't mean there is no right or wrong way to go about doing them. Smart managers think of themselves as skillful surgeons when it comes to layoffs — carefully removing only the parts of the workforce that aren't needed and keeping the healthy, productive employees. Clearly the wrong way is to take the "butcher" or the "chainsaw wielder" approach, whereby managers slash ten percent cuts across the board while giving little thought to the consequences of their actions. It's very important to have a standardized set of criteria and a well-thought-out rationale when making cuts. This will make the process more defensible and easier for everyone involved, and it will have the least impact upon morale and your company's reputation.

A key component of your criteria should be documentation for your layoffs. Job performance can be a part of your decision-making process when you decide which staff to cut and which to keep. You don't want to let top performers go. Therefore, be sure to have performance reviews, manager feedback, documentation of unexcused absences, and other relevant information ready when you call someone into the office to deliver the bad news.

Another important type of documentation to have on hand is the financial rationale for the cuts. Employees understand that they work for a business that must generate revenue to meet its payroll costs. When employees can see charts, graphs, and other kinds of documentation that show your decision is not arbitrary, but rather based on economic realities, they are more likely to take the news of their dismissal well.

But it's not enough to simply handle layoffs well from a business standpoint. You also need to make certain you comply with federal and state labor laws when you make workforce reductions. Frequently, there are laws governing notification of employees who will be laid off, extension of benefits, and other issues. An experienced HR consultant who knows the ever-changing legal landscape can work with your HR department and managers to ensure that all relevant laws are followed and that employees have no legal recourse against the company due to a careless mistake or an oversight.

After you've made your cuts, turn your attention to the employees who are still with the company. Be sure to identify the best employees, provide them with training and personal growth opportunities, and keep them on an upward development path. Morale should also be high on your radar screen. The remaining employees have lost friends and co-workers, and they'll all be abuzz wondering who's next. Moreover, they all face the prospect of having to do more work with fewer resources.

Constant communication with the remaining employees in staff meetings, newsletters, company intranets, and other areas can help. In addition, there are many cost-effective methods to improve employee morale and productivity. Consider expanding the ways in which you receive employee input, even by walking shop floors and office hallways and asking for it. Also, if you cross-train employees, they will become a more valuable asset to the company. Encourage employees to plan and carry out low-cost, high-return events like picnics, bowling nights, or community volunteering.

An employee assistance program (EAP) can also help employees cope with layoffs and deal with the stress and strain of the recession. EAPs take the concept of employee morale and well-being a step further by providing access to trained professionals who can help in specialized areas like counseling, treatment for anxiety and depression, drug abuse counseling, financial planning assistance, continuing education, and other areas typically beyond the scope of what managers can be expected to provide.

Handling layoffs and employee morale issues properly, rather than quickly, may be more painful in the short term, but is by far the best strategy for long-term success.

Handling layoffs and employee morale issues properly, rather than quickly, may be more painful in the short term, but is by far the best strategy for long-term success. When the economy turns and your personnel needs change, employees who have been laid off will likely represent a prime pool of candidates to be re-hired, so treat them well as they leave your employ. Then, when that upturn does come, be smart about your hiring methods. Remember that fewer and fewer job seekers use classified ads during their job search. A very efficient, emerging way to find employees is through social networking sites like Facebook or Plaxo. Not only can you query your own contacts for potential new hires, but you can see what these new hires are like "behind the scenes" and gain insight into their personalities.

CHAPTER 18

Improve Productivity by Utilizing Technology; Maximize the Return on IT Investments

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There has been a technology thread woven throughout most chapters in this book. Here's a not-so-subtle reminder: automate your processes! Computers aren't just for nerds or engineers. Even if you think you've been successful at running your business out of a checkbook all of these years, it's a virtual certainty that you've missed opportunities to increase revenue and reduce costs by not taking advantage of the tremendous reporting and analysis powers that computer-based automated systems bring.

Once you make that commitment to automate, it's not simply a matter of purchasing computers and laptops and patting yourself on the back. You need to work with experts who will look at your entire operation and help determine how technology can best solve the problems and meet the challenges your company is experiencing. In short, align your technology strategy with the overall strategy and goals of your company.

For many companies, their technology strategy involves hiring a bunch of people who work in "IT" and who possess magical powers and abilities to fix computers. No one really understands what they do or how they do it, but their budget requests sure are large. However, it need not be this way. IT departments can be controlled, can be accountable, and can demonstrate their ROI like any other investment.

First, understand your IT expenditures. If you don't know what something is or does, ask. Many IT departments treat the company like a giant sandbox. Make sure your IT staff is requesting products and services that support the business — not new toys. As a business owner or manager, you control the activities of the IT department. It should have goals and work products with achievable timelines like any other department.

Don't buy blocks of IT hours or pay flat fees; prepayment only encourages the vendor to spend as little time with you as possible. Look for a vendor who wants to be a true business partner, and pay for the work actually performed.

One reason that IT is seen as something of a black hole for both budgeting and accountability is that too many IT staffs spend time completing tasks that really aren't the best use of their time. That's not to say IT staffers are lazy or wasteful — far from it. The problem stems from the nature of the requests they receive. For example, think how often you or an employee has called the IT department because a printer won't print or because there's trouble with a software application. Are these "help desk" requests really the best use of your IT staff's time?

Chances are that many of these types of requests can be outsourced to a company that specializes in help desk services. This will free up your IT staff to work on larger projects that make the company more efficient and profitable, instead of spinning their wheels on another printer problem. Better yet, the problem can be triaged internally before it ever reaches an IT staffer. You could provide all employees with more basic-level computer training to help them solve basic IT problems themselves. Or, assign one or two people with good computer skills in each work unit to be the "computer person/people" for that group.

If you do choose to outsource IT services, do so with the usual prudence you would employ when purchasing any other service. Don't buy blocks of IT hours or pay flat fees; prepayment only encourages the vendor to spend as little time with you as possible. Look for a vendor who wants to be a true business partner, and pay for the work actually performed.

Once you have your IT staff accountable and working on those big-picture items to save the company time and money, consider these tips and best practices for them to follow:

- *Complete an infrastructure inventory.* Who has what, and where?
- *Be warranty-wary.* Know when equipment warranties are set to expire, and budget dollars for equipment repairs accordingly.
- *Be mindful of maintenance.* Maintain equipment to maximize its life and avoid down time.
- *Understand software life cycles.* How long before key software components are obsolete? Budget accordingly.
- *Understand risk.* From hackers to failed hard drives, know what the dangers are.
- *Consolidate servers, data centers, and storage.* Not every department needs a full-blown server to run the laser printer. Combine to save equipment costs and maintenance.
- *Utilize open-source and cloud computing cautiously.* Open-source software applications, such as Open Office, and cloud computing, in which applications are offered over the Internet and not off your own hard drive, may promise savings; but don't jump in until you've analyzed the pros and cons.
- *Defer projects.* Remember, the IT department is not an amusement park. If it's not in the budget, it can wait.
- *Utilize technology to meet regulatory/compliance demands.* As has been stressed throughout, if you can automate things such as managing access to confidential client data and tracking employment applications, it simply means less work for a human being and less chance for human error.

In the end, the biggest gaffe when it comes to technology does not occur when companies need new technology but rather when they need to better utilize the technology they have. In too many cases, companies purchase a new system and receive training on it. Then, it sits unused because employees are used to the old way of doing things. Or, if the technology is used, it's never fully implemented and put through its paces. There may be "dormant" features that aren't being accessed. The lesson here: After a system is installed, don't provide only one training and forget about it. Follow up to ensure the system is fully understood and make sure employees are using it to its full capacity. If not, provide additional training.

CHAPTER 19

Examine Your Telecom Systems and Spending

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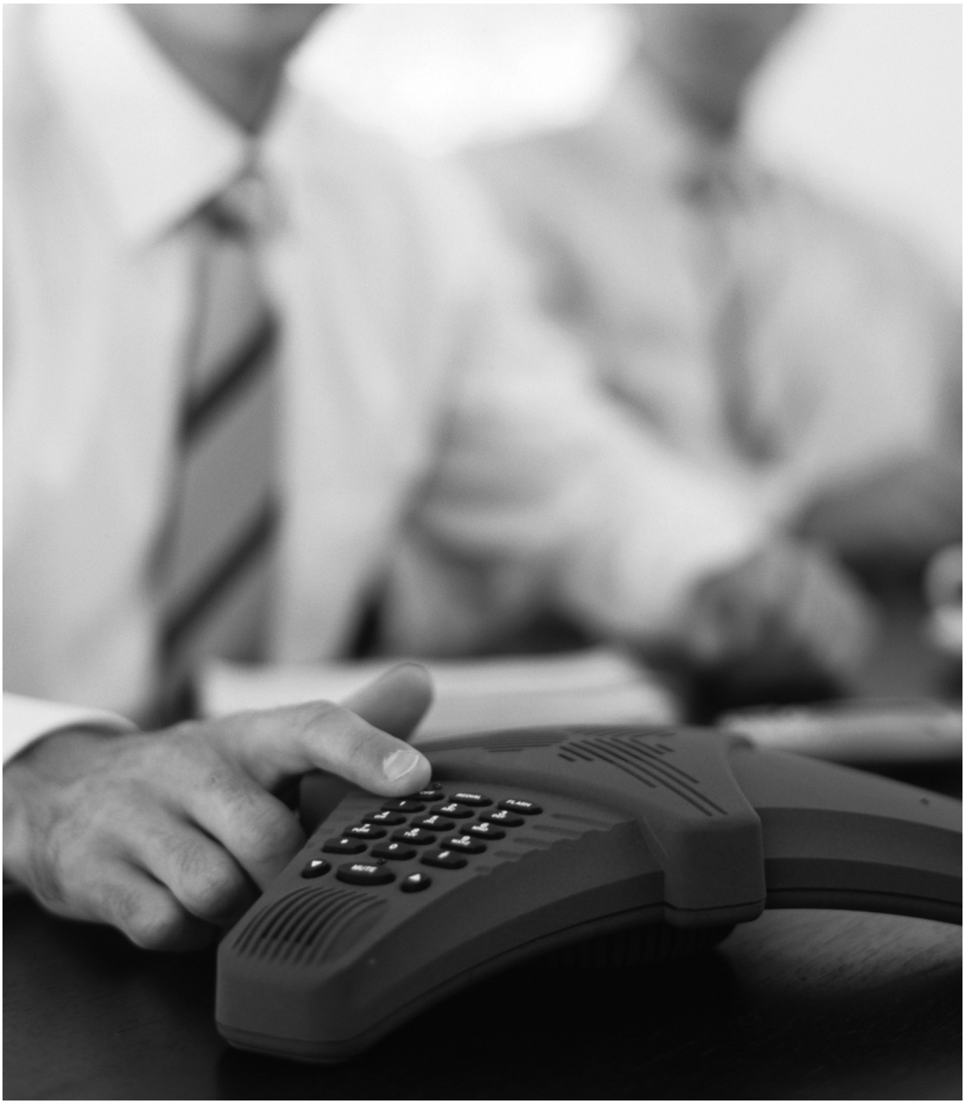
One special area of IT which presents its own set of challenges is your company's telecommunications system. In the past, the phone system was usually a stand-alone entity, perhaps installed in a closet somewhere. It was typically a vast and confusing cobbling of wires and cables, requiring expensive service calls whenever you needed to add a line for an employee or change the company's voicemail greeting.

However, with the gradual blending of telecommunications and information technology, combined with ready access to the Internet, telecommunications has become so simple that it can be managed through Internet Explorer at the

> A quick look at the marketplace will reveal that a phone system that can meet your company's needs can likely be obtained for less than the cost of maintaining your old system over the next five to seven years.

receptionist's desk. If you're stuck with an antiquated phone system or need a new one, consider that it's less expensive to buy new. While other technologies in the office may simply be underutilized and not in need of replacement, a quick look at the marketplace will reveal that a phone system that can meet your company's needs can likely be obtained for less than the cost of maintaining your old system over the next five to seven years. Under old-style telecom arrangements, the cost of moves, adds, and changes (MACs) to the system can equal the cost of a new system purchase over the mid-term. So why not go new?



Newer technologies have cut the costs of owning a telecom system by 75 to 90 percent. The newest systems are web-based, which means no hard wiring (they'll run through your existing Ethernet) and no MACs, and they're no more complicated than a typical office suite package. If the front desk personnel know how to utilize Facebook at home, they can manage most system functions in the office. Also, new systems often consolidate what used to be free-standing, independent communications systems. In today's marketplace, there's no reason why your land line phones, voicemail, mobile phones, e-mail, fax, and Internet shouldn't all work together.

Since telecommunications is such a rapidly changing area, your expenditures for telecom should be reviewed every six months to make certain you're getting the best deal possible. For this reason, be extremely cautious if you choose to sign a long-term contract. Build some outs into the contract to protect against changing technologies and/or pricing levels.

Conclusion

CONCLUSION

History has shown that companies that focus on growth when times are tough are the companies that succeed. Through all past economic crises — even the Great Depression — the companies that 1) advertised the most, 2) streamlined their operations, 3) strategically cut costs, and 4) focused on growth over survival consistently fared better than their competitors. In addition, they continued to fare better long after the economic downturn had ended. The choice is clear, and the 19 steps are straightforward for those who aren't afraid to take them. Savvy business owners will take Franklin Roosevelt's advice and remember that the only thing their business has to fear is fear itself.

NOTES

NOTES

ABOUT CBIZ

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19 ways to help your company grow in a challenging economy

1: Don't Overpay Sales and Use Taxes

2: Uncover Hidden Tax Savings with R&E Credits

3: Write Down Inventories and Receivables

4: State Incentives - Find Training Grants and Tax Credits for Jobs Created

5: Don't Take Your Property Tax Assessment at Face Value

6: Reduce Income and Franchise Taxes

7: Maximize Your Cash Flow

8: Renegotiate Loans and Leases

9: Outsource Back-Office Services

10: Negotiate More Favorable Terms with Vendors and Analyze Product Sourcing

11: Improve Financial Management Practices to Focus on Core Business and Long-Term Goals

12: Develop an Effective Benefits Strategy

13: Take Advantage of Available Tax Incentives

14: Improve Benefits and Administrative Efficiencies through Technology

15: Reduce Costs for Payroll

16: Reduce Property and Casualty Insurance Costs

17: Increase HR Focus on Compliance, Efficiency, and Employees

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19: Examine Your Telecom Systems and Spending

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ISBN: 978-0-9785617-2-7

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