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Family Business

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Open the door to a stronger stream of green

When it comes to cash flow management, one image that comes to mind is a big revolving door through which money enters and exits a business. The problem, of course, is that sometimes there's too much going out and not enough coming in. For example, as your business expands and sales grow, you'll naturally have more operational costs. But recovering them may take time because customers often seek to hang on to their own cash as long as possible.

To open the door to a stronger stream of green, analyze the impact of your business decisions on cash flow and devise a plan for improving cash flow management.

CASH FLOW ANALYSIS TOOLS

Family business owners and managers may not always consider the full impact of their business decisions. For instance, buying a larger quantity of inventory from a supplier to take advantage of a volume discount may initially sound like a good idea. But if the inventory is a slow-moving item, you may end up paying more in storage costs, interest expense and possible obsolescence than the discount is actually worth, and sacrifice the opportunity to stock more fast-moving goods.

Take another example: You may typically offer a set year-end holiday bonus to employees. But if you're less profitable in a given year, the bonus can strain your cash flow. And deciding to suddenly take it away can dampen morale. A better option might be to continue a nominal holiday gift program for all employees. But tie any bonus into your company's profitability, based on quarterly or annual results, and pay it after the completion of your year end. And to enhance cash flow, consider paying part of the bonus immediately, and making part a deferred compensation plan payable over the next several years.



Getting a better handle on the cash flow impact of decisions and on your business's overall spending will let you more effectively manage and allocate funds. Two essential cash flow analysis tools are:

1. The budget. Examine your budget, line by line. Although it can be tedious to maintain a detailed budget for all company expenditures, it's fundamental to good cash flow management. Your budget can facilitate expense tracking and help guide spending decisions to align with your business goals.

To be included in the budget, items should tie into and support overall company business goals. If you can't effectively demonstrate how an item enables a particular business goal, you should question its merit. This will help you avoid unnecessary spending and make more funds available for allocation to worthwhile business needs. And remember that, for analysis purposes, a budget is useful only if you update it regularly, so that it accurately reflects actual spending. For instance, you may

have overbudgeted or underbudgeted on some items, and thus spent more or less than you anticipated.

2. The cash flow statement. Use your budget as input to prepare a cash flow statement, which is designed to report your business's net increase or decrease in cash. The statement factors in the cash inflows and outflows of daily business operations, asset purchases or sale proceeds, and financing activities. Because it excludes noncash accounting items, you can use it to pinpoint cash flow problems.

Cash flow statements are especially telling when prepared monthly. Quarterly and annual statements can also be useful for identifying cash flow trends. Accounting software packages can help automate and simplify the process of preparing these and other essential financial statements.

CASH FLOW MANAGEMENT

After analyzing your cash flow situation, you can begin to identify specific opportunities and develop a plan for improvement. At a minimum, your family business can probably stand to:

Keep better expense records. Maintaining accurate expense records gives a more complete view of your financial situation, putting you in a better position to effectively manage your company and ensure ongoing profitability. Good records enable you to prepare the financial statements you need to establish good standing with lenders and obtain

essential loans or credit. Accounting software can help you automate the meticulous process of expense account organization and records tracking.

Cut back operating expenses. Identify ways to reduce your company's day-to-day operating expenses. For example, you may find it more economical to outsource such noncore areas of the business as human resources, payroll and benefits management or information technology support. Or, you might implement just-in-time inventory management, with suppliers maintaining inventory for your business as long as possible, saving on storage and interest costs.

Also, consider whether your business is simply expanding too fast. If necessary, slow things down and implement a phased expansion plan. This will allow the necessary time to build additional infrastructure to support your increased business volume.

Improve accounts receivable and payable management. Conduct credit and reference checks on new customers to validate their payment histories and minimize the risk of collection problems. As added insurance, require customers to provide deposits on product orders or services to be rendered and offer discounts for paying invoices early.

Prevent invoicing errors and costly collection delays by maintaining current and accurate customer account data. Promptly send invoices to customers, and consider faxing or e-mailing them for faster

> SHUTTING THE WINDOW ON EXCESSIVE TRAVEL AND ENTERTAINMENT EXPENSES

One area where family businesses may see money flying out the window is travel and entertainment spending — especially in light of rising fuel costs. Fortunately, with planning and discipline, you can cut back and improve your company's cash flow.

Start by creating a written policy for booking flight, rental car and hotel reservations, as well as for reporting and claiming expenses. Call a meeting to review the policy and explain that travel expenses will be reimbursed only if employees comply with it. Make the policy easily accessible through the company handbook and intranet.


Additional ways to cut travel and entertainment expenses are to:

- Consolidate your travel purchases with select vendors that will negotiate discounts,
- Minimize expense reporting and processing errors by installing expense management software, and
- When possible, conduct business meetings via telephone, video or Web conferencing.

delivery. Also, quickly follow up on past-due accounts. Don't wait until accounts are 60 to 90 days late before contacting the customers.

To improve accounts payable cash flow, don't pay invoices earlier than required unless you're offered a discount. Use your buying power for large-volume and frequent purchases as leverage to negotiate discounts, free financing or extended payment terms.

AN OPEN DOOR

Your family business's cash flow situation is a key factor in its ultimate success or failure. A professional accounting advisor can help you analyze your cash flow and develop and apply strategies for improved management — holding the door open to continued growth and success for your business. 

The buck stops here

4 steps to establishing accountability

In any business, establishing accountability is a challenge. After all, when an employee makes a wrong move, or neglects to act, it's easier to let him or her off the hook. In a family business, establishing accountability is an even bigger challenge. Family employees may think they're above being held accountable and try to use nonfamily employees as scapegoats. Nonfamily employees, on the other hand, may feel they shouldn't be held accountable, because they generally have little, if any, ownership stake in the business.

But you can't afford to ignore accountability. Whether it's a matter of careless spending, inattention to clients, personal abuse of company resources or failure to adhere to company policies and core values, a lack of accountability can detract from your business's strategic focus, productivity and financial performance. Here are four basic steps for establishing a culture that holds each employee and family member responsible for his or her decisions and actions.

1. CREATE A CLEAR ORGANIZATIONAL REPORTING STRUCTURE

Lack of organizational structure can cause big problems for a family business. An organizational structure provides a framework for reporting relationships and control over employee performance. If employees know they're expected to regularly answer to others for their performance, they will naturally be more diligent. If no one is watching, employees may drag their feet, accomplishing little and holding up business progress overall.

So to help ensure your business organization is performing, everyone must answer to somebody, including a superior, peers, business stakeholders or preferably a combination thereof. For example, an employee should answer to a manager as well as project teammates and business owners.

You can't expect to hold employees accountable if they don't know what they're accountable for.

Additionally, both employees and owners should answer to customers. And the owners should also answer to business partners, accountants, bankers or other business advisors, government and the local community. Finally, some family businesses may have an advisory board or board of directors owners should answer to.

2. SET EXPECTATIONS AND GOALS

Accountability requires explicitly stated, achievable expectations and goals. You can't expect to hold employees accountable if they don't know what they're accountable for.

Basic accountability is simply fulfilling the minimum expectations for being an employee and for the specific position. This may seem obvious, but sometimes employees — especially family

members — can be unclear on those expectations. So they should be spelled out in an employee policy manual and job descriptions and communicated to everyone.

For example, an employee policy manual might require employees to provide their supervisors with weekly time sheets listing hours worked, broken out by project. A job description for a customer service representative would describe the tasks he or she is expected to complete daily, such as answering customer calls, logging them into a database and filing a report at the end of the day.

But to keep a business advancing, employees need to do more than the minimum — they need to exceed expectations. That's where setting goals and making employees accountable for achieving them comes into play. Goals should be as tangible and measurable as possible. For example, if one of your business's goals is to increase sales, specify the number of customers you want to add and the dollar amount you want to bring in during the next year.

3. ASSIGN ROLES AND RESPONSIBILITIES

Supervision and job descriptions can be sufficient when it comes to creating accountability for accomplishing ordinary day-to-day tasks. But when it comes to company goals, additional effort is required. Break down how you expect employees to achieve company goals, defining specific roles and tasks.

For instance, to create accountability for the goal of increasing sales, you could ask your customer service team to cross-sell products and services to existing customers, and then have your marketing team develop a list of products or services to suggest, based on a customer's purchase. Management must ensure that employees receive any training and tools necessary to fulfill the goal-related responsibilities they've been assigned.

4. MEASURE AND REWARD PERFORMANCE

A process for regular, formal performance measurement — at the individual, team, department and companywide levels — is essential for improving accountability. Measurement helps to gauge how employees are doing, so you can recognize their accomplishments as well as identify opportunities for improvement.

Just like the proverbial carrot motivating a horse to pull a cart, rewards — such as pay increases, bonuses or promotions — are essential for motivating employees to achieve goals. Likewise, there should be consequences for not meeting expectations and not achieving goals, ranging from simply *not* receiving a reward to constructive feedback, progressive discipline and, if necessary, termination.

To find ways to more completely evaluate company and employee performance, consult your professional business advisors. Follow up with your customers, via survey and on an individual basis.

And don't just review performance annually — monitor it regularly and provide more frequent feedback. If employees are performing well, this will help motivate them to continue performing at a high level. And if they aren't performing well, this gives them a chance to make necessary adjustments and get back on track.

MAINTAIN YOUR COMPETITIVE EDGE

Stop the buck with each and every family and nonfamily employee of the business. If you don't hold everyone in the organization accountable, you risk losing your competitive edge. Full accountability helps keep everyone focused on the right priorities and continuous improvement. And when people are held accountable, they're apt to feel a rewarding sense of ownership and pride in their work. 🏠



Have you considered a charitable remainder trust?

If you're like most family business owners, determining how you'll share some of your wealth with your favorite charities is an important part of your estate plan, along with providing for your family and minimizing taxes. A charitable remainder trust (CRT) can help accomplish all three goals.



A CRT is an irrevocable trust that provides for two kinds of beneficiaries: income beneficiaries (you, your spouse or other loved ones), and remainder beneficiaries (charities). When the income beneficiaries die — or the set trust term ends — the CRT's remaining assets go to a named charity.

RECEIVING AN INCOME STREAM

When you place assets in a CRT, you can choose whether you (or your loved ones) will receive an income stream from the assets for life, or for a set period of not more than 20 years. CRTs come in two forms, which affect the income stream:

Annuity trust. This provides an income stream calculated as a fixed dollar amount equal to a *fixed* percentage (at least 5%) of the *initial* market value of the trust's assets. This means you (or the income beneficiary you name) receive the same payment yearly, though inflation can affect the real value of payments.

Unitrust. This provides an income stream calculated as a *variable* dollar amount equal to a fixed percentage (at least 5%) of the market value of the trust's assets *as determined each year*. This means the yearly payments may increase. Unlike an annuity trust, you don't have to fund a unitrust all at once, but can make yearly additions. The drawback is that the trust's value also can dip, reducing the income stream. And, your charitable deduction will be lower than for an annuity trust.

ACHIEVING IMMEDIATE TAX SAVINGS

In the year you set up the trust, you, as grantor, can take an income tax deduction equaling the present value of the charity's remainder interest in the trust, even though the charity won't receive the gift for many years. The present value of the amount going to charity must be at least 10% of the total value of the property transferred to the trust.

Keep in mind that the higher the income payout percentage, the lower the charitable deduction. Also bear in mind that the calculation is done based on a presumed rate of return — if the trust earns a rate in excess of the presumed amount, your beneficiary will end up with more than was anticipated. That is, if the presumed rate is 5% and the trust earns more than 5%, the charity's payout does not change.

Once you've determined the amount of the charitable deduction, you'll need to determine the amount that is deductible on your tax return. Essentially, though, the amount you're allowed to take in the year of the contribution will be limited to a percentage of your income for the year. Amounts not deductible in the current year can be carried forward — though not indefinitely — to subsequent years. You'll need to take a number of factors into account to determine not only the deduction but also your ability to use it, so consult a professional advisor.

You might also cut down on your estate and gift tax liability. For gift tax purposes, if you name an individual to receive the trust income, your taxable gift is limited to the present value of the beneficiary's income interest. There is no gift tax on the charity's remainder interest. For federal estate tax purposes, a deferred charitable gift is deductible at the donor's death, based on the charity's remainder interest.

SLASHING CAPITAL GAINS TAXES

A CRT provides a tax-efficient way to divest assets such as stocks or other property in which you have a low cost basis but that have appreciated significantly,

so that selling them could result in high capital gains taxes. Because the assets will go to the charity, the trust can sell them without incurring capital gains tax. Then, it can buy income-producing assets.

Be aware that transferring encumbered property or stock in your own corporation can create part-gift, part-sale issues and possible self-dealing taxes. To

avoid these mishaps, carefully choose the property you contribute to the CRT.

GETTING STARTED

Which kind of CRT you choose will depend on your specific estate planning and charitable giving goals. Analyze all your options to determine the one that's right for you. 🏠

> SUCCESSION PLANNING BUILDS BRIDGES TO NEW LEADERSHIP

Each time a family business transitions to a new generation of leadership, it runs the risk of losing key elements that have made it profitable. Creating a succession plan now can greatly increase the odds of your legacy continuing — and growing.

BUILDING THE BRIDGE

Succession planning helps bridge the generational leadership gap to enable a smooth transition and create continuity into the future. But to build that bridge, you have to:

Exercise leadership. You must develop a vision for the business's future and a plan for fulfilling it. Educate family and nonfamily employees about their parts in implementing the plan. Involving them in every stage will help secure their buy-in and rally their support.

Blend present and future strengths. Merging the strengths of the present and future generations builds a foundation for continuity and ongoing success. Document each generation's contribution and educate your successors so they may continue to develop your accomplishments.

Embrace change. To weather continually changing market needs and competitive dynamics, your family business will also need to change. The skills and roles of future successors, as well as activities and products of your business, will have to evolve. So prepare family business members to embrace that evolution and actively seek to change for the better.

MAKING IT STURDY

Working with an independent family business advisor can develop your succession plan in the spirit of what's best for both the business's and family's futures. Making the process as impartial as possible will help secure buy-in from your successors and other family business members.

A family business advisor can help you evaluate the pros and cons of major decisions concerning selecting your successor and the best candidates to fill other key management positions. He or she can assist with transferring ownership while minimizing taxes, maintaining family harmony and providing a retirement income. And, an advisor can guide you in preparing for and managing the succession process.

A TROUBLE-FREE CROSSING

When it comes to succession planning, you may be tempted to wait and cross that bridge when you come to it. But putting off planning will create problems if you decide that you need to retire earlier than planned — or become unable to continue your role for health or other reasons. With a well-thought-out succession plan in place, your family business will be able to survive and thrive, even in unexpected circumstances.