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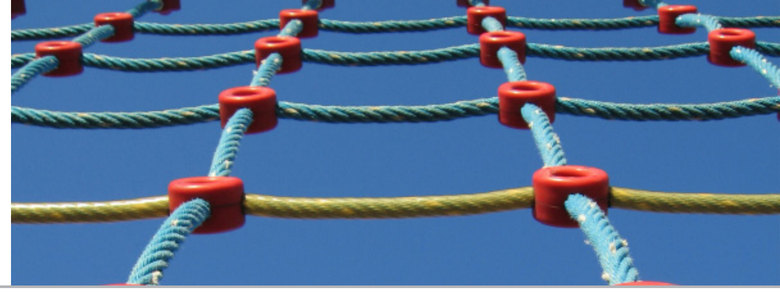
CPAs + Business Advisors



BUSINESS OWNER'S PERSPECTIVES

FAMILY MATTERS

How to Succeed in Exit and Succession Planning

Many business owners love their jobs, their coworkers and their companies. In fact, they love them so much that, for some, it's hard to imagine ever leaving the business and everything positive associated with it.

Instead of thinking ahead to retirement and business succession, these owners just keep going. They assume they'll know when the right time comes to step down, and that everything will work itself out. But that doesn't usually happen.

As difficult as it can be to plan for your own business exit, and future ownership and leadership succession, not planning shouldn't be an option. Here are six tips for successful exit and succession planning:

1. **Start early.** Seasoned business advisors will say you should start planning your exit the same day you start your company. While this may be extreme, it drives home the point that succession planning takes time.

A good succession plan starts at least three to five years out. This amount of time gives you a chance to identify a new leader, transition accounts — and then get out of the way.

2. **Be prepared.** One excuse owners often cite for not leaving their business is that they don't have enough money to retire. To avoid this scenario, it's wise to start working with a financial planner early.

If you haven't been saving enough money, meet with a financial planner now to discuss how to save and invest for retirement. Your business exit plan could involve a buyout that will help fund your retirement.

3. **Let go.** Sometimes the problem with retiring is that the owner has nothing else to do. If your next phase of life looks bleak and boring, be deliberate and diligent about finding something fun and productive to do. Whether it's playing golf or starting another company, you must identify how you're going to spend your time.

Remember that to be successful, the next generation must have a chance to lead. If you can't imagine staying away from the company, you might consider "practicing" by taking some time away in short bursts. This way, the next generation of leaders has the opportunity to make decisions without your input or interference.

4. **Identify who's next.** If yours is a family business, do you intend for your heirs to take the reins? If so, is an individual (or are individuals) in place and ready to lead? Begin the transition to the new leadership early so that they are accustomed to making executive-level decisions by the time you leave.

If not, you have several options: You can hire an interim leader until the next-generation leadership is ready, or you can hire an executive leadership coach to help bring the next generation up to speed. Or you can sell the company to a third party if keeping it in the family isn't a priority.

5. **Be proactive.** Whether you have a successor in place now or will be identifying one soon, you should start preparing your business for its next leader now.

This involves not only fine tuning the company to improve its efficiency and value (see page 3 for more details on this), but also cleaning up the finances. For example, scrub the books of all personal expenses. Get the business in top shape so that your successor will start with everything he or she needs to take the company to the next level.

6. **Ask for help.** Your team of trusted advisors can be especially helpful during times of business transition. Consult with your attorney, CPA and estate, financial planning and insurance advisors to get their input on next steps. Each has likely helped other businesses through succession and can share best practices with you.

Our experienced advisors can provide helpful guidance as you think about and prepare for your exit. Contact us to discuss your plans. 314.862.2070

WORD TO THE WISE:
What's Your Plan for Philanthropy?

Many business owners like the idea of supporting charitable causes, but they often don't have a practical plan for doing so. However, giving in a haphazard way can dilute the impact of charitable support and not allow owners to make the most of their donations — for themselves or the charities they support.

Tax Implications

One of the first issues to investigate when it comes to philanthropy is the deductibility of your contributions.

Generally, if your company is a flow-through entity like an S corporation, the tax code allows you to deduct charitable contributions of money or property made to qualified organizations up to 50 percent of your annual adjusted gross income (AGI). Note, however, that contributions to certain private foundations, veteran's organizations, fraternal societies and cemetery foundations are limited to 30 percent of AGI.

If your company is a C corporation, its contributions may be limited to 10 percent of its yearly corporate taxable income.

How to Give

Once you've decided on a philanthropy budget, you can determine the best way to distribute your funds: through your company, your family or both. Your options may include:

- **Direct gifts** – Writing checks directly to charitable organizations is the most straightforward way to give. But think about being strategic with your giving in order to get the most bang for your charitable bucks. For example, if your company sponsors an event or creates a scholarship, it may make sense to deduct your donation as a marketing expense instead of a charitable contribution.

- **Community foundations** – Most towns and cities have community foundations, which are independent institutions that make it easy to support philanthropies. By establishing a donor-advised fund (DAF) within a community foundation, you can designate how you want to donate the money to a particular charity or charities over time. Some community foundations have minimum DAF sizes as low as a few thousand dollars to start. You can donate cash, property or publicly traded stock (valued at 100 percent of fair market value) to your fund. Donors typically pay an investment fee to the community foundation, which helps administer and manage the fund.

- **Private foundations** – Setting up a private foundation is another avenue to consider. Families with substantial assets or those who want more direct control of their charitable investments might be interested in this type of foundation. Unlike donor-advised funds at community foundations, private foundations are required to file informational returns with the IRS and are required to make annual charitable distributions of a certain amount of income.

Your CPA can help you figure out a tax-advantaged way to make the most of your gifts.

Other Possible Options

Depending on your circumstances, there may be other ways to support your favorite charitable institutions and encourage philanthropy in your company. For example, some businesses designate a certain number of hours for employees to volunteer with charities of their choice. Others participate in United Way or similar payroll deduction programs.

If your company or family is interested in philanthropy but you're unsure about next steps, a goal-setting exercise may be the best way to start. Your CPA can help you figure out a tax-advantaged way to make the most of your gifts, and your financial advisor can help ensure that everything fits together in your overall financial plan

Let Mueller Prost help you design a philanthropy strategy that meets both your charitable and tax-related goals. Give your tax advisor a call at 314.862.2070 to find out how.

LOOKING AHEAD:
Improve and Build Value in Your Business Now!

If you've ever sold a house, you know what it's like to prepare for the sale. You paint and fix everything that's broken to make it more attractive to potential buyers. When you're done, you inevitably look around at your beautiful home and wonder why you didn't improve it earlier so you could enjoy the fruits of your labor.

The same thing often happens with businesses. There's no reason to wait until you're about to sell your company to spruce it up. Instead, enjoy the benefits of increased efficiency, growth and shareholder value now.

Here are a few areas to consider as you embark on your "business improvement plan":

- **Leadership:** As an owner, being irreplaceable doesn't bode well for the business's long-term success. Building a deep talent pool and strong leadership team lets you immediately benefit from others' intelligence, education and good ideas, and will protect the company if you suddenly become incapacitated or die.

- **Technology:** Staying current with your equipment and IT systems is smart business. Not only will you increase your efficiency now, but when it comes time to sell your company, you'll also be much more attractive to buyers. A productivity study or cost-benefit analysis can often illuminate the gains to be made from technology investments.

- **Supply Chain and Distribution Channels:** You're only as reliable as the weakest link in your supply chain or distribution channel. Dig in and analyze these networks to ensure that you're partnered with the most appropriate suppliers and distributors. Even if you've "always done it this way," you may find that there are new relationships, delivery methodologies or other advancements that could improve your supply or distribution outcomes.

  Also consider shoring up your supply and distribution channels with back-up vendors in case a key supplier or distributor runs into trouble.

- **Customer Base:** If the bulk of your revenue relies on just a few customers, you're at tremendous financial risk. What would happen if one of these key clients finds another supplier or no longer needs your goods or services? Think about expanding your sales efforts to ensure a broad, diverse base of customers.

- **Workforce:** Many companies need a specific type of workforce to succeed. Building a pipeline of prospective employees is crucial for labor-intensive companies or those requiring specific skill sets. For example, if you're a manufacturer relying on skilled labor, starting an outreach program to local schools — or even a training program of your own — will put you ahead of the competition in terms of attracting the kinds of employees you need.

Of course, this list is not exhaustive, and identifying areas for improvement is just the first step. It's important to set goals, measure and monitor progress and hold employees accountable for their areas of responsibility.

Try to get as much qualitative data as possible to assess each area's current state and your desired results. You might be surprised how much information you can glean from your various systems — even in areas like HR and marketing, which are perceived to be difficult to put quantitative metrics around.

Don't wait until you're ready to sell your business to start fine-tuning and improving. There's no time like the present to get your company in tip-top shape.

Mueller Prost is interested in your success. Call on us to help you identify ways to build value in your business today. 314.862.2070.

How to Set SMART Goals for Your Company

You've probably set goals for your business over the years. Some were likely short term and easy to accomplish, while others were perhaps more far-reaching and esoteric. But were any of them "SMART" goals?

SMART is an acronym that describes five qualities of worthy goals. Keep these five qualities in mind as you and your team set goals for your business.

There are other words that fit the **SMART** acronym — "realistic" versus "relevant," for example. But all of the variations support the idea that goal setting must be undertaken earnestly and strategically in order to be effective.

S **Specific**: As you describe each goal, include details about who, what, why and how it will be accomplished. By making goals specific, everyone knows exactly what is expected.

M **Measurable:** Maybe you've heard the saying, "If you can't measure it, you can't manage it." Make sure you can measure progress toward your goal, whether it's a dollar figure, a percentage change or a number of widgets made. Measurability also lets you set small goals that lead to attaining a large goal, which can help keep morale and enthusiasm high.

A **Attainable:** There's no sense in setting goals so lofty that they're impossible to reach. When goals are difficult but attainable, your team will make real progress and continue to be motivated.

R **Relevant:** Choose goals that matter to the success of the company and your employees, and that inspire your colleagues' excitement. Goals that result in meaningful change will garner the support necessary to see them through to completion.

T **Time-Bound:** It's no surprise that a schedule and deadlines create a sense of urgency and help motivate people to reach their goals. When you set a firm start date, a target end date and interim progress check-in dates, you create accountability.

Mueller Prost PC offers practical solutions and insightful advice to individuals, businesses and non-profit organizations, providing a full range of audit, tax, accounting and business advisory services. The experience of our more than 90 accountants, engineers, operations leaders and former business owners gives us a unique and comprehensive perspective to address the needs of growing organizations. In addition, we leverage our membership in PKF North America (an association of more than 100 legally independent accounting and consulting firms) to enhance our national and international capabilities. For more information, visit **www.muellerprost.com**.

The firm offers a full range of professional tax, audit, accounting and management advisory services and works with many closely-held, family-owned businesses.

For more information, please contact **Doug Mueller, CPA** at 314.862.2070 or dmueller@muellerprost.com.