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Mueller Prost
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Advising with Vision®

Business Owner's Perspectives

Trends and Strategies for Owners of Closely Held and Family Businesses

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Let It Roll

A Better Way to Forecast and Budget

Two core exercises lie at the heart of almost every business' financial planning activities: forecasting and budgeting. Given their importance, it's surprising how little effort many companies put into trying to make their forecasts and budgets as accurate as possible.

In fact, the traditional forecasting and budgeting process is designed in such a way that inaccuracies are practically inevitable. Various department heads are tasked with making spending and revenue projections for the next year, which are often little more than educated guesses.

But the worst part is that, once they're made, these projections are usually cast in stone. Everyone is held accountable for "hitting their numbers," regardless of how the underlying assumptions may have changed since the projections were first made. This static, inflexible process can lead not only to frustrated employees who are being held to unrealistic goals and quotas, but also to outdated and inaccurate financial information that leads to faulty — and sometimes costly — business decisions.

A More Flexible Approach

There's a better approach to forecasting and budgeting that allows for flexibility to accommodate the inevitable changes that occur in assumptions after they've been made. Known as rolling forecasting and budgeting, this process allows for regular updating of forecasts and budgets based on what's really happening in your business right now.

The idea is simple: Instead of creating an inflexible annual budget that can't be modified until next year, you'll create a flexible budget that can be updated throughout the year based on new forecasts. This rolling forecasting and budgeting process usually takes place on a quarterly basis, with new forecasts made for the next quarter based on the most recent quarter's actual results. The original budget is then adjusted to reflect the new realities that are occurring in your business at this point in time.

Consider the benefits of adopting a more flexible approach to your forecasting and budgeting process:

- More accurate and current financial information.
- Greater flexibility to adapt to business and marketplace changes.
- Less guesswork and more certainty on the part of managers and department heads when making projections.
- Elimination of wasteful "use it or lose it" budgeting and spending processes.
- Better overall business decision-making.

Switching Is a Process

Making the switch from traditional to rolling forecasting and budgeting is

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Word to the Wise

Job #1: Creating the Next Generation of Leadership

When you consider retirement, does it make you tingle with anticipation, thinking ahead to the freedom you'll have to enjoy all the fruits of your labor? Or does it make you break out in a cold sweat, afraid that you'll be bored and your company will immediately fail without your daily presence?

In addition to consciously creating opportunities to practice leadership, it's also wise to create opportunities for specific learning.

For vibrant baby boomer business owners, the idea of retirement is often a mixed bag. So here's a way to ease into it: Switch your focus for a moment and instead of planning your own future, plan for the future of your company. With this perspective, one thing becomes crystal clear — you must prepare the next generation of leadership.

Redefine Roles

Consider the frustrations of many dynamic young executives. They're smart and ambitious, and often they're champing at the bit, anxious to take on more responsibilities. But unless you encourage and teach them, they'll likely be unprepared for the next tier of leadership, which in turn makes your eventual exit problematic.

Now is the time to foster their entrepreneurial spirit. Redefine your role to be one of mentor-leader instead of boss-leader. A mentor-leader shares knowledge, and challenges and motivates others. Mentor-leaders also recognize their mentees' skills and talents to help build on them. A mentor-leader works with mentees to help them grow into leadership.

This means shifting from the mentee feeling that he or she is working "for" you to working "with" you. On a practical level, it means inviting the mentee to participate in meetings and conversations to watch you work. It includes introducing key vendors and suppliers and explaining the nuances of those relationships, as well as giving young executives the opportunity to make important decisions, lead big projects and, yes, even fail a time or two.

Encourage Learning

In addition to consciously creating opportunities to practice leadership, it's also wise to create opportunities for specific learning. This may include an advanced degree, such as an MBA, or advanced technical certifications specific to your industry.

Unless you encourage and teach young executives, they'll likely be unprepared for the next tier of leadership, which in turn makes your eventual exit problematic.

Encouraging young leaders to become involved in your trade association is often a good first step. Exposing them to what others in your industry are thinking and talking about is a good way to open the door to further learning via symposia, conferences or meetings. Deeper involvement, such as joining a committee, participating in a roundtable or taking on an association leadership role, builds industry relationships and knowledge.

This type of involvement is often "contagious" within the company. As more of your employees become involved in learning communities, your business benefits not only by the knowledge being brought back to the company, but also by increased visibility and a reputation as thought leaders in the industry.

Of course, building the next generation of leaders allows you to relax a little, knowing that your company will be in good hands when the time comes for you to work less. With your company poised for success, considering your own future becomes an easier, less stressful exercise. ■

We are invested in the future of your company. Contact us today to discuss leadership and exit planning.

Growth Strategies

Growing Your Business the Smart Way

"Grow or die." This philosophy has been adopted by many business owners, consultants and pundits over the years to summarize the belief that if a business isn't growing, it's declining — and will eventually fail.

Whether this is always true is probably debatable. But given the choice between growth and business stagnation or decline, most owners will choose growth. In fact, growing is a primary goal of many, if not most, for-profit businesses. But there's a big difference between growing for growth's sake and growing a business strategically.

Business growth, and rapid growth in particular, can lead to as many potential problems and challenges as decline. This is especially true with regard to the strain it can put on a company's cash flow. That's why smart business owners will take the time to devise a strategic approach to growth that anticipates and plans for cash flow and the other challenges that can accompany business growth.

Investing in Growth Initiatives

One of the biggest pitfalls such a plan can help you avoid is falling into the trap of making growth decisions based on business conditions today without regard to foreseeable future demands on the business. For example, when business is going well and companies are flush with cash, owners sometimes see this as an opportunity to invest some of this cash into growth initiatives, such as opening a new office, developing a new product line or acquiring another business.

But are there investments that should be made in the existing business first? For instance, maybe the company has fallen behind the technological curve and would be better served investing excess capital into new computer systems or cutting-edge equipment. Or maybe it has neglected or deferred maintenance and needs to invest in repairs and upkeep of its existing facilities and equipment. Or maybe a sales hire would drive geographic growth of the existing business.

Another major pitfall is not anticipating the effect that growth will have on future cash flow. To grow, businesses usually need an abundance of capital to support, for example, a corresponding increase in inventory and accounts receivable. A lack of cash flow is one of the main causes of failure for companies that try to grow too fast without planning ahead for the financial implications of growth.

The point: There will be long-term implications to the decisions made today about growth for your company. Your strategic growth plan should try to anticipate them and minimize their impact as much as possible.

Is Growth Worth the Risk?

There's no question that risk is involved when embarking on a plan to grow your business. So, is growth worth the risk?

For many business owners, the answer is yes. Putting dramatic slogans like "grow or die" aside, growth is almost always preferable to the alternatives. Not only is it one measuring stick of business success, but it can also lead to increased compensation and net worth for the owners of closely held businesses.

The key is to grow smart. Creating a strategic growth plan is one of the best ways to assure smart growth — and avoid some of the pitfalls that often accompany growing a business. ■

Funding Growth

Business growth can usually be funded in one of two ways:

1) Owner's equity — This consists mainly of retained earnings in the business and the owner's personal funds outside of the business. However, business owners often don't have sufficient equity to fund a significant growth initiative, in which case outside financing must be sought.

2) Outside financing — This takes the form of debt or equity. Debt is simply a business loan that must be repaid with interest, while equity is the sale of ownership shares in the company. Debt is usually preferable to equity if a loan can be acquired at favorable terms because it doesn't dilute the existing principals' ownership shares. ■

Flexible Forecasting and Budgeting

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usually a process, not a one-time event. To help the transition go smoothly, be sure to clearly explain to employees not only how the new rolling forecasting and budgeting process will work, but why the change is being made and how it will benefit everyone.

It's also important to update your forecasts and budget consistently and at the same intervals (e.g., quarterly), using the same processes and tools each time. You will probably need to tweak your internal reporting systems to generate the necessary data, if not create new systems altogether. In particular, look at software programs that can help automate the forecasting process. ■

Please give us a call if you have more questions about rolling forecasting and budgeting, or need help switching to this new process.

Mueller Prost
CPAs + Business Advisors

www.muellerprost.com

MISSOURI
St. Louis (main office)
7733 Forsyth Blvd., Suite 1200
St. Louis, MO 63105
tel: 314.862.2070
fax: 314.862.1549

MISSOURI
St. Charles
2460 Executive Drive
St. Charles, MO 63303
tel: 636.441.5800
fax: 636.922.3139

CALIFORNIA
Long Beach
2010 Main Street, Suite 340
Irvine, CA 92614
tel: 800.649.4838
fax: 562.624.9818

Marketing Basics for Family Businesses

For many operations-oriented business owners, marketing is a mystery. It seems difficult to get right and impossible to measure. But for most companies, marketing is essential — to grow the business and to promote its unique place in the industry.

Here are some things to consider when marketing your family business:

- **Know your competition.** How does your company measure up? To stay current in the industry and relevant to your customers, you need to know your competitors' capabilities and how they position themselves in the marketplace.

- **Know your customers.** What do your customers value? Why do they do business with you? By knowing who your customers are and what they want, you can market in a more targeted way, approaching prospects who "look" like your current customers demographically.

- **Promote your strengths.** What does your company do particularly well? You may have a unique product or service, or perhaps your business is the fastest, the friendliest or the first. Identifying and promoting your unique selling proposition (or USP) is key to distinguishing yourself in the marketplace.

- **Be yourself.** Present your company authentically — don't try to elevate your brand with puffery. For example, if you are a smaller player in your industry, embrace that position. To many prospects, "small" is a good thing. It means personal service from an innovative, nimble company.

- **Play the family card.** From progressive start-ups to giants like Ford and Walmart, family businesses have always played an essential role in American commerce. In fact, the top 10 family businesses in the U.S. today collectively generate **$1 trillion** in revenue, according to *Family Business* magazine.

Remember, "family" is a positive. If your name is on the door, your customers and prospects know that you are accountable for the company's performance. ■