Mueller Prost PC
CPAs + Business Advisors

BUSINESS OWNER'S PERSPECTIVES

PROFITABILITY IN PRACTICE

Now Is the Time to Focus on Customers

Despite the frustrating inconsistency of the economic recovery, some business owners are feeling more secure and confident than they have in several years. After a period of waiting and watching, some are now ready to shift their focus back to growth.

With this in mind, remember the old adage: It's less expensive to keep a current customer than to land a new one. But who are the customers you most want to retain?

Your best customers aren't necessarily those who do the most volume with you, or those who have been with you the longest. Rather, one of the most critical measures of your best customers should be *profitability*.

Whether your company delivers services or sells products, your systems may be capturing the data you need to make valuable assessments about your customers' profitability. Work with your IT group or software consultant to access this information.

Take Care of MVCs

Your most valuable customers (or MVCs) deserve special attention. Work with your sales, customer service and executive teams to design a customer retention program that's meaningful to your MVCs, and is also measurable. Your goals should be to increase satisfaction, profitability, loyalty and perhaps even sales volume among MVCs.

Find out what is of value to your MVCs. It might be as simple as a customer appreciation award, a luncheon or a visit from the CEO. Or your MVCs might value the opportunity to serve on a customer advisory board. Perhaps you can offer an exclusive discount on year-end orders, or maybe you can redirect some of your own charitable dollars to philanthropic causes of importance to your MVCs.

Analyze Your MORs

Next, figure out whether you can move your middle-of-the-road customers (or MORs) to MVC status. This will involve conversations with your sales and customer service teams and likely with the MORs themselves.

What are the stories behind the numbers? Would a MOR be willing to pay more with a few low- or no-cost incentives? Are there customer satisfaction issues that can be resolved? Would an earlier delivery time or simply more attention be something they'd be willing to pay for?

On the other hand, MORs may have no interest or budget to pay more. But they might be just as satisfied with a product that would cost you less, or services that involve less than the level of attention you're accustomed to providing.

Fire the LVCs

Your customer profitability analysis will illuminate a sad truth: Some of your customers probably don't make the cut in terms of profitability. In fact, you may even find some least valuable customers (or LVCs) among your high revenue clients.

If so, act promptly — because valuable resources are being consumed by retaining LVCs. Without investing further time and effort in these clients, you can make a last-ditch effort to move them up the profitability chain by raising prices. Regardless, as you sever relationships with your LVCs, treat them with respect and care. Customers talk with each other, so you don't want to offend or burn any bridges.

Take It to the Next Level

Once you've executed your customer profitability assessment, monitor changes in customer profitability. And make sure sales and customer service team members are properly incentivized. For example, it's likely that sales incentives based on top-line revenue alone will negatively impact profitability, because salespeople may agree to excessive product or service customization or offer abnormal discounts to earn commission on gross revenue.

Also look for data that will allow you to compare your customer profitability margins to other companies in your industry. Your trade association or product supplier may have such data.

While a customer profitability study may sound difficult, it's worthwhile. Knowing who's keeping you in business, after all, is just good business.

Let us assist you in determining profitability measures, performing a profitability analysis, designing incentive compensation programs or benchmarking your data.

WORD TO THE WISE

The Rules of Communication for Family Business

Family communication can be difficult under the best circumstances. But when families work together, good communication is essential. How can you improve communication in your family business? Consider the following guidelines:

Use "shorthand" at home, not at work. Many families have a sort of communication "shorthand." Sometimes, it's a "you had to be there" reference that only a relative would understand. Or it may be a look or gesture that instantly conveys more than words could ever say.

In some circumstances, this shorthand is a good thing. But in your office, it may make non-family members feel left out or marginalized.

Keep work talk at work. As tempting as it is to unveil your new marketing plan over the dinner table, it's usually best to have work conversations at work, not at home. Not only does this promote family time at home, but it also ensures that others who aren't present at your family dinner will have an opportunity to hear about company news and weigh in when everyone else does.

Relatives already have an advantage in a family business. There's no need to heighten the differences between family and non-family employees with off-premises business discussions.

Keep it professional. If your cousin Pookie wants to be known by her given name Patricia at work, so be it. And if you want to lay into your brother about a mistake he made on a sales call, have that conversation behind closed doors, just as you would with a non-family employee.

In short, don't let personal issues get in the way of your work environment. Keep things professional with *all* of your employees, including family members.

Respect confidentiality. Let family members share their own news at the office. If a relative is leaving the company, getting married or divorced, buying a new car or boat, or having a baby, it's not your place to broadcast his or her personal news.

Similarly, make sure your relatives know that they are not to share any confidential business information they may come to know through family discussions. Loose lips can sink family relationships *and* business opportunities.

Acknowledge differences. Pay attention to different communication styles. For example, your younger relatives may be more casual and less verbose than their elders when it comes to written communications. In addition, some people prefer to hear information in bullet points, with quick options outlined, while others prefer lots of detail so they can examine every angle.

It takes all kinds of people to make a company thrive. By figuring out the communication styles of both your key employees and relatives, you can be more sensitive about how you present important information.

Use technology for communication. A company intranet can be helpful when it comes to documenting decisions and sharing information with employees. By posting procedures, policies and announcements online, you can be sure that all of your employees are privy to the same information — and are not at the mercy of the "family buzz."

The bottom line? Be aware of how you communicate with your family members at work. Good communication makes management much easier.

As your accountants and business advisors, we are interested in your success. Contact us at 314.862.2070 to discuss any of your family business concerns.

HR HINTS

Simple Documents Provide Necessary Protection

What steps have you taken to protect your business? Perhaps you've installed a security system to guard against intruders. Or maybe you've implemented a technology solution that shields your corporate data.

But one key set of safeguards may be missing: non-compete agreements. Without these important documents in place, your entire business enterprise could be at risk.

Non-compete agreements are must-haves for businesses with key employees — and nearly every business has at least one. Without non-competes, your managers, executives and salespeople may be free to take what they've learned at your company to a competitor, raid your customer lists, or convince other employees (and your clients) to help them set up a competitive shop across the street.

With non-compete agreements in place, however, you lessen the chance that current employees will cannibalize your business, or that disgruntled former employees will seek competitive "revenge" against you.

In addition, non-compete agreements are helpful when it's time to sell your business. They add value to your company by making your competitive position more secure.

What's Involved?

Non-compete agreements are legal documents, so they should be drafted by an attorney who is familiar with state and local employment laws and the particulars of your business. To be effective, non-compete agreements must be:

Reasonable. Non-competes must be reasonable in duration and scope. For example, if your agreement is intended to protect your trade secrets, it should cover a time period during which the information is actually valuable. In terms of rapidly changing technology, that may only be a year or so. In general, non-compete agreements lasting from six months to two years may be considered reasonable. Scope should be properly defined so that you aren't impeding the employee's ability to earn a living using his or her current skills. The agreement may also include a geographic component that might prohibit former employees from opening a similar business in your area, but allow them to do so outside a certain mile radius.

Enforceable. Enforceability varies from state to state. Note that courts may negate agreements if they are too onerous or broad.

Remediable. It may be desirable to include a "remedy" in your agreement. For example, if employees leave your company and take clients with them, they would pay you a percentage of those clients' yearly fees over the course of a specific period of time. Ask your attorney for guidance here.

Who's Covered?

It's best to ask prospective key employees to sign a non-compete agreement before they actually start working for you. This way, you are covered from the very beginning. If the employee is also subject to an employment contract that outlines his or her specific duties and compensation, you can wrap the non-compete into that document.

For non-key employees and contractors who don't have access to trade secrets, customer lists and similarly valuable information, a confidentiality or non-disclosure agreement (NDA) is usually the way to go. This document will protect your business intelligence and proprietary information without the complexity or specificity of a non-compete agreement.

We can work with you and your attorney to help create non-compete agreements that will meet your goals. Contact us at 314.862.2070 for more information.

Be Aware of Your Fiduciary Responsibilities

If your company offers an employee retirement plan, you have certain responsibilities to your plan participants. This role as a fiduciary is serious and significant. And because of the prevalence of 401(k) plan non-compliance issues, the Department of Labor is paying close attention to how trustees manage their fiduciary duties.

To increase transparency and protect plan participants, the Employee Retirement Income Security Act (ERISA) includes many directives about how plans should be operated. Among them are:

ERISA Section 404(c) – By following these guidelines, you effectively transfer certain liabilities associated with investment decisions to participants. Section 404(c) has three basic requirements:

1. The plan must offer at least three diversified investment options with varying degrees of risk and return.

2. There are certain disclosures and information that must be provided to participants — some automatically in advance of investment, and others must be provided upon participant request.

3. Participants must be able to give investment instructions to a fiduciary, and they must have the opportunity to change investments with appropriate frequency.

ERISA Section 404(b)(2) – Starting this August, 404(b)(2) requires fiduciaries to notify participants of all fees typically paid by the plan. You must also notify participants quarterly of the actual expenses incurred. In addition, you must disclose detailed fund performance data, benchmarks and expense ratios annually. Also note that the new rules require your plan service providers to provide you with contracts detailing their fees by July 1, 2012.

Recordkeeping – Among other administrative duties, you are required to keep your plan's Form 5500 filings for at least six years. You also must have annual reports and a census of participants for the same time period.

Ask us about how a fiduciary specialist or other advisor can help your company fulfill its fiduciary responsibilities.

Mueller Prost PC is a team of CPAs and business advisors headquartered in St. Louis. From humble beginnings on a ping-pong table in 1983, the corporation has grown into one of the leading CPA and business advisory firms in the area, operating out of two locations with more than 90 staff members. By ***Advising with Vision***®, we offer clients new and unique ways to look at their businesses. Our forward-thinking CPAs and advisors stand ready to provide depth of expertise, strategies and resources required to help clients set and achieve their goals at every stage of the business lifecycle. As a member of PKF North America (an association of independent CPA firms), our team has the ability to leverage national resources when needed to benefit client engagements.

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.