

# the business owner journal

*expertise for the business owner*



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# From the Editor

We can do only what we can do.

We don't control the economy. We must focus on things that we have control over. Like getting smarter, faster and stronger. A good place to focus our improvement efforts is lead generation. If we can become great at generating qualified leads, we have a great opportunity to grow revenue and book healthy profits. The lead article (no pun intended) in this issue makes the case for organizing your business around three key competencies: lead generation, lead conversion and product/service delivery. Each area is critical to your business. All three encompass your entire business (from the customer standpoint), but it all starts with lead generation. It's the lifeblood of every business.

On another note, our elected leaders won't reduce spending. It's their inability to curb spending that puts upward pressure on tax rates. The election season is here. Identify candidates who will reduce spending and balance the budget, and vote for them — regardless of party affiliation!

Yes, the economic recovery is weak, but it is here. Do not lose faith. Your hard work and struggles will be rewarded.

Sincerely,



David L. Perkins, Jr.  
Managing Editor  
*The Business Owner Journal*



## the business owner

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# It Starts with Lead Generation

You cannot grow revenue and earn high profits without first becoming great at lead generation. If you aspire to be in the business fast lane, lead generation is your fuel.

What's the key to lead generation? Every business is unique, so it's a question you must find the answer to yourself. It's a challenging task, to be sure, but it's imperative. For some, a key component is the physical location. The signage and "look" that get the right prospects in the door. For almost all types of businesses, it's about figuring out which types of campaigns are most effective.

Once leads are being consistently generated in sufficient quality and quantity to support revenue levels that will allow profitable operation of the business, the task turns to lead conversion. Fuel alone won't get you motoring down the road. You need a lead conversion machine. An efficient machine that maximizes the revenue derived from the investment you make in lead generation.

Finally, a business must satisfactorily deliver the purchased product or service if it hopes to endure. Deliver in a manner that garners return business. And so business, in its essence, is simply:

- a. Lead generation
- b. Lead conversion
- c. Product or service delivery

Are you giving enough attention to A and B above? Do you realize how critical C is to your repeat business?

## Lead Generation

The only way to figure out the most cost-effective means for generating quality leads is trial and error. To be sure, you can learn a lot from your peers. The best place to do this is at trade shows and conferences. But in the end you must try, try and try again. Better yet, test, test and test gain. It's a game of keeping track of each effort, tracking the results and then trying different combinations and nuances to find an even more successful campaign. Finding one great campaign might do the trick for a while, but you should never stop experimenting and tracking the results. It's expensive. It's an investment. It's the only way to build a business that has enduring success.

What will it take? At least one full-time person dedicated to running, and building, your lead generation machine.

## Lead Conversion

Leads have no value unless converted to cash. Turning them to cash is an entirely different process from lead genera-

tion. But similar to lead generation, the process should be handled by a dedicated person, or staff. A specialist, or specialists, whose one task is converting leads into clients.

Again, the appropriate and optimal process differs for each business. For a retailer, it's about how walk-in traffic is greeted, how the inventory is presented or arranged, how their questions are answered, and how they're "checked out." McDonald's has it down pat, of course. "Would you like to try one of our new premium smoothies today?"

Similar to lead generation, lead conversion is a process of testing and comparing results. A process of continually replaced inferior techniques with higher-yielding ones. Do in-person visits with free mock-ups, for example, yield a higher ROI than phone sales with samples of work performed for other customers?

## Product or Service Delivery

What's better than turning a lead into cash? Well, turning a lead into a stream of cash, of course. Returning customers are more profitable than new ones because:

- a. They do not require an investment in lead generation.
- b. They do not require the same level of service, i.e., persuading, teaching, selling, system/database set-up, post-purchase assistance, etc.

Companies that enjoy a high level of repeat customers are almost always very profitable. You want to have a very profitable company, right? You must execute. Your execution effort is your third critical business process. You should have at least one full-time person in charge of product and/or service delivery and customer satisfaction. Customers return when they're satisfied with their prior purchases and then they send their friends.

Developing a highly profitable business is not easy, of course, but when we boil down the complexity and see clearly the key processes that can lead us to success, our task becomes easier. Just three processes must be mastered. Becoming "decent" at all three is probably enough to put yourself in the top 20 percent. That's where the spoils are. [tbo](#)

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**It's a game of keeping track of each effort, tracking the results and then trying different combinations and nuances to find an even more successful campaign.**

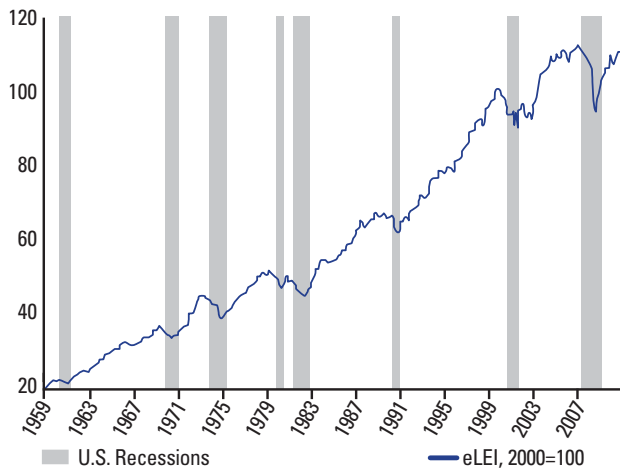
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# Predict Future Economic Activity

The ability to predict future economic conditions is useful in business, business planning and investment. Turns out there's a pretty easy, inexpensive and reliable method for doing so — at least for short-term forecasts of less than a year.

Check out the chart below. It displays the historical index of leading indicators compiled and published by e-forecasting.com. The gray bars are recessions. As you can see, the index tends to dip in the months prior to a recession and rise before the end of the recession and through the expansion. Economists have identified economic data that tend to positively correlate with future economic conditions. That is, changes in these indicators tend to precede changes in overall economic activity.

**Leading Economic Indicator Index**



The federal government (Conference Board) has settled on 10 so-called leading indicators. It tracks them and publishes the data monthly. Possibly more useful is the index of leading indicators, similar to the one compiled by e-forecasting.com. An index is a compilation of indicators. You can view the federal government's index of leading indicators at [www.conference-board.org/data](http://www.conference-board.org/data). You also can sign up to receive email alerts when new data are released. Here are the 10 indicators used and tracked by the federal government:

**Money supply (M2)**

When the money supply does not keep pace with inflation, bank lending may fall in real terms, making it more difficult for the economy to expand. M2 includes currency, demand deposits, other checkable deposits, travelers checks, savings deposits, small-denomination time deposits and balances in money market mutual funds.

The inflation adjustment is based on the implicit deflator for personal consumption expenditures. This data set is given the largest weight in the overall LEI index, a full 35.8 percent. See the lower left of page 13 for a chart of the historical recent money supply.

**Average weekly hours, manufacturing**

The average hours worked per week by production workers in manufacturing industries tend to lead the business cycle because employers usually adjust work hours before increasing or decreasing their workforce. This data set is given the second largest weight in the overall LEI index — 25.5 percent. For current and recent historical average wage data, see the top left graph on page 13.

**Interest rate spread, 10-year Treasury bonds less federal funds**

The spread or difference between long and short rates is often called the yield curve. This series is constructed using the 10-year Treasury bond rate and the federal funds rate, an overnight interbank borrowing rate. It is felt to be an indicator of the stance of monetary policy and general financial conditions because it rises when short rates are relatively low (high). When it becomes negative (i.e., short rates are higher than long rates and the yield curve inverts), its record as an indicator of recessions is particularly strong. This data set is given the third largest weight toward the overall LEI index, 9.9 percent. See the lower right of page 13 for a graph of the recent historical interest rate spread.

**Average weekly initial claims for unemployment insurance**

The number of new claims filed for unemployment insurance is typically more sensitive than either total employment or unemployment to overall business conditions, and this series tends to lead the business cycle. It is inverted when included in the leading index; the signs of the month-to-month changes are reversed because initial claims increase when employment conditions worsen (i.e., layoffs rise and new hiring falls). For current and recent historical initial claims for unemployment, see the top right graph on page 13.

**Manufacturers' new orders for consumer goods and materials**

These goods are primarily used by consumers. The inflation-adjusted value of new orders leads actual produc-

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Do you have a business success story or lesson you could share with your peers? Send it to [editor@TheBusinessOwner.com](mailto:editor@TheBusinessOwner.com).

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tion because new orders directly affect the level of both unfilled orders and inventories that firms monitor when making production decisions.

### Manufacturers' new orders, non-defense capital goods

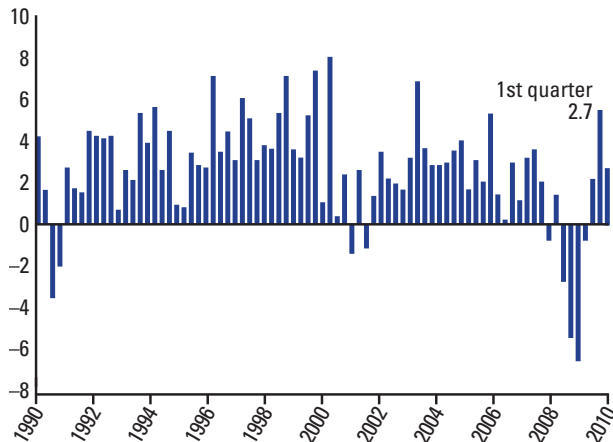
New orders received by manufacturers in non-defense capital goods industries (in inflation-adjusted dollars) are the producers' counterpart to the consumer orders index, above.

### Components of the Official U.S. Leading Economic Index (LEI)

Data Set	Contribution %
Money supply, M2	35.8%
Average weekly hours, manufacturing	25.5%
Interest rate spread, 10-year Treasury bonds less federal funds	9.9%
Manufacturers' new orders, consumer goods and materials	7.7%
Index of supplier deliveries – vendor performance	6.8%
Stock prices, 500 common stocks	3.9%
Average weekly initial claims for unemployment insurance	3.1%
Index of consumer expectations	2.8%
Building permits, new private housing units	2.7%
Manufacturers' new orders, non-defense capital goods	1.8%
Total	100.0%

### Real GDP

Percentage Change at Annual Rate\*



\* The quarterly change, expanded to show the change that would occur over a year if change continued.  
Source: U.S. Department of Commerce, Bureau of Economic Analysis

### Index of supplier deliveries — vendor performance

This index measures the relative speed at which industrial companies receive deliveries from their suppliers. Slowdowns in deliveries increase this series, and they are most often associated with increases in demand for manufacturing supplies rather than negative shocks to supplies. This index, therefore, tends to lead the business cycle. Vendor performance is based on a monthly survey conducted by the Institute for Supply Management that asks purchasing managers whether deliveries from their suppliers have been faster, slower or the same as the previous month. The slower-deliveries diffusion index counts the proportion of respondents reporting slower deliveries plus one-half of the proportion reporting no change in delivery speed.

### Building permits, new private housing units

The number of residential building permits issued is an indicator of construction activity, which typically leads most other types of economic production.

### Stock prices

The Standard & Poor's 500 stock index reflects the price movements of a broad selection of common stocks traded on the New York Stock Exchange. Increases (decreases) of the stock index can reflect both the general sentiments of investors and the movements of interest rates, usually another good indicator for future economic activity.

### Index of consumer expectations

This index reflects changes in consumer attitudes about future economic conditions and, therefore, is the only indicator in the leading index that is completely expectation-based. Data are collected in a monthly survey conducted by the University of Michigan's Survey Research Center. Responses to the questions about various economic conditions are classified as positive, negative or unchanged.

If you are unsure about where the broader economy is headed, it might make sense to check an index of leading indicators. The U.S. Conference Board is the most widely used. Other private indexes, such as the one compiled by e-forecasting.com, also should provide reliable data that can help you decide when to invest for growth and when to pull back. **tb**

# Patents, Copyrights, Trademarks and Trade Names

Patents, copyrights, trademarks and trade names are the basic components of “intellectual property.” Intellectual-property laws provide protection and financial incentive for persons who invent, create, produce and sell goods and services. Without protection, inventors would suffer risk that their inventions and ideas, and the profits that could be generated from them, would be pirated. The result: less research and development and fewer new

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**The Patent Act specifies the types of inventions that may be patented: any new and useful process, machine, manufacture or composition of matter or any new and useful improvement thereof.**

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inventions, ideas and products. Intellectual-property laws also protect consumers from confusion, deception and harm.

**Patents:** A patent is a grant by the federal government of a monopoly right to an inventor to make, use or sell an invention to the absolute exclusion of others for the period of the patent, currently 17 years from the date of approval or 20 years from the date of filing, whichever is longer. The owner of the patent also may profit by licensing to others a right to use the patent. Once the original patent term expires, it may not be renewed, the invention enters the “public domain,” and anyone then can use it.

The Patent Act specifies the types of inventions that may be patented: any new and useful process, machine, manufacture or composition of matter or any new and useful improvement thereof. To be patentable, it must be novel, have utility and not be obvious. Naturally occurring substances or “discoveries” are not patentable because the invention must be made or modified by humans.

**Copyrights:** A copyright is a form of protection provided by federal law that protects an original expression of an idea. It extends to authors of original works such as

literary works, musical works, dramatic works, pictures, graphic and sculptural works, motion pictures and sound recordings. Applications for copyright are filed with the Register of Copyrights, Copyright Office, Library of Congress. A copyright is actually a bundle of separable rights, including the rights to reproduce, distribute, adapt, perform or display a work. For example, an artist who sells a painting might give up the right to display that work, but none of his other rights.

The owner of the painting does not automatically buy the remaining bundle of rights when he or she purchases the painting. The owner of the copyright has the exclusive right to use or reproduce the work or license such rights to others. The doctrine of “fair use” allows for limited use of any copyright in ways that facilitate criticism, comment, news reporting, teaching, scholarship, or research, but this is a very limited exception and often fails as a defense to copyright infringement.

Registration is not required for protection because copyright law protection begins as soon as the work is fixed in a tangible medium. There is no truth to the myth that you must send yourself a sealed envelope by registered mail to get a “do it yourself” copyright. Copyright registration is advisable, because it expands the remedies for infringement. Regardless of whether a federal registration is obtained, it is wise (though not required) to place a notice of copyright on all publicly distributed copies so as to give reasonable notice of the claim of copyright. A copyright notice typically consists of an encircled C, the author’s name and the year the work was created, e.g., © The Business Owner, 2003

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**A copyright extends to authors of original works such as literary works, musical works, dramatic works, pictures, graphic and sculptural works, motion pictures and sound recordings.**

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The copyright law has been revised several times, resulting in different life spans of a work depending on when it was created and which law applies to it. Recently the Supreme Court upheld extension of copyright terms, meaning that many works from as far back as 1928 are still protected by copyright. It is wise to contact an

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**A trademark is any word, symbol or device (even colors or smells) that identifies and distinguishes the source of a product or service.**

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intellectual-property attorney before making use of artwork or literature, since it is not easy to determine what's in the public domain.

**Trademarks:** A trademark is any word, symbol or device (even colors or smells) that identifies and distinguishes the source of a product or service. There are four types of marks: trademarks (used to identify goods, like cookies or clothing), service marks (used to identify services, like an insurance agency or car repair center), certification marks (indicating compliance with certain

standards, like the Good Housekeeping seal of approval) and collective marks, which indicate membership in an organization, like The Boy Scouts of America. The federal government protects organizations and consumers by making it illegal for a person or organization to "palm off" or "pass off" goods from one source as goods from another, or "cash in" on the good will, good name or reputation of another.

To be federally protected, a mark must be distinctive so that it identifies the origin of the goods or services. Marks that are fanciful or arbitrary satisfy the distinctiveness requirement, whereas generic or descriptive designations do not. To obtain federal protection, the mark must be registered with the Patent and Trademark Office. Registration serves to notify all that the registrant has exclusive rights to use the mark, and permits the registrant to use federal courts to enforce the mark.

**Trade Names:** A trade name is any name used to identify a business and its assets. The difference between a trademark and trade name is that the first distinguishes a particular product as coming from a particular source, even if that source is unknown. (For example, a consumer may be able to easily distinguish OREO cookies from Hydrox, without knowing what company makes either one of those cookies. A trade name, on the other hand, is the name a business uses to identify itself, like McDonald's Corporation. Sometimes a company will use its trade name as a trademark on products or services (Coca-Cola or McDonald's are good examples), but that's not always the case. A holding company might be organized to own trademarks and service marks for tax reasons. Although a trade name may not be federally registered, trade names are protected and any person who attempts to "palm off" his goods as the goods of another is liable for damages. [tbo](#)

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**A trade name, on the other hand, is the name a business uses to identify itself, like McDonald's Corporation.**

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**"I see big changes in your future. Which reminds me, my fee is going up beginning next week."**

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## RECENT BLOG POSTS

THEBUSINESSOWNER.COM/BLOG

### U.S. Headed for Bankruptcy

August 15, 2010

You knew him. He was the talk of the town. Spent a fortune. Had everything. Then, suddenly, busted. Bankrupt.

Everyone was shocked.

What happened, as the facts came to light, wasn't misfortune. It wasn't even unique. Just another instance of a man achieving a high level of prosperity and then, over time, his beliefs about his wealth and his ability to spend grew to exceed even his sizeable income. He developed his own sense of entitlement. His own story of manifest destiny. He began working less and spending more time enjoying the fruits. Flaunting his wealth and exercising his power.

He developed a twisted belief that he was somehow anointed to be, and to always remain, the biggest and the richest.

Of course, he wasn't. Nobody is. No organization. No company. No country.

Success, fortune, economic future and financial solvency are things not determined by ethereal forces such as fate, destiny or anointment. They are governed by more concrete laws. Success and sustained economic prosperity are earned through the dedicated exercise of the virtues of hard work, sacrifice, diligence, frugality, humility, savings and investment.

When you exercise these traits, the result is economic prosperity. Sure, luck can influence the trajectory and timing, but the formula remains unchanged. The inputs yield the outputs.

When you fail to exercise these traits, the results are economic erosion and collapse.

A simple review of the historical inflows and outflows of our federal government reveals we spent more than we brought in 74 of the past 100 years and a whopping 45 of the past 50. Intake rose almost every year, but spending outstripped it. Deficits in good times and bad. Accelerating accumulation of debt. It occurs for a simple reason: The representatives we send to Congress approve deficit budgets. They can't, or won't, say no to opportunities to spend. It should be a crime.

It is everywhere. A culture of entitlement. Of immediate gratification. Negative savings rates for U.S. households. Compare this to the savings rates of the Chinese people, and China. A culture of sacrifice, hard work, savings and investment. The inputs yield the outputs. Accelerating economic prosperity in China. Like the U.S. in the 1800s and early 1900s.

### Heads Must Roll

July 26, 2010

The CEO of British Petroleum (BP) was fired yesterday. And so, once again, we see a large and successful organization — when things go wrong — make a change. Send a message. Roll some heads. Can we learn from this as owners of small and midsize companies?

Tony Hayward's nearly 30 years of service at BP is finished. He began as a geologist in his mid-20s and rose steadily, eventually to CEO, just two years ago. He could have been CEO for another 20 years. Maybe should have. Instead, ousted at 52.

Ironic. It would seem he would have been the perfect man for the times at BP. He climbed the ranks primarily on his technical knowledge and Mr. Fix-It capabilities. But when things go wrong, heads must roll. Why?

1. The stakeholders want to be assured that the board is unwilling to accept poor performance. That they're committed to getting things back on course. The stakeholders are the employees, shareholders, customers and creditors. The easiest way to convey a message of change is to change personnel.
2. The leader must have stakeholders' confidence. If the leader does something to lose their support and confidence, a change must be made.

Hayward made serious gaffes during the hearings before the U.S. Congress. He suffered public ridicule. With the U.S. a critical market for BP — and literally billions of dollars at stake from the spill in the gulf — BP clearly needs a leader who is accepted, and acceptable, in the U.S. Not surprisingly, an American reportedly replaced Hayward yesterday.

What can we learn, as owners of private companies? When things go wrong, action must be taken. The strongest way to make a change and send a strong message to customers, employees, creditors and shareholders is to roll some heads. [tbo](#)

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I remember how Ted Stephens'\* friends and family reacted to predictions that he was headed for bankruptcy. Ridicule. Hatred. And of course many logical explanations of why he'd be okay. But none of the rationalizations were as simple as the indisputable law: spend more than you make and you'll soon go bust.

Ted Stephens went bust. [tbo](#)

\* Ted Stephens is a fictitious name

# Financially Stressed? SBA Loan Programs Can Help

If you're having financial difficulty, don't wait too long to refinance your debt. Attractive business lending programs are still in place through the Small Business Administration (SBA). You might be surprised by what's possible. Just ask David Laughrey\* of The Laughrey Company. He's an SBA loan specialist who helps small businesses around the country put new financing in place. He attests that SBA loan programs put in place

**Laughrey says monthly debt service reductions of 25 percent and 50 percent are common.**

in February 2009 have kept good businesses in business.

SBA programs allow banks to take higher levels of risk and lend at reduced rates. Laughrey says monthly debt service reductions of 25 percent and 50 percent are common. It's achieved by lengthening the amortization period on "term debt" and lowering the interest rate.

Current loan maximums and guarantee maximums under current SBA program law are \$2 million and \$1.5 million, respectively, but the U.S. Senate is considering a bill that would raise it to \$5 million and approximately \$3.5 million, respectively. Lenders and the SBA generally need the following from you when you apply:

**Business Profile:** Description of your business. Include what it does, type of legal entity, its products,

whom it sells to, number of employees, brief history and who owns the business.

**Loan Request:** Description of how much money is needed and what the funds will be used for.

**Collateral:** Description of collateral offered to secure the loan. Include equity in the business, borrowed funds, available cash, and assets such as accounts receivable, inventory, equipment and real estate.

**Business Financial Statements:** Complete financial statements for the past three full years plus year-to-date. This includes balance sheets and income statements.

**Projections:** Expected revenue, expenses and cash flow for the next three years. Must show that the business can support repayment of requested funds.

**Business Tax Returns:** Most recent three years.

**Personal Financial Statements:** For each person who owns 20 percent or more of the business, current personal balance sheets (i.e., list of all assets, liabilities and personal tax returns for the past three years).

Don't sweat the paperwork. Banks that specialize in SBA loans can help you comply, as can independent SBA loan consultants such as David Laughrey. Finally, if someone asks you for a large up-front fee, find someone else. For more information, including a complete list of SBA lenders, go to [www.sba.gov](http://www.sba.gov). **tbo**

\* David Laughrey does not have a website. You can reach him at 918-524-9400.

## STRATEGY

# Paying Commission off Revenue?

Cash is king, so why are you paying commission off revenue? A sale not collected in cash is not worth anything, so why are you paying commission on sales?

Why not pay commission on cold hard cash? When the cash comes in the door, your salesperson's job is complete. Reward him or her right then.

Pay commission on cash received and he or she will do a much better job of:

- checking out the prospect's ability to pay, i.e., credit
- negotiating accelerated payment terms

They won't put up with it? Think again. They'll scream and yell and, if you refuse to back down, they'll capitulate. You might lose one or two, but you must design your company for the long haul. Build it intelligently and you'll find success.

Yes, you'll be in the minority. Maybe even get some weird looks. But you won't be alone. Some companies pay commission on cash received. Some very smart companies. Only by daring to be different might you earn an outsized share. **tbo**

# Domain Names You Should Own

Internet marketing expert Matt Bailey guesses businesses own somewhere between 20 and 30 Web domains (aka URLs) each, on average — a surprisingly high number. I think I own maybe 15 or 20. But a quick check revealed we own 88.

Holy smokes! These things stack up like junk in a storage closet. They're basically impulse buys, just a click away, \$3 to \$10 a pop.

Business owners buy the URLs for their business names, and pick up product names, too. Oh, and common misspellings of each one, with dashes between the words?

**Why waste \$100 to \$1,000 per year and some administrative time on domains with no utility?**

Goodness, better be safe and also control each in .net, .org, .biz, .us, .info, et al.

Need a bigger closet.

But why waste \$100 to \$1,000 per year and some administrative time on domains with no utility? Will someone please explain which ones we should own or not own?

We talked to Matt Bailey, president of SiteLogic, and Steve Schneiderman, president of Schneiderman Marketing, two people who should know — if anyone should. Here's what they agreed on:

1. Buy your company name, product name(s) and personal domain name (e.g., JohnDSmith.com) if you can get them.
2. Buy common misspellings of your main URL. Example: AcquisitionAdvisors.com owns www.AcquisitionAdviser.com and www.AcquisitionAdvisor.com and forwards them to the main URL.
3. Buy your company name and main product name(s) with dashes between the words, e.g., www.The-Business-Owner.com. Direct them to the domains they mimic. This keeps them out of the hands of others who might use them to your detriment.
4. Concern yourself only with .com, .net and .org. Don't worry about .info, .biz, .us et al.
5. Buy your business name + sucks. Example: This publication is *The Business Owner*. We own www.TheBusinessOwner.com. We should buy www.TheBusinessOwnerSucks.com. Disgruntled employees or customers could have a lot of fun with a URL like this (often do)!

Schneiderman says you have to think about what the devious might try to pull, such as buying derivations of your name, business name or product name, and using them to make a defamatory message pop up when people search for you or your products or services. That's why we suggest you buy your "sucks" URL as described above.

Bailey and Schneiderman both explain that while it's wise to own your business names and trade names — to keep them out of the hands of others — it's even better to put them to productive use. For example, use a URL for a particular product by creating a dedicated landing page. This allows for enhanced traffic tracking as well as a Web "place" that focuses exclusively on a single task, e.g., selling a particular product or service. [tbo](#)

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## LETTERS TO THE EDITOR

July 25, 2010

Dear David,

I'm the senior executive editor at *Floor Covering News*, the leading trade magazine to the industry, and I receive your informative newsletter, *The Business Owner Journal*. It focuses on many of the issues all small businesses face, which is why I enjoy looking through each edition.

While reading the July/August edition, a glaring mistake caught my eye. In "Cap Gains Rate Rising," you explain that the take rate is going up from 15 percent to 20 percent and you give an example of how this may affect someone. You point out the difference in how much someone would pay in tax this year compared to next (\$30 in 2010 and \$40 in 2011).

Up until now, all is fine, then come the final four words of the first paragraph: "a 25 percent increase." This is patently wrong. It is really a 33-1/3 percent increase (the percentage is figured using the difference of the two figures (10) and dividing into the original number (30), not the new number, so a \$10 increase from \$30 is one-third or 33-1/3 percent.

Yours Truly,

Matthew Spieler

**Editor's Note:** *Mr. Spieler, thank you very much for bringing this to my attention. You are right. We goofed.*

## EXIT PLANNING

# The Ideal Exit

By David L. Perkins, Jr.

Most successful business owners are good people. Caring people. I've worked with thousands of them.

Jerks tend to implode, eventually. Traits of care, honesty and integrity aid the business owner in surviving and succeeding over the long haul, so most who "make it" are "good folks," as we say in the South.

Yes, most successful business owners are also driven to achieve material and financial success, but such is not the extent of who they are. They care about the people around them, such as their employees. They contribute to charitable causes.

When the time comes for business owners to sell their businesses, they worry a lot about the impact it will have on their employees. In most cases, I've found the owner's "ideal exit" would have many of the following elements:

- maximum price
- confidential until closed
- all employees keep their jobs at same or better terms
- key manager or manager(s):
  - ▶ assist in the sale, keep it confidential and earn a bonus at closing
  - ▶ are hired by the buyer to continue running the business
  - ▶ gain or increase their ownership in the business
  - ▶ have a "good" experience with the new owners, who are committed to growing the business
- buyer is "good people" and succeeds in growing the business
- business continues to operate at its current facility or community
- seller retains an ownership stake in the ongoing business and such pays off handsomely

The amazing thing is, all off these are achievable for many business owner-sellers. Certainly, at least, when the business is stable and earning \$1 million per year or more in annual profit. The buyers of businesses this size or greater are many, and most want the established management team to remain and continue to run the company.

The biggest barrier to making this happen for a business owner is — aside from finding the right M&A firm that



has the knowledge, skill and staff to run the processes and put this type of deal — convincing him or her that it IS possible. That he/she can maximize the sale price AND secure these additional elements. The keys to making it happen are:

- Proper preparation and packaging
- Run a process that works the top buyer candidates simultaneously
- Skillfully communicate and negotiate the seller's deal term desires
- "Sell" the skill of the management team and its desire to remain
- Negotiate on behalf of the management team

Buyers want to do business with good people. Buyers who trust that the person or persons whom they are buying out will pay more. Buyers who see that the selling owner cares about more than just money, such as the employees, view the seller as trustworthy. Of character. And this is why going for more than just money can result in an ideal sale. That is, a maximized sale price PLUS so much more. Everyone wins: the seller, buyer, employees and the community.

For more on this topic, go to [AcquisitionAdvisors.com](http://AcquisitionAdvisors.com). Sign up for the free e-newsletter *The Quiet Exit*. It provides advice on how business owners can go about selling quietly, professionally, for absolute maximum. [tbo](http://tbo)

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**The buyers of businesses this size or greater are many, and most want the established management team to remain and continue to run the company.**

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**"The pathway to prosperity is simple and certain: diligence, hard work, spend less than you earn, save and invest."**

*David L. Perkins, Jr.*

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# Convert to Roth Before Year-End!

Limitations on who may convert traditional retirement accounts to the Roth no longer exist. This is great because you're better off with your retirement funds in Roth accounts than any other form of retirement account. This is because:

- Withdrawals from a Roth are not subject to taxation. Withdrawals from other types of retirement accounts are taxed as ordinary income.
- There are no withdrawal requirements for monies held inside a Roth. So if you want to leave your money in your account beyond the age of 70½, you can — and it will continue to grow tax-free.
- If your heirs inherit your Roth, their withdrawals are also tax-free.

These are serious advantages. The proverbial fly in the ointment, of course, is that money and/or investments

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**If you convert before year-end 2010, you can spread any conversion gain tax bill over the three tax years — 2010, 2011 and 2012.**

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moved from traditional retirement accounts, i.e., traditional IRA, SEP IRA or Simple 401(k), to a Roth is subject to taxation. This is because, as you will recall, you funded the accounts with pretax dollars.<sup>1</sup> Roth accounts work the opposite way: Contributions are made with after-tax dollars<sup>2</sup> and withdrawals are tax-free. Withdrawals from other types of retirement accounts are taxed in the year of withdrawal as ordinary income.

So the benefits of having your money in a Roth are considerable, but moving funds from traditional accounts to the Roth will trigger a tax bill. Maybe you have tax losses that can be used to offset all or a portion of the conversion gain? Also, to help cushion the tax blow is a federal tax law that will allow you to spread your gain over the three years — 2010, 2011 and 2012 — *as long as you make the conversion in 2010*. If you wait until 2011 or thereafter, you'll have to pay the tax on any conversion gain in the year of conversion.

Should everyone convert? No. In some cases, the tax hit may be too large. Talk to your financial advisor about your particular situation. Whether to convert your retirement account(s)<sup>3</sup> to a Roth is not the same for everyone, but you'll likely want to convert if some of the following apply to you:

- You have operating losses in your business. Unused losses from 2008 or 2009 or expected losses for 2010 or 2011. You can use them to offset Roth conversion gains and thereby reduce or eliminate the associated tax bill.
- You have cash outside your retirement account(s) you can use to pay the conversion tax (so you don't have to pay a 10 percent early-withdrawal penalty).
- You won't need to use the converted funds within the next five years or before you're 59½ (Roth rules).
- You expect to have "decent" income during your retirement years (and therefore will be in one of the higher tax brackets).
- You think there's a greater likelihood that overall income tax rates will be higher in the future, as opposed to lower.

Talk to your financial advisor today. The year is coming to a close and your ability to spread your conversion tax bill — if you have one — over two additional tax years will end on January 1, 2011. [tbo](#)

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#### Footnotes

<sup>1</sup> If you have made after-tax contributions, they — and investment gains on these contributions — are not subject to taxation when moved to a Roth.

<sup>2</sup> Most contributions are made with pretax dollars, but after-tax contributions can be made, too.

<sup>3</sup> Note: Funds held in 401(k) and Solo 401(k) accounts (at least funds in these account types that did not originate from profit share contributions) cannot be moved to a Roth outside of a "distributable event" such as discontinuation of the plan, severance of employment, retirement or reaching age 59½.

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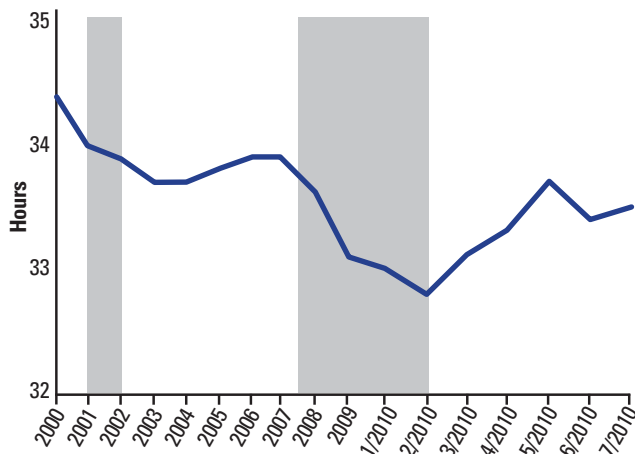
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## STATISTICAL DATA OF INTEREST

### Average Weekly Hours

#### U.S. Manufacturing Laborers

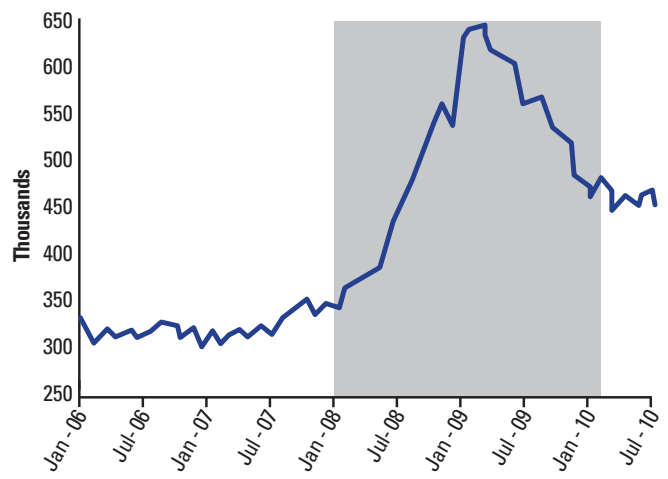


Production and non-supervisory U.S. manufacturing only  
Annual data are average of monthly data for each year.  
Source: Bureau of Labor Statistics ("Employment Situation" release).

Average weekly hours worked in the U.S. by production and non-supervisory manufacturing are a leading economic indicator. Declines in weekly hours worked tends to precede economic slowdowns and recessions. Increases tend to precede economic expansion. As we can see, weekly hours rose steadily beginning in 2010 but dropped in June.

### Initial Unemployment Claims

#### Four-Week Average

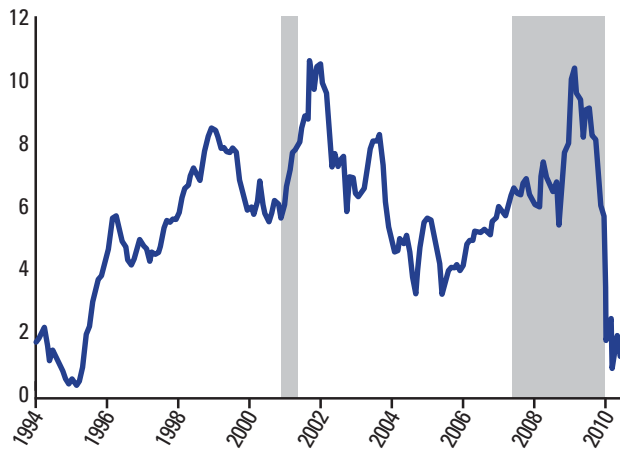


Source: Department of Labor; updated 07/29/10

Initial claims for unemployment are a leading economic indicator. Increases in claim filings tend to precede economic slowdowns and recessions. Decreasing numbers of claims filings tend to precede economic expansion. As we can see, filings rose steadily in the months preceding the 2001 recession and again drastically just before and during the recent recession. Similarly, a decline in the numbers of filings preceded the end of the current recession, but the decline has stalled in recent months.

### Money Supply (M2)

#### Percentage Change from 12 Months Earlier

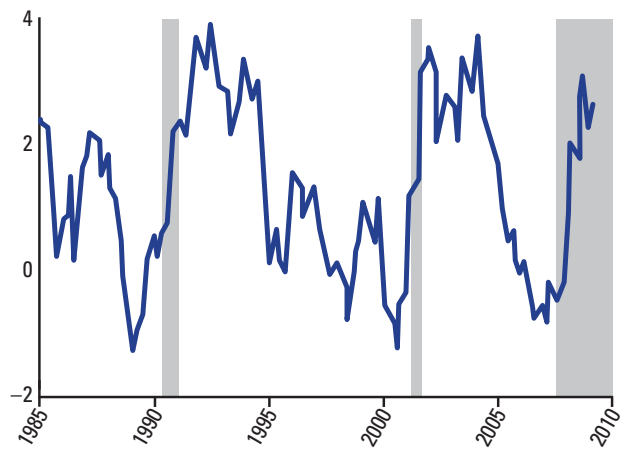


Source: Board of Governors of the Federal Reserve System

Money, or cash, fuels economic growth because it is needed to purchase and invest. The U.S. government measures and tracks the total amount of money in the U.S. economy. Decreases in the money supply tend to precede periods of economic slowdown and recession. Increases tend to precede periods of economic expansion. M2 includes currency, demand deposits, other checkable deposits, travelers checks, savings deposits, small-denomination time deposits and balances in money market mutual funds.

### Interest Rate Spread ("Yield Curve")

#### 10-Year Treasury Bond Less Fed Funds Rate



Source: Federal Reserve Board/Haver Analytics

The interest rate spread, aka Yield Curve, is a leading economic indicator. It is simply the difference between the 10-year U.S. Treasury bond rate (a measure of the cost of borrowing over a long time frame) and the Fed Funds rate (a measure of the cost of short-term money; tends to mirror the rate of inflation). Long-term rates tend to decline in periods preceding economic slowdown or recession, compacting the yield curve. Similarly, the interest rate spread tends to expand, or spread, before and during periods of economic expansion.

**Note:** Business Cycle Dating Committee of the National Bureau of Economic Research has not yet announced the official end of the recession that began in 2007. The gray bar in all graphs above denotes that the end of such is an estimate.

# Avoid Tax on Sale of Business, Real Estate (Sec. 1031 “Like-Kind Exchange”)

Internal Revenue Service Code Section 1045 permits an individual to roll over capital gain from the sale of “qualified small-business stock” held for more than six months if other small-business stock is purchased within 60 days. But if the transaction is an asset sale, as opposed to a stock sale, Section 1045 is not applicable.

Asset sales still can qualify for favorable tax treatment if the transaction falls within the “like-kind exchange” rules of Section 1031. Section 1031 provides that gain or loss is not recognized if property held for productive use in a business or for investment is exchanged for property of a “like-kind” to be held for similar purposes. Machinery, buildings, land, trucks and rental houses are examples of property that may qualify.

Unfortunately, the rules for like-kind exchanges do not apply to exchanges of the following types of property:

- Property used for personal purposes, such as a home or a family car
- Stock in trade or other property held primarily for sale, such as inventories, raw materials, and real estate held by dealers
- Stocks, bonds, notes, or other securities or evidences of indebtedness, such as accounts receivable
- Partnership interests

To qualify under Section 1031, there must be an exchange of like-kind property. The exchange of real estate for real estate and the exchange of personal property for similar personal property are exchanges of like-kind property. For example, the exchange of land improved with an apartment building for land improved with a warehouse, or a panel truck for a pickup truck, are like-kind exchanges. An exchange of city property for farm property, or improved property for unimproved property, would also qualify as like-kind exchanges.

An exchange of personal property for real property does not qualify as a like-kind exchange. For example, an exchange of a piece of machinery for a warehouse would not qualify. In addition, an exchange of the assets of a business for the assets of a similar business cannot be treated as an exchange of one property for another

property. Whether you engaged in a like-kind exchange in that situation depends on an analysis of each asset involved in the exchange.

Depreciable tangible personal property (not to be confused with property held for personal use) can be either “like-kind” or “like-class” to qualify under Section 1031. Like-class properties are depreciable tangible personal properties within the same general asset class or product class. Asset classes would include the following:

- Office furniture, fixtures and equipment
- Information systems, such as computers and peripheral equipment

A like-kind exchange need not be simultaneous, nor must it involve only two people. In other words, you need not sell your property to a buyer in exchange for his or her property. In fact, such an exchange would be rare. The more typical situation would be for the seller to sell his property to a buyer, and then purchase like-kind property from a different person. This is known as a deferred exchange. A deferred

exchange is one in which you transfer property you use in business or hold for investment and later receive like-kind property to use in business or hold for investment. Detailed rules govern deferred exchanges, so be sure to consult with your accountant or attorney before undertaking such an exchange.

Special rules apply to like-kind exchanges between related persons. Under these rules, if either person involved in the exchange disposes of the property within two years after the exchange, the exchange will not qualify under Section 1031. [tbo](#)

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**A like-kind exchange need not be simultaneous, nor must it involve only two people.**

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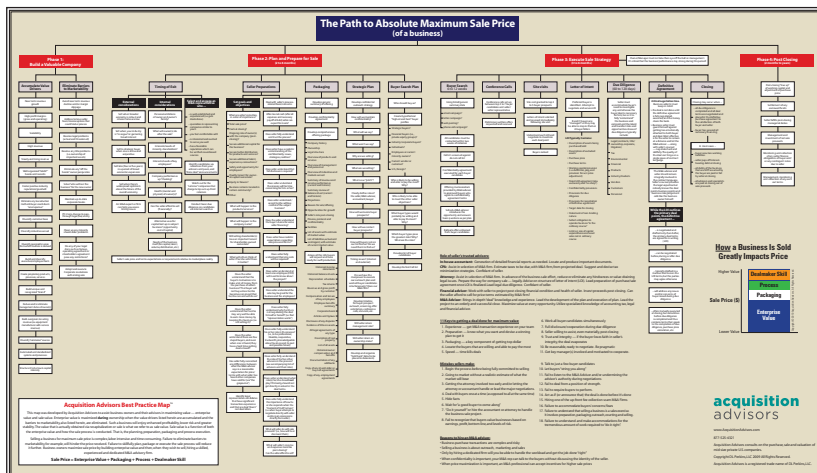
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**Phase 2:** Plan and Prepare for Sale — five core areas that drive value higher

**Phase 3:** Execute Sale Strategy — seven vital steps that must be performed properly

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