

## Understanding Corporate Financial Planning<sup>®</sup>

By Cambridge Who's Who Lifetime Member and Contributing Author Douglas K. Hyer,

*President of Asset Advisory Services, Inc.*

July 2008

Many business owners are aware of their strengths (*conscious competent*), some are aware of their weaknesses (*conscious incompetent*) and others cannot identify the skills or talents that they lack that are needed to be successful in business (*unconscious incompetent*). The *unconscious competent* individual does not realize that he/she is good at what he/she does. Often we call these people "naturals." This article helps to uncover the important, but often overlooked, areas of expertise that enable owners, entrepreneurs and executives to run successful businesses.



- I. Introduction: Why do entrepreneurs of small businesses feel that because they are super salespeople, brilliant finance professionals, efficient engineers or production people that they can become successful CEOs and run their own businesses? Why do the Small Business Administration statistics show that most small businesses fail within three years? The answer seems simple: very few individuals have the broad-based education, background, experience, technical skills, and finances to effectively manage a business.

Research indicates that it takes four major strengths in personality or character to run a successful business. The owner/boss/president must first be a successful technician. A technician is usually a great marketing guru, fantastic product maker, creative engineer and financial maven who is excellent at damage control and has an "I can do better than where I am" attitude. Often times, the technician is also disciplined, organized, detailed and compulsive. He/she needs movement, action, accomplishments, success and progress.

Somewhere along the way, the technician starts to feel that he/she can do it better, faster, more economically or with a new innovation or invention. Why stay where they are when they probably feel underappreciated anyway? The technician evolves into the entrepreneur who is the dreamer and future-oriented type of person. Change is the entrepreneur's motto; the unknown is exciting and a challenge. Usually people get in his/her way. A spouse, banker, partner, accountant or co-worker does not or cannot see the future results of the entrepreneur's efforts, invention, modification or dream. The entrepreneur will do whatever is needed to push the new concept, product, techniques and technology forward in spite of any obstacles; sometimes working 24/7 or to the point of almost abandoning his/her family.

Most businesses are not owned or run by the manager-type personality. This person's job is to get it done today. He/she is a pragmatic, no-nonsense individual who

maintains order and systems at any cost. The manager usually looks and acts like the bookkeeper, internal chief financial officer or accountant and seeks problems. The manager cleans up after the technician and tries to convince the entrepreneur that things are okay as they were. This area is usually the weakest link in the business chain, as many companies suffer from the lack of adequate and/or professional management. This link is usually last to be hired, as the entrepreneur feels that they have it under control anyway.

The last personality type is the salesperson. Without someone doing the marketing, sales and order generation, the technician would have nothing to work on or for. The entrepreneur would not be able to look ahead if there is no business to improve or foundation to build on. The manager would have nothing to manage were there not new customers, clients, patients or repeat business. So it is up to the sales/marketing personality to be the hunter and energy of the business. All types of business rely on someone to make this happen. Be it new orders, new markets, services and/or products, the sales personality is the dynamite's fuse, the flashlight's batteries or the water in the pipe.

Unless the business is reasonably well-staffed and has been around for a while, there are probably overlaps in job functions and personality types. Often, existing staff will be pushed to work on tasks or in areas where they do not have experience or training.

Ask yourself where you fit in these four types. Does your firm have a capable personality in each category? Which type do you lack and what can be done to remedy this? If you do not change directions by obtaining the necessary resources to succeed, you will get where you are going. Is that where you will want to be?

- II. Background: There are numerous areas that every business owner needs to focus on to survive. The first is having a product or service that can be marketed and sold. The second is to utilize labor, management and capital in an efficient manner. The third is to coordinate legal, accounting, insurance, employee benefits, banking, advertising, marketing, sales, production, distribution, purchasing, collections, information technology, etc., so the firm covers overhead, pays the owners and makes a profit. We find the founders of many start-up or young businesses (under 10 years old) tend to focus on their original specialty or experience. A good salesperson will feel every problem can be overcome by increasing sales. An inventor or product designer will concentrate on new and/or improved products. What they often forget is that they need external guidance and professional help. Usually, due to ego or tight finances, they skimp on tools, equipment and consultants to help them run the business. Most external advisors wait until asked by the owners to give advice. Rarely will an attorney suggest updating the corporate minute book or the CPA suggest a cost-comparison study of long-distance telephone companies or lease versus buy of corporate autos. Outside salespeople will find the small business owner and push equipment (i.e. photocopiers, fax machines, etc.), products and services (i.e. insurance, cell phones, etc). The owner will either not know the questions to ask his advisors or will be continually reactive to salespersons' selling attempts.

III. Concerns: Here is a list of legitimate problem areas that most small- to medium-sized, non-public companies need to review, a few of which may become new areas of interest for some senior executives/owners. They will be angry that their current trusted advisors have not broached a particular subject or brought it to the attention of the owner, chief executive officer or chief financial officer.

A. MISSION & VISION PLAN

You may have heard the old saying, “If you do not know where you are going, then any road will take you there.” Get your business act together by first writing out (yes, it needs to be on computer or paper) a mission and vision statement.

What is the difference between them? A mission statement describes what your business plans to do and addresses what will happen in the future if the company does what it focuses on, e.g., “Our mission is to provide great customer service in the yyyy area, so the customer will have a better life, realize more profit, pay less taxes, become a larger company, etc.” A vision statement describes the corporate or business goals, e.g., “To be the best xxxx firm in the town, county, state, country, world, etc...”

B. BUSINESS PLAN

A business plan is a written plan of who you are, what your product or service is, why you are unique or better than the competition and, therefore, why your customers or clients should buy from you. It should also include a clear description of how much and what kind of goods or services you expect to sell to your potential clients. Your business plan will be the road map that you follow to achieve your long-term business goals.

C. LEGAL DOCUMENTS

Is your corporate minute book up to date? Do you know where it is? Do you have leases, banking and buy/sell agreements, compensation and benefit agreements, etc., filed and updated appropriately? Are the stock shares filled out, recorded and distributed to the stockholders? Is there an attorney available to review contracts, leases, real estate documents, employee contracts, retirement and benefit plans and to provide the legal prevention guidance needed by all businesses?

D. ACCOUNTING INFORMATION

Many business owners are not that familiar with business accounting versus tax accounting. Financial statements seem to exist mostly for the benefit of bankers or the IRS. If there were not external pressures like the April 15<sup>th</sup> deadline, owners would feel that their accounting fees were wasted or a necessary evil. Understanding the profit and loss, balance sheet, income and expense, and monthly, quarterly and yearly statements has become much easier with the proliferation of PCs and in-office accounting software like One Write Plus, QuickBooks Pro and Peachtree. Not only can computer programs prepare financial statements, payroll, bank reconciliations, inventory reports, etc., on a timely and current basis, but they can also provide word processing, mailing list management, project tracking, etc. Accountants should be used for strategic

planning, preparing business plans, valuation statements, budgeting, auditing, tax planning and helping the business owner make key financial decisions. Internal bookkeepers, controllers or accountants should be responsible for interfacing with external accountants and auditors. These employees should be overseeing cost containment, financial efficiencies and preparation of internal financial statements.

#### E. BUSINESS VALUATION

What is the business worth? Most business owners can only guess the worth of their enterprise. Valuation is important because it is needed for banking and credit purposes, to go public, for selling or giving shares to a key person or family member in case of death or disability of an owner, for succession planning purposes, to offer an ESOP (Employee Stock Ownership Plan) and for other reasons (IRS, merger, etc.). Banks and accounting firms have divisions or separate units that can provide these services as well as specialists, business valuation consultants and business brokers. Fees range from \$1,000 for a quick computer-generated report to \$50,000 or more, depending upon the size and complexity of the business.

#### F. “S” VERSUS “C” “LLC” & “PC”

The form of operating a corporation should be reviewed periodically by the owners and advisors. Due to changes in tax law, one form may evolve into serving the owners’ personal goals and plans better than others. Exploring non-profit status may also be an alternative option to consider. Subsidiaries, divisions or affiliates are appropriate for different needs. Discuss this topic with your accountant, corporate financial planner and/or attorney for their point of view and advice.

#### G. EMPLOYEE DOCUMENTS

It is rare when a firm has sufficiently recorded employment contracts, vacation schedules, holiday and time-off policies and have had them documented and communicated to the staff. In addition to an employee manual or handbook, a SOP (Standard Operating Procedure) or manual should be prepared and distributed. Formalized interview and employment applications, benefit statements and appropriate government forms (W-4’s, FICA), plus enrollment cards for insurance and retirement plans, should be kept in the employee’s file or electronic equivalent. Be sure to address cases where leased or part-time employees will be used instead of full-time employees and to cover the processes for dealing with sexual harassment, jury duty, military service, etc. issues.

#### H. RETIREMENT PLANS

To often a retirement plan that seemed adequate is outdated or does not provide the intended results. A feasibility study comparing the numerous new choices, like an aged-weighted profit-sharing plan or the increasingly popular 401(k) plan, should be considered every few years. This will give the owners feedback on the value of the retirement dollars. Possibly a new approach will yield better tax savings, more value and/or better acceptance by the employees. Determine

whether or not your employees value the cost savings to them of your retirement plan and if the funds are being invested appropriately.

#### I. INSURANCE PLANS

It is almost impossible to insure against all possible risks of doing business. Former New York City Mayor, Rudy Giuliani, reportedly had rain insurance for his inauguration party on Gracie Square Lawn. A wise business owner is one who requests a complete insurance review or audit every three years or so. Markets and risk approaches change. Hurricane and earthquake insurance is now harder to obtain in Florida and California, respectively. It may be cost effective to have a consultant, broker or a Chartered Property & Casualty Underwriter (CPCU) survey your existing plans for completeness and cost effectiveness. With health insurance becoming the largest increasing part of benefits and payroll or labor costs, a review of the “people” insurance (life, health, long-term care, disability, etc.) by a Chartered Life Underwriter (CLU), broker or consultant is a must every few years. As the business matures, and hopefully profits, increasing deductibles and/or self-insuring some identifiable risk should be considered and evaluated.

#### J. CHILDREN ON PAYROLL

Many small business owners have their children doing clerical, secretarial, custodial/janitorial work, sales assistance, manufacturing and miscellaneous chores and jobs to help out. Why not shift some income and related taxes to these minors? A famous IRS tax court case affirmed a seven year old was able to work for the family business for a reasonable wage. An owner/executive in a 40% tax bracket who shifts \$1,000 or more income to a son or daughter who is in a 0-15% tax bracket will find this to be an excellent way to provide for deductible allowance, future education, foreign travel, wedding or business start-up funds.

#### K. BOARD OF ADVISERS

Surround yourself with successful friends or acquaintances that are accountants, bankers, professors, advertisers or executives. Form a board of advisors – not directors. It should cost you no more than a nice dinner every quarter or half year and maybe a couple hundred per person or so as a token honorarium. These individuals should provide you with the motivation to prepare a presentation of where your business is now, where you feel it is going and what problems or opportunities it is experiencing. Then, hopefully, they will provide honest feedback, suggestions and help through their network of friends and advisors who might be of further assistance to you and your company. Plus, it also helps to prevent problems from germinating.

#### L. BANKING RELATIONSHIPS

When I was the president of a New York City area national bank, I would ask prospective business owners, “Who is your secondary or back-up banker?” Often they could not provide an answer to the question and did not even know the branch manager of the bank where their business account was held. The phrase “Always have a back-up!” applies to bankers as well as computers. Times change – and so does banking staff through promotions, mergers and going out of

business. Go to lunch with your banker representative. Get to know whom it is you are dealing with. In the future, you may need a quick loan (to cover a check written against deposited but uncollected funds) or a favor. It is good practice to do most of your business with one bank, so be loyal. However, do not put *all* of your eggs in one basket, but instead open an account with a secondary bank. Also apply for a credit line before you think you will need it. Remember, bankers like to loan money to businesses that do not need it.

#### M. FINANCIAL SERVICES COMPETITORS

A bank lent you and your company funds, an insurance company insured you and a stockbroker invested your personal, company and retirement funds. Now they all want to manage all of your finances. Citibank competes with Mass Mutual who competes with Merrill Lynch. In the past, you were well advised to stay with proven advisors. Now you would be prudent to explore other providers of mortgages, retirement plans and checking account services because of the recent, non-traditional entrants into this arena. Shop around and do not take anything for granted. It is admirable to be loyal, but another source may be less expensive or just plain better. Technology is changing almost everything.

#### N. OTHER ASPECTS TO DISCUSS WITH YOUR CORPORATE PLANNER:

- Marketing versus selling;
- Public relations versus advertising;
- Perks versus employee benefits;
- Leasing versus buying (cars, computers, equipment);
- Long-distance telephone service providers versus Internet service providers
- Equipment service contracts (phone systems, copy machines, postage/mail, computer, machines, etc.);
- Photocopying versus printing or desktop publishing;
- Accumulating corporate wealth through ownership of preferred and utility stock;
- Going public, mergers and acquisitions, corporate finance and banking;
- Business interruption and continuity plans;
- Setting up alternative offices; and
- Providing clients and/or customers with a list of alternate phone, email and cell phone numbers in advance.

#### IV. SUMMARY

By retaining a *Corporate Financial Planner*, the overworked, time-pressured, spread-too-thin executive/owner can leverage his/her talents and resources by having a dispassionate advisor or “hired gun” to help and evaluate accounting, legal matters, insurance and retirement options, employment agencies, travel agents, credit card providers, etc. For the fraction of the cost of a full-time accountant or clerk, a *Corporate Financial Planner* can provide a service for the business owner that will quickly flow to the bottom line of profits. Before hiring one, check their credentials, education and experience. Request confirmation of their skills and prior success with

other satisfied clients. This new type of CFP (Corporate Financial Planner) may be much more valuable to the business owner than a personal CFP (Certified Financial Planner), CPA (Certified Public Accountant) or (ChFC) Chartered Financial Consultant. Remember, what you do not know may hurt you *and* your business.

**Douglas K. Hyer**, Financial Advisor, Consultant and Professor  
AEP, BCAA, CAS, CEA, CFS, ChFC, CLTC, CLU, CSA, MSFS, RFC

**Asset Advisory Services, Inc.** (Since 1978)  
Great Neck, NY ~ New York City ~ Miami, FL  
“We ask the great questions you don’t even think of.”  
233 East Shore Road  
Suite 208  
Great Neck, NY 11023  
USA

Office: (800) 568-4059 X 11  
(516)829-3805 x 11  
Cell: (516) 902-8814  
Fax: (516)829-7075  
Email: [doughyer@aasny.com](mailto:doughyer@aasny.com)  
Website: <http://www.aasny.com>