CEO’S PLAYBOOK
A Guide for Taking Your Business from Good to Great

CERTIFIED PUBLIC ACCOUNTANTS
BGW CPA, PLLC provides expertise in tax, assurance and business consulting to a diverse clientele made up of privately held, small and medium sized businesses. The firm’s clients range from manufacturers, wholesale distributors, and healthcare providers, to real estate and construction firms, professional service practices, and sports and entertainment organizations.

A regionally focused practice with offices in Charlotte, Asheville, and Hendersonville, BGW CPA, PLLC is committed to making a difference in its clients’ businesses and paying for itself while doing so. The firm conducts seminars and publishes materials supporting business owners and their goals for growth and wealth creation. Topics expand beyond typical financial and tax issues, and include best practices for strategic planning, benchmarking, succession planning, marketing, sales, and branding.

Consistent with practices recommended in the CEO Playbook, BGW CPA, PLLC conducts annual client satisfaction surveys. Clients have rated the firm highly for both its core services and its forward thinking ideas.
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Overview

If you are like most business owners, your business is your life. Your business is your most significant asset and one that your family, employees, and the community rely upon for support. It is the primary source for funding your retirement.

We created this playbook “Taking Your Business From Good To Great” as a simple to use series of whitepapers and checklists associated with the most vital business topics for creation of wealth and mitigation of risk. We believe in educating our clients in being the best possible CEO they can be, as evidenced by this guide and our monthly educational seminars on topics similar to those found in this guide.

The principals of BGW CPA, PLLC have gained much from their involvement in Vistage. BGW always advises other business owners to become involved in organizations like Vistage in order to further their business perspectives and management skills. Much of this CEO Playbook reflects lessons learned through these organizations and materials that they have provided on corporate best practices. Finally, all of the materials that are a part of the CEO Playbook can be found on the BGW CPA, PLLC website, www.trustbgw.com.
How to Use the Business Diagnostic

The Business Diagnostic is a self-assessment of where your business ranks on a series of critical principles. You will be asked to candidly assess your business’s conformance with successful practices on a scale of 1 — 5 with high scores correlating with best business practices and low rankings noted for areas where improvement is needed.

The business diagnostic should be reviewed annually. Areas where the company has excelled may require brief reviews.

RATINGS FOR THE BUSINESS DIAGNOSTIC ARE AS FOLLOWS:

5 — Our company excels at this standard, exceeding norms for our industry.
4 — Our company consistently meets this standard.
3 — Our company meets this standard most of the time.
2 — Our company meets this standard some of the time but needs improvement.
1 — Our company struggles with this principle and must focus on improvement.
## GOALS AND OBJECTIVES

Management and ownership share a common vision for the company.

We have a three-year written strategic plan that we routinely revisit and update.

The company has a set of robust company goals that cover sales, customer service, marketing/branding, people development, operational improvement, and owner compensation.

Our company goals are SMART - Specific, Measurable, Attainable, Realistic, and Timely.

Our company goals are linked to individual and team performance.

Our company monitors goals at least quarterly and shares results with the team.

## BUDGET AND CASH FLOW

Our company establishes an annual budget.

Our company forecasts annual cash receipts and disbursements.

We are generating enough cash to comfortably meet owner cash requirements and debt requirements.

Our company creates bank ready financials every month by the 15th of the following month.

We monitor our actual results versus our budget on a monthly basis.

## BENCHMARKING

Our company periodically benchmarks performance against our peers.

Our company is actively involved in industry groups and trade associations.

## BRANDING, MARKETING, AND SALES

Our company brand can be summarized in seven words or less and is unique in the market.

Our employees - at all levels - can describe our target market and ideal customer.

Our employees can communicate our brand in seven words or less.

Our sales pipeline is monitored monthly and our sales people are monitored weekly.

We understand how customers buy our product or service and we monitor performance against this process.

We conduct annual customer satisfaction surveys to gauge what we could be doing better.

We can identify profitable and unprofitable customers, services, or products.

### Ratings for the Business Diagnostic are as follows:

- **5** — Our company excels at this standard, exceeding norms for our industry.
- **4** — Our company consistently meets this standard.
- **3** — Our company meets this standard most of the time.
- **2** — Our company meets this standard some of the time but needs improvement.
- **1** — Our company struggles with this principle and must focus on improvement.

### Overall Business Diagnostic

Ratings for the Business Diagnostic are as follows:
### CAPITAL AND ORGANIZATIONAL STRUCTURE

| We continually monitor our working capital and capital expenditure requirements. |
| Our company has available cash / lines of credit that will cover four months of operating expenses. |
| Our company debt to equity is at acceptable levels versus our peers and at levels where banks are not concerned about our debt loads. |
| Our effective interest rates are at or below market on our debt. |
| We have an open and transparent relationship with our bankers / lenders – we know they will stick with us during tough times. |
| We feel confident that our organizational structure provides maximum risk prevention and tax benefit versus the cost of maintenance. |

### ESTATE, SUCCESSSION, AND WEALTH

| Our buy sell agreement is fully funded and periodically reevaluated. |
| Our company has a succession plan in place and the people that need to succeed the owners know what to do. |
| The owner of the company has a good diversification of wealth – not everything is tied up in the business. |
| The owners of the company have wills and associated estate plans that maximize tax benefit. |

### IT, BUSINESS PROCESS, AND RISK MANAGEMENT

| We are confident that we would quickly know whether or not an employee was dishonest. |
| We feel good that we are adequately insured for the typical risks in our business and that our coverage levels are commensurate to our peers. |
| We have a disaster recovery plan in place that covers us in the event of a natural or technology disaster. |
| We periodically assess key revenue generating processes for efficiency improvements. |
| We believe that we invest as much or more in technology and technology related efficiencies relative to our peers. |

### MANAGEMENT ROUTINE

| We meet periodically to review our performance results and action plans – we have a culture of accountability. |
| Our company’s key performance indicators are linked to individual and team performance. |
| The company has a forward and timely looking dashboard. |
| The business could run effectively without the owner’s involvement. |

### TAX CONSULTING AND COMPLIANCE

| For us, tax planning is a year round process – we are never surprised by our tax liability at the end of the year. |
| We routinely consult with our advisors prior to making material transaction decisions in order to assess potential tax consequences. |
| For our company, getting our tax returns (and our audit / review / compilation) done on time is not a fire drill. |
| I believe that we know that we are only paying taxes to states that we are legally obligated to pay taxes in. |
Strategic planning is a disciplined effort. In the end, it produces fundamental decisions and actions that shape and guide what an organization is, who it serves, what it does and why. With a focus on the future, effective strategic planning also articulates how an organization will know if it is successful. A successful strategic plan sets priorities, focuses energy and resources, strengthens operations, and ensures that employees and other stakeholders are working toward common goals. Strategic planning answers three key questions:

- Where are we?
- Where are we going?
- How will we get there?

Where are we?
Consider the foundational elements of your mission statement, values and/or guiding principles, and SWOT (strengths, weaknesses, opportunities, threats) to assess where your business is — what is happening internally and externally — and determine what changes you need to make.

Where are we going?
The future is impossible to predict, but contemplating scenarios will focus your attention and help you define the future for your business. Specifically, compare your organization to your competitors. What do you do best? What makes you unique? What can your organization potentially do better than any other organization? Answering these questions will help you formulate a picture of what your future make up will be and where you are headed.

How will we get there?
This is the meat of your strategic plan. It’s also the most time consuming. There are a number of routes from your current position to your vision, and picking the right one will determine how quickly or slowly you get to your final destination. Determine your strategy, set short and long term goals, and develop action items to get you there. Identify issues that surround management and monitoring of the action items.

Remember, strategic planning is about growing and improving your company. When you don’t plan, the best you can hope for is maintenance of the status quo. Further down the line, you can expect challenges that will significantly damage or destroy your organization.

The Seven Rules
In addition to answering the three questions above, effective strategic planning requires following seven critical rules.

1. Pick the right players.
Selecting who should be part of the planning team is an important question. It is essential that planning team members are people who are committed to the growth of the company, and who can provide valuable input to the process. Unless there is a key employee or manager you want to develop, this is not a time to include every member of your staff. Vet each team member, ensuring each is of the quality and stature (i.e. gets work done and is respected within the company) required to be part of the planning group. Members of the planning team must maintain
complete confidentiality and be fully engaged in the growth and well being of the company. Employees who are passionate about growing the company, developing an extraordinary organization, and being the CEO’s partner in accomplishing, will provide positive and constructive input. Accept nothing less.

2. **Design planning sessions that yield actual results.**

Most strategic planning today consists of the following: Once a year, team members check into a nice hotel and lock themselves in the conference room for a few days to “strategize”. They emerge every once and awhile for a round of golf, a team building game, or other such “fun”. This kind of planning is a novel idea, but it just does not work. More often than not, planning in a single session like this yields zero opportunities for critical thinking, and results only in repeating current business practices. Instead, design a planning process that takes place over two to three months, with 3-4 day strategy sessions each month. Extending the process will allow you to research, dialogue, and listen more effectively. From this place a valuable strategic plan is created.

3. **Finish what you started.**

That is, complete the previous year. At the very first session of the planning process, the past goes into the past. To accomplish this, team members should brainstorm information, good and bad, from the previous year—breakdowns, breakthroughs, disappointments, accomplishments, and so on. In doing so, employees get to review all the work that got done during the past 12 months, examine the practices and challenges of the previous year, and determine how to move forward. The new year is met with greater enthusiasm when the previous year is properly completed.

4. **Big vision, then laser-like focus.**

Start big by creating a vision of the future of the company. Where do you want to be in the next five years? This is your vision and, when you have one, you are creating a future for the company that employees can believe in and work toward.

*Answer the following questions to arrive at your future vision:*

In five years…

…what will the world look like?
…what will be the important trends affecting our industry?
…what is our industry dealing with and what does it look like?
…what is our image?
…what are customers saying about us and why are they loyal to us?
…what have we done that no one else has done?
…how big is our company? How many employees do we have?

Planning like this allows you to run growth scenarios. Have at least one aggressive, one medium, one sluggish, and one no-growth plan. Get familiar with many possibilities, and then narrow the focus as you get back to present and address what to do immediately and how to implement change.
5. **Be brutally honest.**

Face the facts that confront your organization. Do not deny or sugar coat the issues that plague growth. Face them honestly and deal with them in an intelligent way.

Planning teams effectively face issues by defining the ones that are currently hindering growth. Typically, these critical issues are addressed through the writing of a white paper, a three-to-five-page document, written between planning sessions by the members of the planning team, which addresses the problems at hand. The paper should deal directly with the issues and provide the “answer” to the problems. The entire planning team will read the paper prior to the next session and then debate it during the session. Problem solving ensues. Direction is determined.

6. **Play nice.**

The planning team has to be able to actually work and create together. There can be no pretense. Remember, the group has to be able to implement the plan it creates. It is not on a mission to create a plan that sits on a shelf. Rather, through collaboration and problem solving, the group becomes an agent for change. There must be trust within the planning team. People should be able to speak their minds. Nothing should be taken personally, and petty politics and gossip should not be tolerated. A focused environment like this gives the leadership team a great advantage when competing against other business leadership teams.

7. **Be disciplined and take continued action.**

It is important that the leadership team completes its work. To really participate in a good breakthrough planning/guessing process, the planning team has to take to develop a plan. But once you have the plan, then you need to make sure that it is acted upon. Monthly meetings of one to three hours and spending time on objectives and action plans will ensure focus. Then, once a quarter, allow the team to go off-site and review what happened in the quarter and focus on what needs to happen in the next quarter. This will keep everyone aligned on what needs to take place to push the company forward.

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**ASSESSMENT: STRATEGIC PLANNING**

Print this page and place a check mark next to each sentence that speaks to your organization. For each section, 1 check or less = severe problem area; 2 = area needs major improvement; 3 = area needs moderate improvement; 4 = area needs minimal improvement; 5 = system is world-class in this area.

**The Planning Team**

- The size of the planning team is nine to 15 members.
- The CEO assumes an active role in leading the planning team with senior management.
- The planning team represents different segments of the company, not only executive level staff reporting directly to the CEO.
- Members of the planning team are chosen because of merit, not rank or entitlement.
- The team includes an outside facilitator and an internal coordinator.
### The Planning Process
- Planning sessions take place offsite.
- Team members practice creative and critical thinking.
- The planning team assesses the external environment and internal competencies.
- The planning team pinpoints measurable objectives reflecting the company’s overall goals.
- Objectives are logically arranged in a way that leads to achievement of goals.
- The team identifies clear, well-defined action steps for implementing each core strategy.
- Each functional area builds a yearly work plan under each core strategy.

### Vision and Mission
- The company’s vision is shared at the very bottom of the organization.
- The company has a written statement of corporate values and beliefs.
- The company’s mission statement defines the scope of business, who its customers are and its benefits to these customers.
- The mission statement empowers all employees.
- The mission statement guides day-to-day operations and serves as a foundation for decision-making.
- The mission statement is periodically reviewed and updated as necessary.

### SWOT and Competitive Analysis
- The CEO can list four or five key strengths of the business.
- The CEO is aware of key weaknesses in the business.
- The company has a coherent system for capturing, reporting and analyzing information on customer choices.
- The company knows the strengths, weaknesses and strategies of its key competitors.
- Data is stored or filed in ways that allow easy retrieval of useful planning information.
- The executive team regularly addresses the company’s future competitive status.

### Implementation
- The CEO communicates the final plan to employees and responds to their concerns.
- The timetable for implementation is realistic.
- Checkpoints have been scheduled for assessing progress toward strategic planning goals.
- Regular follow-up meetings by senior management take place after the plan is created.
- The management team has consensus on the company’s strategic direction.
- The organizational structure supports the strategic plan.
- The strategic plan drives budgets, human resources and other operations.
GOAL SETTING

You can accomplish more and go farther if you dedicate yourself to written goals. Goal setting begins after the strategic planning is complete and aligns with the organization’s mission and vision statements. Keep your goals on your personal and business radar screens at all times and follow through on the steps required to make them happen.

Before you can begin goal setting, it’s essential to create a blueprint for how the process will unfold. Address the following:
• Mission statement
• Vision statement
• Fiscal year priorities
• Strategies
• Monthly monitoring and managing meetings

Goal setting begins after the mission and vision statements are finished. Keep the process simple and enjoyable, and set “SMART” goals — simple, measurable, achievable, realistic, time sensitive. Most importantly, do not set goals that are “too easy” or do not boost performance. It is best to challenge employees, expect them to challenge themselves, with attainable goals that require considerable effort.

Consider the following categories of goals:
• Financial
• Customer service
• Employee-based
• Internal business process
• Image
• Reputation
• Community relations and philanthropy
• Sales and marketing

You may not specify your goals in each one of these areas at one time, but whichever you choose, be sure they reflect your corporate purpose and path. Additionally, while no one goal setting style is better than another, pay special attention to it. The more closely a manager can match the employees’ wishes with the goal setting style, the better the chances for a successful outcome.

Leadership and Cascading Goals

Goals must be brought to life. Unfortunately, there is often a “disconnect” between what an executive staff understands about an organization’s goals, and what the CEO believes it understands. In many cases, the staff truly doesn’t even know what the goals are. To remedy this, set cascading goals — goals at different levels of the company that must spill over (cascade) throughout the organization to be implemented. This creates horizontal alignment in a company.

Once the vision and main categorical goals are set at the CEO and managerial level, select a person who will champion the process of cascading goals. He or she works to ensure that each department will create goals and action plans that support the goals of the company’s leadership. Updating people on their progress is critical. Goals must be visible and repeated to keep the commitment alive. Besides scheduled meetings, goals may be touted in: monthly email messages, company newsletters, bulletin boards, and “surprise” coffee breaks, among others.
Ensuring Goal Implementation
When everyone returns to their jobs after goal setting exercises, enthusiasm for the goals can be buried by the demands of day-to-day business. The first step is to develop action plans based on the goals -- complete with incentives and consequences for non-performance.

Accountability
Discussing consequences is critical in any goals-to-action plan. Consider adopting a “three strikes and you’re off the team” approach. Peer pressure and the threat of humiliation create intense expectations of performance, enough to cause significant action.

Monthly Management Meetings
Once your goals and action plans are set, schedule monthly management meetings to monitor progress. The original planning group should meet for a 90-minute session to recap the previous month, acknowledge progress and examine shortfalls, amend the plan if it needs to be changed, and clarify the action plan for the next 30 days.

Coaching for Goals
Implementing goals that were set months ago requires discipline. The planning group has to follow through with its direct reports. The managers need the discipline to make the goals a priority over day-to-day troubles in a business.

When Goal Setting Goes Wrong
Too often organizations set goals that are quickly set aside. Examine roadblocks if you have a pattern of abandoning organizational or corporate goals.

Ten Organizational Roadblocks:
1. Lack of clear-cut responsibilities around the goals
2. Lack of a tracking system
3. Lack of an accountability system
4. Lack of commitment
5. Lack of buy-in from people who are expected to fulfill the goals
6. Ineffective communication
7. Lack of time or resources
8. Too many goals are financially driven
9. Focusing on too many or too few goals
10. Goals aren’t tied to a longer-term vision

Obstacles in Goal Setting
When an organization fails to meet goals, many factors may be at play. Typically, one of the following common denominators is present: a CEO with no passion for the goals that have been set; the goals are not precise; the goals are at cross-purposes with the CEO’s self-image; fear of failure. Examine any and all obstacles to your organization’s goals, looking particularly at any old patterns you, your team, or the organization as a whole has in abandoning specific goals.
ASSESSMENT: GOAL SETTING

Print this page and place a check mark next to each sentence that speaks to your organization. For each section, the percentage of items checked reflect your score out of 100.

5 — adhere to best practices, no improvement needed
4 — area needs minimal improvement
3 — area needs moderate improvement
2 — area needs major improvement
1 — major problem area requiring new approach

Organizational Goal Setting Style
____ We set goals annually, review them monthly, communicate them frequently and revise plans based on progress.
____ We meet most of our goals.
____ We apply the SMART test whenever we set goals.
____ Not all of our goals are financially driven. Approximately one-third of them are.
____ We connect our goals and action plans to an accountability system, and we follow through with rewards and consequences.

Personal Goal Setting Style
____ I set goals, write them down, review them regularly, and complete them on time.
____ My goals are on my personal "radar" at all times.
Defined goals bring clarity, aligning efforts so that the team can achieve its vision.
DEVELOPING A FINANCIAL PLAN

Role of CEO
You do not have to be an expert in finance to be a good financial manager. You can effectively manage your company’s financial performance by focusing on just five activities:

1. Ensure that the company has timely and accurate accounting and reporting systems.
2. Identify the right numbers/key indicators to watch.
4. Manage cash flow.
5. Use financial information to forecast the future.

Your ultimate role as CEO is to develop financial “intelligence” using the information provided to you by your CFO.

Develop a Sound Financial Plan
A sound financial plan contains three segments: historical analysis, a three-year plan, and a one-year plan. In addition, it should contain an analytical narrative — your analysis of what the numbers tell you — and the assumptions that underlie your projections.

Conduct historical analysis by gathering financial data for the past 3–5 years from the balance sheet, income statement, cash flow statement, and selected financial ratios. You should be able to see trends over time. Once you have that information, you can identify problems and offer solutions.

The three-year plan provides a tool for looking into the future and determining how your company should perform. Most importantly, it allows you to grow the business and not run out of money. To develop a three-year plan, you will need to project the income statement, balance sheet, cash flows and key balance sheet and income statement ratios on an annual basis. From those projections, you can begin looking for ways to improve these matrices.

The one-year plan involves the same steps as the three-year plan but projections are made on a monthly rather than annual basis.

These three components make up your financial plan and provide a detailed picture of what is really going on in the business. Further, they allow you to establish benchmarks by which to measure your performance and tell you when — immediately when — you are getting off track. With that information, you can avoid serious financial deterioration.

Develop Financial Discipline
To be financially successful, you must:

• Sustain profits
• Maintain a strong cash position
• Build a healthy balance sheet
• Provide adequate return to stakeholders
• Establish a value that is transferrable
Success is not accidental. It comes about as a result of practicing financial discipline in the business. To build a culture of financial discipline:

- Establish a reliable financial reporting system.
- Segment your business by product or service lines, markets, and customers.
- Benchmark your financial performance against a standard.
- Focus on the gross margin.
- Have an accurate and direct costing system.
- Drive velocity through the balance sheet.
- Measure your cash cycle and manage it.
- Forecast working capital and arrange your growth financing well ahead of your needs.
- Build value by establishing targets for EBITDA earnings.
- Drive accountability and communication throughout the organization with scorecards and key indicators.

Financial discipline also requires aligning the financial side of the business with your strategy. Answer the following questions: “Who are we going to sell to?”, “What are we going to sell?”, and “How are we going to sell it?”. Then, drive a financial model so you can build relationships with the alternative financing sources you will need as you grow.

The final piece to financial discipline involves translating financial goals into specific behaviors that will get you the results you want. This requires quantifiable, measurable action plans so you can track performance and course-correct and counsel when necessary. Performance-based compensation is an effective tool for getting your employees tied into the result.

Know your Ratios

Having key documents is one thing. Knowing how to extract certain ratios from the documents is another. In fact, the secret to effective financial management lies in knowing which ratios to track and what they tell you about the current state of your business.

The balance sheet, actually, gives you the truest measure of a company’s health. It is a living, breathing document that changes daily. The most important balance sheet ratios are:

- Current ratio: current assets/current liabilities. This is short term survivability.
- Quick ratio: (cash + receivables)/current liabilities. Again, this is short term survivability.
- Debt-to-equity ratio: total liabilities/net worth. This is long term survivability.
The P&L statement focuses on revenues, expenses, and net income (or loss) over a defined period. It measures the company’s ability to turn sales/revenue into profits, which is critical to long-term success. The most important P&L formulas are:

- Gross income: revenues — cost of goods sold.
- Net operating profit: gross margin — SG&A expenses.
- Net profit: (net operating profit + other income) — (other expenses + taxes).

Key operating ratios combine information from the balance sheet and income statement to provide a more in-depth look at what is happening in the business.

**Track Your Way to Financial Success**

Tracking key indicators in a business is essential to being able to take action and make the company more successful. To use key indicators to their full potential, follow these five steps:

1. Identify the right measures
2. Use the right increments
3. See the big picture
4. Anticipate the future
5. Take action

Today’s economy is tough. It’s hard to turn a profit even when you do things right. Avoid making things harder by educating yourself on financial matters and taking the appropriate steps necessary to ensure your company’s future.
ASSESSMENT: DEVELOPING A FINANCIAL PLAN

Print this page and place a check mark next to each sentence that speaks to your organization. For each section, the percentage of items checked reflect your score out of 100.

Role of CEO/Key Indicators
___ I track key balance sheet, income statement, and cash flow statement indicators on a monthly basis.
___ I use trailing 12-month charts to track all key indicators.
___ I track “what causes sales” on a monthly basis.

Forecasting the Future
___ I regularly work to improve my forecasting skills.
___ We have a financial plan that includes forecasts of the balance sheet, income statement, and cash flow statement.
___ Each year we determine our sustainable growth rate and incorporate it into our financial plan.
___ I regularly forecast future working capital needs and begin looking for capital before we actually need it.
___ I use the ”best financial tool” to reforecast the current year and take appropriate action.
MARKETING: AN OVERVIEW

Marketing is the process of planning and executing the development, pricing, promotion and distribution of product or services to targeted customers. Everyone in your organization is ultimately involved in marketing in some way -- not just some narrowly defined “marketing department”. Marketing-oriented organizations focus on customer needs and wants. They anticipate demand. They enlarge demand through promotions and advertising. Then they satisfy that demand. Unfortunately, too many companies either don’t understand this basic principle or lack the resolve to see their strategies through to completion. In fact, many businesses start thinking about marketing campaigns only after sales have begun to sag.

Other reasons why marketing plans fail:
• No sense of the future. Successful marketing is an investment in your organization’s future. Be creative and focus on new opportunities. Always think of new ways to enhance exposure.
• No measurement of results. Marketing projects must be tested and measured. To measure results, assign someone to capture sales and customer information and give him or her access to all revenue and expense data.
• Once results are measured, analyze them and share them throughout the organization. Then spend money on what generates the best return.
• Too much interference. CEOs often approve a marketing plan and then insist on constantly making adjustments. Sometimes, the best approach is to wait until marketing efforts can be suitably measured and then fine-tune the plan. Constant meddling only distorts results and demoralizes the people in charge of driving the campaign.

Marketing Strategy
Effective marketing doesn’t come naturally to most businesses. Many companies simply reach out to customers and describe what the product or service is, claim that it’s better than the competition, and then urge the customer to buy it. What most companies leave out is how the product or service benefits the customer. The only time the customer is ever interested is when you tell him how the product or service will improve his life.

It is impossible to highlight your product or service’s benefits if you don’t know what your customers want. Step one in market research is determining what you genuinely need to find out. Are you considering entering a new market? A new market area? A new product or service line mix? The kind of information you’re after will influence the type of research you want to do.

Other key questions:
• What’s the current size of the market?
• How fast is it growing?
• How can we hope to reach it?
• Can the market be segmented into targeted customer groups?
• What makes our product or service distinctive among others in the marketplace?
• What types of people buy our product or service?
• What’s most important to buyers when choosing a product or service (price, quality, delivery time, etc.)?
• What do customers like about our competitor’s products or services that we’re not offering?
The Marketing Plan

The best marketing plans focus on the customer. Therefore, the plan should be organized to address these questions:

- What does the customer really need?
- Where do they want to buy it?
- How do they want to buy it?
- How much are they willing to pay?
- Communication is also crucial. Do you know what your target customers read and listen to? What are the best ways to get their attention? The communication aspect of the plan should address your organization’s promotional goals, everything from advertising to public relations.

Customer Focus

To think like your customers, your company must encourage a customer-oriented culture. Before you design, test and sell your product or service, make sure you’ve gathered, interpreted and synthesized all the customer information you can find. There are several sources of customer information:

- Customer complaints. Look at complaints your business has received over the past few weeks and months. Does your management team seriously examine what’s behind these complaints? Does the team offer solutions to reduce the number of complaints?
- Customer surveys. This is still considered among the most effective methods for collecting reliable, objective data about your customers.
- Face to face contact. Do you really know how your customers buy your product or services and exactly what they do with them? Nothing beats getting out of the office and meeting with customers directly.

The CEO and Marketing

The CEO is -- or should be -- the chief marketing officer. CEOs should spend a substantial amount of time out in the field, meeting with customers and prospects — not to sell but to better understand customer wants, needs, and demands. CEOs are uniquely equipped to do this. They know their own business and are likely to understand what their business can do to address customers’ issues. Above all, the CEO has the power and influence to ensure that marketing is considered a primary function within the organization. Marketing is not an expense. It is an investment in the future. Sales is an expense. Do everything possible to get the best people involved in marketing activities and see that this ethic is incorporated into the culture as a whole.

Direct Marketing

Direct marketing is a system by which a business communicates directly with targeted groups of customers in order to generate a response and/or conduct a transaction. Despite changes in technology affecting virtually all aspects of marketing today, direct marketing remains one of the most measurable and cost-effective ways to sell products or services.
Should your company include direct marketing in its promotional mix? Here are the experts’ guidelines:

- The most significant method of distributing your product or service is through the mail or directly to your customers. The key to doing this effectively is acquiring and maintaining an accurate database of targeted customers. The most successful direct marketing businesses make having excellent databases a number-one priority.
- Your product or service offers a variety of benefits. Trying to convey multiple product or service benefits in a print or electronic medium can result in confusion for your customers. Instead, a well-composed direct mail letter can communicate all of these benefits and announce special promotions like discounts or contests.
- Your product or service is expensive. Again, a direct mail letter offers greater opportunity to expand your product or service’s appeal (and convince potential customers to spend a little extra) than the limited space of advertising.

Email marketing has become an increasingly valuable form of direct mail and can be a great supplement to traditional methods. Email messages are, in essence, free, and can be changed quickly. Note the following when composing email ads, however:

- Know the reader. One way to make your email message stand out from the flood of others is by speaking to your customers in their own language. Through the use of industry buzzwords, you demonstrate that you know who they are, what they need and what you can offer them.
- Include a meaningful offer. Customers are more likely to respond when they’re offered something free (an industry “white paper,” for example, or free seminar). Other eye-catching offers include coupons for discounts, free shipping, rewards or points program.
- Don’t overdo it! Because of its ease of use, you could fall prey to sending ”exciting” email messages every day or many times a week. That’s overload. A cogent, well-designed email message sent once (or, at most, a few times) a month is preferable. And only send it when you have something worthwhile to share.

ASSESSMENT: MARKETING STRATEGY

Print this page and place a check mark next to each sentence that speaks to your organization. For each section, the percentage of items checked reflect your score out of 100.

Marketing: An Overview

____ We regularly test and quantify marketing strategies and tactics.
____ We focus on what the customer is buying rather than what we’re selling.
____ We have someone who captures sales and customer information and has access to all revenue and expense data.
____ We contact customers to assess our marketing efforts, by either including (a) customers who buy from us today; (b) customers who formerly purchased our product or services but no longer do so; and (c) would-be customers who have never bought our product or service.
Marketing Strategy

In our collateral materials, we focus on our product or service’s benefits first, features second. We actively seek to differentiate ourselves from our competitors based on an intimate understanding of the customer’s needs, levels of service, customer guarantee, or distribution.

In our market research, we endeavor to learn more about customers’ problems so that we can better understand what they need.

Marketing Plan

Our plan describes customers in terms of demographics and lifestyle. A well-defined communications strategy is built into our plan. The marketing plan includes a forecast of market forces. The marketing plan includes an educated estimate of our competitors’ actions. Our plan addresses specific marketing issues, including (a) product or service differentiation; (b) maintaining low manufacturing costs; (c) improving distribution channels; and (d) refining customer service.

Customer Focus

The principle “Know Our Customers” permeates our organization. We have a customer-oriented culture in which our employees are encouraged to “think like a customer.” Our decision-making process includes a mechanism for collecting and understanding customer input. We gather significant information from (a) customer complaints; (b) customer surveys; (c) a study of industry trends; and (d) face-to-face contact with customers. We practice customer differentiation; we don’t cultivate a high-cost relationship with a low-value customer.

The CEO And Marketing

As CEO, I regularly strive to understand three basic needs of customers (especially business customers): (1) how to increase product or services; (2) how to reduce the cost of doing business; and (3) how to improve their competitive status. Our company gauges success by market share, rather than revenues. As CEO, I encourage a culture that focuses on customer needs, not holding down costs. I allocate time to meet with customers and prospects in the field. I strive to ensure that marketing is considered a primary function within the organization.

Direct Marketing

We maintain a current and accurate database of targeted customers. Our direct response marketing pieces invite the customer to take action by: (a) placing an offer directly in front of them and (b) asking for additional information or make the decision to buy. Our direct mail pieces frame an appeal with a sense of urgency and a distinctive look. Each direct mail piece we distribute provides an offer of some kind (free brochure, free analysis, free demonstration, etc.). In our direct mail letters, we identify the customer’s most urgent concern up-front (how the product or service will save them money, etc.).
SALES MANAGER: AREAS OF EXPERTISE

The job of the sales manager is not to grow sales. The sales manager’s job is growing salespeople. A good sales manager thinks of himself as a leader, setting the course for the most efficient system of selling the company’s goods and/or services. By his or her statements and actions, the successful sales manager inspires the sales team to act in ways that are in everyone’s best interest.

An effective sales manager also possesses insight into the personalities of the sales team. He or she also cultivates and refines the talents of the salespeople. As time passes, the salespeople start to understand the purpose behind efforts to enhance their skills. Gradually, this drive toward excellence comes to replace money as the prime motivator in doing a good job.

Recruiting is a process, not a single event. It should be ongoing and continuous. Just as a salesperson has (or should have) a database of qualified prospects, so the sales manager should have “a basket of people” he’d like to have come work for him.

*We advise these steps for keeping the “sales force” pipeline filled:*
  - Interview a number of individuals each month.
  - Place an ad in the classified section every few months (whether you’re hiring or not). This ensures a continual supply of resumes for review.
  - Enlist the help of the men and women in the trenches. Good salespeople usually know other good salespeople.

The next step is training -- for newcomers and veterans on the sales force alike — to enhance performance, increase customer satisfaction, create more effective sales activities, and reduce turnover.

**Models of Performance**

*These key sales activities should continually be tracked:*
  - Dials - How many calls does it take to reach a key decision-maker?
  - Appointments - How many customer appointments are generated from completed calls?
  - Recommendations - How many proposals does the salesperson create as a result of his appointments or meetings?
  - Sales - What is the number of winning proposals?
  - Sales dollars - How much revenue is produced by sales?

Record the sum of these activities weekly to reach a point where you know what every call is worth, what every appointment is worth, what every presentation is worth and, finally, what every sale is worth. Doing so will allow your sales to be predictable and allow you to clearly articulate to what is needed to succeed.

Of course, any sales lead is only as good as the customer’s final decision to buy. The sales manager should closely scrutinize the company’s marketing and sales process areas, with respect to ROI generated by the sales team’s leads.

  - How do leads come in? What is the quality of these leads?
  - Who gets these leads and who hands them out? Do we have a support system in place to help with these critical tasks?
  - Once a lead is generated, how long does it take for a salesperson to follow up? Are they being attended to with call-backs and follow-throughs, or are they just left to wither on the vine?
  - How many sales opportunities do we close?
  - Are we tracking any deficiencies or obstacles blocking our path to success?
Coaching

Take the following steps to turn around a poor performer:

- Advise and counsel. Meet with the sales rep, making it very clear that your goal as sales manager is to help him become better at his job. Avoid placing blame or delivering ultimatums. Instead, demonstrate your confidence that, with coaching, the problems can be overcome.
- Look for problem behaviors. Ask the sales rep what he thinks should be done to overcome gaps in performance. Does it mean adjusting selling behavior? Making more new business calls? Find out what difficulties, if any, he anticipates in changing his behavior. Address these difficulties before they occur.
- Design a recovery plan. The plan, developed jointly by sales manager and salesperson, should be comprehensive and results-oriented. Set targets based on (1) improvements in sales with each account; (2) new business penetration; and (3) increased number of calls.
- Have a follow-up plan. Following agreement on a recovery plan, the sales rep must understand that the sales manager will closely scrutinize sales efforts and results. The follow-up plan will track results and progress, supplemented by weekly follow-up meetings.

Recognizing top performers is another vital function. Establish a recognition system for top performers. Surprisingly, not enough companies have any such system. Recognition doesn’t have to be expensive, but it should be ongoing. It can range from a handwritten note saluting a person’s performance to a luncheon or a birthday card personally signed by the CEO. These things are all easily done, and well worth the effort.

Compensation

Salespeople are motivated by ambition, the need for recognition and, of course, compensation. To prompt the sales team to higher levels of performance, it’s necessary to design an effective sales compensation structure. Link your company’s objectives and commission structures and placing salespeople “in the same boat” as everyone else. If your focus is on profitability, then compensate based on gross profits. If the focus on new accounts, then compensate based on that. Choose two or three objectives that are vital to your business and develop these in your compensation plan.

Salary plus commission is a powerful approach. While the equation differs among industries, most fall in the ranges of 40 to 80 percent salary and 60 to 20 percent commission. There are several options available in determining the best sales commission rate:

- A flat rate on all sales
- Different rates on different product or services (i.e., larger commission on sales to new customers, somewhat less for existing customers)
- A percentage above a pre-determined goal
- A percentage of gross profit

Whatever compensation plan is chosen, it should be kept as clear and straightforward as possible. When a salesperson makes a sale, he needs to be able to figure out the commission in his head. Otherwise, the impact of incentive is lost.

The Sales Plan

An effective sales manager meets with the sales team, discusses the quotas and other motivational issues, talking about strengths, weaknesses and opportunities. The idea is to get everyone moving in a positive direction, and not force them to do so.
To do this, the sales manager must have a clear understanding of how the organization’s overall revenue goals impact individual or team sales quotas. Many factors influence goals and performance (company objectives, the number and size of territories to each sales rep’s experience, etc.) and the sales manager has to strike a proper balance between these things when planning sales quotas. Producing goals-oriented sales reports are a good way to accomplish this. Such reports motivate salespeople by making very clear what needs to be accomplished and what has to be done to accomplish it. They also help the manager measure specific behaviors salespeople must produce in order to get the job done.

Growing sales people requires setting goals. The more focused the sales force is on specific, achievable goals, the greater its chances of achieving them. These goals may include:

- Sales and gross profit for a year
- Penetrating current accounts more deeply

Of course these goals have to be aligned with the company as a whole. The sales manager’s job is making sure these goals are coordinated and attainable.

The CEO, Sales Force and Customer

Creating a “sales-friendly” corporate environment is -- or should be -- a CEO priority. Keep your sales force on the cutting edge by:

- Providing the right tools. The best support -- tablets, cell phones, laptop computers — enables a sales force to do its job better, and demonstrates its importance in the mind of the prospect/customer.
- Supporting from the inside. All other departments need to work with, not against the sales force.
- Recognizing achievement. As CEO, make sure that top performers (and those working toward that goal) are honored throughout the organization.
- Being seen and heard. The CEO’s occasional presence at staff meetings is a prime motivator in itself.
- Keep the sales force updated on changes in your product or services, and listen to what it has to say about life in the field.
- Focusing on training. Continuous training makes for better salespeople.
- Helping wherever you can. Set a regular schedule (at least once every quarter or every six months) to meet with the sales manager and his team and ask them directly, “What can I do to help you make more sales?”.
- Create a “no-blame” atmosphere where salespeople feel comfortable in objectively assessing current situations and needs. Then, do what’s needed to make them better at what they do.

ASSessment: Sales Motivation

Print this page and place a check mark next to each sentence that speaks to your organization. For each section, 1 check or less = severe problem area; 2 = area needs major improvement; 3 = area needs moderate improvement; 4 = area needs minimal improvement; 5 = system is world-class in this area.

Sales Manager: Areas of Expertise

--- We look at recruiting as a process, not a single-time event.
--- We interview numerous candidates each month, regardless of need.
--- We solicit referrals for candidates from our own sales staff.
We draft a contract with each new hire, clearly outlining expectations on both sides.

Our sales training emphasizes (1) specific selling techniques custom-tailored for each buyer; and (2) better service for customers.

We set guidelines for sales team behavior, including sales targets (with input from the sales force).

Models of Performance

We maximize sales staff contact-time with customers.
We make sure staff hands in sales reports on time.
We emphasize group sales goals over individual goals.
We create minimum standards of performance at time of hiring, and review at various periods during employment (60, 90, 120 days).
We review salespeople’s activities weekly (number of telephone calls, customer appointments, sales proposals generated and amount of sales revenue).
We assess marketing and sales processes with focus on ROI (quality and quantity of leads, follow-up systems, closes sales opportunities).

Coaching

We give poor performers the opportunity to grow their skills.
We meet sales performance problems head-on, but always in a positive manner.
We avoid placing blame or delivering ultimatums.
We design a “recovery plan” focusing on (1) improvements in sales; (2) new business penetration; and (3) increased number of telephone calls.
We praise top performers in public. Criticize poor performers in private.

Compensation

Our compensation structure is linked to the corporate culture and what works best in our specific environment to generate sales.
We incentivize desired behavior, i.e., raise commission rates on selling new company product or services.
We don’t offer commissions based on sales where the salesperson has control over pricing.
We use bonus structures as reward for meeting or exceeding sales goals, or for attaining targeted goals.
Whether compensating by straight salary, commission or both, we keep our compensation formula simple.

The Sales Plan

We set sales quotas to establish a sales atmosphere.
We clearly understand how the company’s overall revenue goals impact individual and team sales quotas.
We use sales reports to measure specific behavior in sales team.
We track account activity required by each salesperson to meet their annual goals.

The CEO, Sales Team and the Customer

The CEO is actively concerned with the sales side of the business.
We equip sales staff with the best tools for support (tablets, cell phones, laptops).
We use recognition of achievement as a motivating tool.
The CEO attends sales meetings to demonstrate his/her support of the team’s efforts.
We implement ongoing training programs, for both new hires and sales veterans.
Is an Acquisition Right for You?
Acquisitions are increasingly common in today’s marketplace, but that does not mean that every company should pursue one. Acquisitions carry a high degree of risk. When properly planned and implemented, acquisitions offer a legitimate growth strategy for companies of all sizes. But when they fail, they fail big-time. There are many legitimate reasons for acquiring another company, including expanding your markets, reducing expenses, and eliminating competition. Ultimately, however, all legitimate reasons for contemplating an acquisition fall under one all-encompassing umbrella -- the desire or need for quick and substantial growth.

To tell if an acquisition makes sense for your business, ask three simple questions:
• What are the different ways I could grow my business?
• Could an acquisition help me achieve that growth?
• What larger, strategic goals will that growth help me accomplish?

What makes for a good acquisition?
• Having a solid foundation in place, meaning your people, systems and resources are sufficient to handle integrating another company.
• A well-planned acquisition strategy.
• Realistic plans in terms of expectations and time schedules.
• Appropriate price and terms, with a “realistic” debt load.
• Clear and well-executed people/transition plans.
• Reasonable additional capital investment requirements.
• Having clarity around your personal and professional expectations for the deal.

Before making any M&A deals, ask yourself:
• Will this acquisition increase our profits?
• Will it improve the balance sheet?
• Is the risk acceptable?
If you can’t answer “yes” to each question, don’t do the deal.

Acquisition Strategy
To ensure a successful acquisition, first get your strategy right. Formulating an acquisition strategy requires four basic steps:
• Identifying your goals.
• Considering other alternatives.
• Establishing key parameters for the deal.
• Creating a one-page acquisition criteria sheet.
Once you have completed these steps, you’re ready to start looking for a company to acquire. But before diving head-first into an acquisition, make sure you have the right foundation in place in your own business. This includes:

- Computer and information management systems
- Management teams
- Financial planning and reporting
- Human resources

Potential buyers should answer four sets of strategic questions before making an acquisition:

- Does the company to be acquired clearly fit into my growth strategy? Will the acquisition increase my competitive position or my profits, either through growth in revenues, efficiency gains, breakthroughs in technology or some other quantifiable measure?
- Will the transition work smoothly? Will the two companies integrate well, physically and culturally?
- Am I paying the right price? Do I have the right deal structure? Does the present value of the cash I expect to receive from the deal exceed what I will pay for the business?
- What synergies -- either in terms of revenue enhancements or cost reductions -- do we intend to achieve? How and when will we achieve them?

One of the primary concerns in any acquisition is how to control the risks. The first step in this process involves developing a good acquisition strategy. Other risk-management strategies include:

- Conducting effective due diligence.
- Using the terms of the deal to get the seller to share in the risk.
- Having a written transition plan.
- Assembling an experienced acquisition team to consummate the deal.

If at any time during the deal the risk level exceeds the expected return, walk away.

Assessing the Deal

Anyone acquiring another business should do in-depth due diligence in three critical areas: marketing, financial and legal (which includes environmental concerns). Marketing due diligence involves taking a hard look at your assumptions regarding the company’s future revenue growth and profitability assumptions, as well as assessing the market’s key leverage points and how those might be changing. Financial due diligence can be covered by examining four key areas -- assets, liabilities, cash flow, and revenue and growth rate.

In addition to these areas, cultural due diligence is also important. Research how the organization is run, how management reviews, evaluates, and rewards employees, and how management sets performance expectations. Do not acquire a company that is vastly different from your own.

To conclude the due diligence process, create financial projections using different scenarios. To "pro forma" the deal:

- List all your assumptions (in detail) regarding the deal.
- Reexamine the potential synergies.
- Do two three-year cash flow pro formas.
- Determine whether the projections indicate a workable deal.

To enhance your overall due diligence efforts, have every member of your team ask people at all levels in the company to be acquired: What are the three biggest problems in this business? What are the three biggest opportunities in this business?
Negotiating the Deal
To get the best deal, let the seller set the price as long as you get to set the terms. In many cases, creative use of terms will allow you to meet the seller’s price without paying more than you want.

For example, suppose a business owner wants $2 million for his company but you value it at $1 million. By structuring the deal as $100,000 down, $400,000 in five one-year, no-interest notes, and $1.5 million as five percent of sales, the owner gets his asking price, while you will pay only slightly more than $1 million (based on present net value of the five-year payments). Equally as important, you get the seller to share the risk. If the business goes into the tank over the next five years, you only pay five percent of whatever the business ends up being worth.

When negotiating terms:
- Pay as little cash as possible.
- Use contingent payments that have a finite cutoff date.
- Include any consulting agreements with the owner as part of the deal, not as an add-on.
- Buy inventory on consignment, so that you pay for it as you use it over time.

In terms of the overall negotiations, keep the following in mind:
- You can’t negotiate a good deal unless you’re willing to walk away.
- Probe on price but don’t react to the answer.
- Early in the relationship, look for ways to softly say “no”.
- Keep your ego in your pocket. Ego kills a lot of otherwise good deals.
- Limit your attorney’s role to helping you document the deal and making sure all your decisions are properly and legally implemented.
- Hire a professional negotiator.
- Go slow and build the relationship with the seller.
- Avoid an auction situation.
- Keep asking why the company is for sale until you feel comfortable with the answer.

Implementing the Deal
Every acquisition has a “hard” and a “soft” side. The hard side represents the numbers -- the cash flows, revenue streams, cost savings, valuation, price and terms. The soft side represents the people side of the equation. While most CEOs focus the majority of their time and attention on the numbers, the people issues often make or break a deal.

The CEO of the acquiring company needs to take a very active, hands-on role during the transition period. In particular, he or she must:
- Set crystal-clear performance expectations.
- Communicate those expectations to all levels of both organizations.
- Lay out what the transition will look like.
- Address the WIIFM (what’s in it for me?) factor.

A good transition plan addresses the following areas:
- Who will do what, by when?
- How will decisions be made?
- What will the new reporting structure look like?
- Do you intend to integrate the new people into your physical facility or keep them in theirs?
- How will everything fit together?
- Will the current systems support the planned changes? If not, what changes need to take place so they can?
Above all, transition requires a team effort. To succeed, get the managers in both companies working together early on and keep them involved throughout the transition.

**ASSESSMENT: ACQUISITIONS**

Print this page and place a check mark next to each sentence that speaks to your organization. For each section, 1 check or less = severe problem area; 2 = area needs major improvement; 3 = area needs moderate improvement; 4 = area needs minimal improvement; 5 = system is world-class in this area.

**Acquisition Strategy**
- We have explored other less risky alternatives before choosing acquisition as a strategy for growth.
- We have well-defined strategic goals and objectives for the acquisition.
- We have clear, focused acquisition criteria to guide our search for candidates and to assess potential deals.
- We have a strong foundation in place. Our people, systems and processes have the capability of assimilating another organization without undue stress to individuals or the organization as a whole.
- We (the management team) have consensus on when and under what circumstances we will deviate from our deal criteria.

**Assessing the Deal**
- The company to be acquired is a good fit with our business, both operationally and culturally.
- The acquisition will create quantifiable synergies, either through cost reductions, revenue enhancements or both.
- We have done pro forma projections for several different scenarios and determined that the risk level is acceptable.
- The acquisition will show a positive return within 18 to 24 months.
- The acquisition will improve our P&L and balance sheet.

**Negotiating the Deal**
- We have determined our “buyer’s economic value” (BEV), which represents the most we can pay for the business and still have a successful deal.
- We have clear walk-away criteria, based on our BEV and other factors.
- We have hired (or intend to hire) a professional negotiator to negotiate the deal.
- We will put down as little cash as possible, using contingent payments (with a cutoff date) to pay the rest.
- We will use deal terms (warranties, reps, earnouts, etc.) to lower the risk of the deal.

**Implementing the Deal**
- We have (or will complete prior to signing the deal) a written transition plan that covers operations, marketing and human resources.
- Our transition plan includes deadlines for accomplishing critical transition milestones.
- We have all the key players signed and on board prior to signing the deal.
- We have very clear performance expectations for everyone in the new organization.
- The CEO plans to be visible and communicate regularly, especially to the acquired staff.
OVERVIEW

Decisions made in the course of a business owner managing his/her operations can have major impacts on estate and succession planning and dynamics. In our view, the process of beginning with the end in mind should be part of any business owner’s next strategic planning retreat.

At a minimum we recommend that estate planning documents be done and updated today — if not already done — and that succession planning begin, at a minimum, five years before a planned succession event. We have found that businesses that operate with an active succession plan in place are more well run, create more owner cash flow, and are more valuable than those that don’t.

Estate Planning Basics

The following is a list of tools that form the basic foundation of any estate plan:

- Wills are legal documents that specify what happens to your assets when you die. If you do nothing else, write a will.
- Trusts are legal entities that own assets, are managed by one or more trustees, and have designated beneficiaries. They play a vital role in estate planning because they allow you to control and protect the assets while minimizing tax liability.
- Life Insurance is typically used as a source of funds for buy–sell agreements and paying estate taxes.
- Family Limited Partnerships (FLPs) allow you to receive discounts when making gifts or transferring assets, protect assets from creditors and lawsuits, shift taxable income, and remove highly appreciated assets from the estate.
- Employment Contracts can provide lifetime income to you and/or your family upon your death, disability, or sale of the business.
- Asset Protection Entities allow you to protect your assets from creditors and realize significant tax savings.

To create an effective plan, you must first create a vision. Next, set concrete goals and objectives. Work with an estate planning firm that has experience:

- minimizing taxes.
- creating a succession plan for the business.
- navigating complex family dynamics.

Review and update your plan every 2–3 years, more if needed.

Advanced Estate Planning

Three specific taxes apply to estate planning: estate, gift, and generation skipping transfer taxes (GSTT). You can dramatically reduce or even eliminate these taxes by:

1. **Gifting** — Gifting occurs while you are still alive and lowers the value of the estate, thus reducing the estate tax.
2. **Discounting** — Discounting is gifting in such a manner that your assets appear smaller to the IRS. Consult your planning team for specific advice.
3. **Leveraging** — Leveraging allows you to gift assets in a manner whereby you retain control of them, enjoy the income from them during your life, and then remove them from your estate to avoid the taxes. Again, consult with your individual planning team for further instruction.

**Trusts**

When used properly, trusts allow you to control and protect your assets while limiting liabilities. There are many kinds of trusts, but most common is the funded living trust, in which you hold title to all your major assets (except your home) while you are alive. Funded living trusts give you immediate and total control over your assets should you die or become disabled. Other popular trusts include charitable trusts, family legacy trusts, enhanced income trusts, deferred inheritance trusts, and family foundations. Each kind of trust is complex and must be managed properly. A poorly managed trust will do untold damage to your family, business, and estate. Use only experienced professionals on your estate planning team and be sure to establish the following trustees for each trust:

1. **Business trustee** — An experienced manager to run the business.
2. **Financial trustee** — An experienced financial manager to handle any investments in the trust.
3. **Distributing trustee** — Someone to handle any monetary distributions to the family.
4. **Watchdog trustee** — Someone to make sure the other trustees do their jobs properly.

**Estate Planning Team**

Your spouse is your most important partner. Involve him or her (and your entire family) in your planning decisions. This will prevent a lot of family strife after you are gone. Beyond that, assemble a team of advisors to include your estate planning firm, an experienced estate tax attorney, and your CPA. Each member of the team should intimately understand your goals and objectives. Keep this team updated as changes in your life occur that affect your plan by utilizing an estate planning manual. An estate planning manual allows you not only to update these parties, but also memorialize why you made the decisions you did. Again, this will prevent a lot of family strife in the future.

**Communication**

Communicating your estate planning goals and objectives is essential to your plan’s success. We recommend the following tools for ensuring that everyone involved understands the plan and works toward the same outcome.

- Family letter of intent. This identifies specific estate planning goals, provides clarity and direction, and directs key decisions during the planning process. This is the single most important estate planning document.
- Annual common-sense business letter. This letter addresses critical business succession issues in the event of your premature death or mental disability. Update the letter each year and give a copy to your family and each member of your team.
- Annual common-sense personal letter. This letter to your spouse and family members should include a list of all your assets and accounts, locations of all legal documents, computer passwords, and hidden assets. Instructions for disbursement of sentimental items should also be included in this letter.
- “I love you” letter. This lets family members know what they meant to you during this time and is often the most valuable thing you can leave behind, especially if you have young children.
- Family meetings. These provide a way to open the channels of communication to discuss business, personal, and estate planning issues.
ASSESSMENT: ESTATE AND SUCCESSION PLANNING

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The Basics

_____ I have a signed, legal will.
_____ My spouse and I both have funded living trusts in place.
_____ I have a business succession plan in place should I die prematurely or become mentally disabled.
_____ I use only trained specialists as my estate planning advisors.
_____ I review and update my estate plan on a regular basis.

Advanced Estate Planning

_____ I make full use of the annual gifting credit and lifetime exemption in my estate plan.
_____ I have the appropriate trusts in place to reduce estate taxes and transfer and protect my assets.
_____ I have separate business, financial, distributing, and watchdog trustees for each trust.
_____ I have an employment contract in place between myself and my business that guarantees a stream of income in the event of my death or disability.
_____ I use family limited partnerships (if appropriate) to reduce the size of my estate and pass highly appreciated assets on to my heirs.

Estate Planning Team

_____ I involve my spouse and family in important estate planning decisions.
_____ I have a carefully selected team of specialists that includes (at minimum) a family wealth counselor or estate planning firm, and experienced estate tax attorney and my CPA.
_____ In addition to their individual areas of expertise, I make sure each member of the team understands my overall estate planning goals and objectives.
_____ I update my team when personal, financial, or life circumstances dictate a change in my estate plan.
_____ I have an estate planning administrative manual to keep people up to date and memorialize the reasons behind key decisions.

Communication

_____ My family and I have created a family wealth vision and a written family wealth letter of intent.
_____ I have a written common sense business letter which I update as needed.
_____ I have a written common sense personal letter which I update as needed.
_____ I have an “I love you” letter or video for my family and loved ones.
_____ I regularly educate my children about the responsibilities of running a business and inheriting wealth.
Effective estate planning ensures that wealth and resources are transferred according to your wishes and not those of others.
PERSONAL FINANCIAL PLANNING

Ask yourself the following questions:

- How much have I put away for retirement each month/year?
- Am I getting the maximum return on my investment with the least amount of risk?
- Will the amounts I have saved allow me to maintain my current lifestyle or will I have to cut back?
- Will I outlive my money?

If you can’t answer even one of these questions, it is time to reevaluate your personal financial plan (or start one). Personal financial planning involves figuring out how much money you need at retirement to produce the cash flow that will sustain your lifestyle. To get the best results, you need to plan the outcome you want and then create steps to achieve it. In other words, you must create a strategic plan for your money.

Laying the Foundation: Taking Your Personal Financial Inventory

Step 1: Organize your financial information.
Gather all the important information about your personal finances including credit card numbers, policy numbers, financial records, wills, trusts, and other legal documents. Store copies in three separate locations — at home, the office, and in a safety deposit box at the bank. Update any will, estate plans, and other key documents at this time.

Step 2: Create a personal financial balance sheet.
Conduct a realistic inventory of your assets and liabilities. Include liquid and fixed assets as well as short- and long-term liabilities.

Step 3: Determine your cash flow needs.
Tally up all annual living expenses to determine your current and future cash flow needs. Be sure to build in a reserve for unexpected expenses. Ask yourself questions like, “How much do I need each year to maintain my current lifestyle?” and “Can we really afford our current lifestyle or are we spending above our means?” Answering these questions honestly will go a long way in determining your future needs.

Understanding Investment Principles

You stand a better chance of achieving your investment goals if you adhere to certain fundamental principles:

- Manage your personal finances like a business.
- Start early and make savings a habit.
- Be realistic about what you can accomplish.
- Understand risk.
- Don’t overestimate market returns.
- Don’t strive for higher returns than you need.
- Forget about market timing.
- Don’t approach investing as a hobby.

Once a year, accumulate your assets and determine where you stand versus your plan.
Asset Allocation: The Secret to Successful Investing

Five classes of assets form the majority of most investment portfolios: cash and cash equivalents, bonds, stocks, commodities, and tangible assets like real estate. Successful investment strategies always include a mix of these classes and aim for long-term returns. This reduces risk and increases the likelihood of getting the returns you need to achieve your financial goals.

When deciding where to put your assets, consider the following:

- **Diversification** -- Dividing your investment portfolio among the different asset classes is mandatory for minimizing risk and maximizing returns.
- **Re-balancing** -- Smart investors adjust their asset mix when one area of their portfolio starts to outperform the others.
- **Reversion to the mean** -- The longer a particular asset exceeds average rates of return (for its class), the more likely it is to revert back to the mean and under-perform for awhile.
- **Dollar cost averaging** -- To reduce risk and smooth out the inevitable ups and downs of the market, invest a fixed dollar amount at regular time intervals regardless of the price level of the market.
- **Focus on asset mix** -- The right asset mix will be determined by your long-term goals.
- **Adjust the plan** -- Adjust your strategy only when meaningful changes occur in your personal finances, changes that will alter how you contribute to your investments.

Ultimately, investing involves a game of risk versus reward. Your best strategy is to invest appropriately in all the major asset classes, develop benchmarks to measure how well you are doing, and then have the discipline to stick with your plan.

Selecting Your Financial Planning Team

The financial planner and the investment manager form the core of every effective planning team. The best financial planners act as consultants rather than salespeople, help you identify problems and devise possible solutions, and have training and expertise to guide you through complex investment decisions. Good investment advisors create and monitor diversified investment portfolios, achieve and appropriate return equal to the risk you are willing to take, and stick to your investment strategy without emotion. Their two roles are different but essential.

After you have those two cornerstones in place, the rest of your team should include a broker/dealer, custodian/trustee, attorney, CPA, and insurance agent. Be sure to hire only licensed and/or registered professionals, and avoid anyone who tries to sell you the latest "hot" product or service. Avoid "lone wolf" types who cannot work well on a team. Finally, fee-based, rather than hourly rate, advisors are also recommended.
ASSESSMENT: PERSONAL FINANCIAL PLANNING

Print this page and place a check mark next to each sentence that speaks to your organization. For each section, the percentage of items checked reflect your score out of 100.

Basic Planning
_____ I have clear, written, long-term financial objectives that are based upon my retirement goals and cash flow needs.
_____ I pay close attention to the tax and estate planning implications of all my financial planning decisions.
_____ I have a team of experienced advisors who specialize in personal financial matters.
_____ I review and adjust my personal financial plan at least once a year or as changes in my personal life or investing abilities take place.

Investing
_____ I have a clear investment strategy designed to achieve my long-term financial objectives.
_____ I understand that long-term success requires sticking to my plan with discipline and patience.
_____ I have a diversified portfolio with a mix of assets in all four major asset classes.
_____ In order to minimize risk, I aim only for the returns needed to achieve my goals.
_____ I understand risk and my own tolerance for taking it.

Picking Stocks
_____ I have an appropriate mix of stocks within my overall investment portfolio.
_____ I never buy a stock based on a "hot tip" but on the sound advice of a professional dedicated to my furthering overall strategy.
_____ I don’t try to time the market, but use dollar averaging and rebalancing to minimize risk and maximize gain.
_____ I invest in stocks for the long-term, ignoring short-term ups and downs in the market.
_____ I have reasonable expectations for long-term rates of return (10-11% over time).
Ultimately, investing involves a game of risk versus reward. Your best strategy is to invest appropriately in all the major asset classes.
At BGW CPA, PLLC we know that client needs vary with the dynamics and life cycles of their organizations. Accordingly, we offer three different service model options as summarized below. This array of service models is combined with a commitment to making a difference in our clients’ businesses and to delivering tangible benefits that pay for our fees. Here are a few of the client testimonials that can be found on our website:

“BGW CPA, PLLC shares our view of building relationships. They have helped us to build additional client contacts, and they have helped us achieve far more tax savings than our prior firm, thus making a difference in our business in a couple of major ways.”

“They did their research and were creative in their approach. They came up with ways for us to improve our cash flow through increased depreciation and reduced expenses.”

“BGW CPA, PLLC is an integral part of my business and financial support team. I have worked with them for over 4.5 years and found them committed to meeting needs that I had realized were challenges and others that I had not begun to focus on but needed to address.”

Thanks for your business and the opportunity for our team to serve you and to make a difference in the operations of your business and plans for wealth creation.
9. The BGW Process

INITIAL MEETING
- About You
- About Us
- Service Expectations
- Assess Value Fit

BUSINESS LIFECYCLE GAP ASSESSMENT
- Financial Statement & Tax Planning
- Cash Flow Optimization
- Wealth Planning
- Succession / Wealth Gaps
- Balance Gaps
- Risk Assessment

YEAR 1 SERVICE PLAN
- Scope of Services
- Start / Completion Dates
- Communication Plan

YEAR ROUND INVOLVEMENT & CLIENT FEEDBACK
- Financial Statement & Tax Planning
- Cash Flow / Financial Results
- Wealth Planning
- Closing Gaps / Accountability
- Issue Solving
- Next Year’s Service Plan

ADDITIONAL PACKAGES TO HELP ACCELERATE VALUE
- EOS Optimizer
- Succession Plan Optimizer
- Cash Flow Optimizer
- Wealth Management Optimizer
- Bookkeeping Services

WE DELIVER VALUE THROUGH OUR PROVEN PROCESS. WE DIFFERENTIATE OURSELVES BY LISTENING TO YOU AND HELPING YOU ACHIEVE YOUR VISION.
Helping Business Owners Achieve Their Vision

We help you solve the following questions:

1. I don’t understand why I owe so much in taxes? What else can I do?
2. Why isn’t my financial statement done? This isn’t going to look good for the bank?
3. Why can’t I get meaningful information I need to run my business?
4. What’s my company worth – will it be enough for me to retire?
5. How do I get my (sales, operations, finance) team to perform better?
6. I have no life outside of the company – how do I get some balance?
7. I’d like to grow through acquisition – now what?
8. I’d like to sell my company, now what?
9. I’m having cash flow / profitability problems, what do I do?
10. I need a better relationship with my (bank, wealth manager, legal team) – can you help me?
11. My ownership team is not getting along – what do we do?
12. I’d like to reward my employees and get an ‘ownership’ culture – how do I do that?

Client Testimonials

"The firm helps me look forward – not just backwards."

"The firm is relational rather than transactional – they look at the full business agenda."

"The firm has saved me over $100,000, compared to other accounting firms we’ve worked with."

Value depends upon the achievement of VISION.