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EXPERIENCES AND OBSERVATIONS BY BRIAN P. JAYE, CPA, AND ACCOUNTING STAFF, OF COMMON "BEST OF CLASS" CHARACTERISTICS AND ACTION PLANS LEADING TO OPTIMUM SUCCESS FOR START-UP, SMALL AND MIDDLE-MARKET SIZED CLOSELY-HELD BUSINESSES AND THEIR OWNERS-

Brian P. Jaye, CPA has emphasized providing accounting, business advisory, financial planning and taxation services to start-up, small and middle-market businesses and their owners for 45 years. During this period many things in the for-profit business world have changed, if not been turned up-side-down on their heads, at a break neck pace. We are not aware of any company, industry or ownership group that has not been affected. The reality for the surviving companies and their owners has been to either modify their business plans, strategies and behavior, or become an "endangered species" irrelevant and ceasing to exist.

Although all owners and their companies have unique DNA characteristics (family-backgrounds, education, life and work experiences, goals, dreams, etc.), we have identified common characteristics which regularly lead to a sustained successful business and a secure semi or total retirement. We have found most business owners know these matters should be attended to in a serious and ongoing disciplined manner, but the owners that do not follow thru have a litany of rationale and reasons.

Naturally, no one can guarantee if all of the following are evaluated and implemented, business and personal financial success will be achieved; but based on our experiences and observations, not doing them often results in much less favorable, and sometimes negative, outcomes.

The following have been identified as common characteristics shared by successful companies and their owners. The list is not intended to be all-inclusive and is not specifically in order of importance or priority:

1. Business Plan
2. Basic Financial Information
3. Budgets
4. Internal and External Capital Sources
5. Communications
6. Trusted Advisors
7. Qualified Retirement Plan
8. Risk Management
9. Business Exit Strategy
10. Estate Planning
11. Retirement Planning
12. Wealth and Personal Financial Planning

We'll now briefly summarize and explain the above:

BUSINESS PLAN-

Most people do not start off a work, personal or vacation day, week or month without some planning. They normally allocate and apportion their limited time and tangible, non-tangible or financial resources to accomplish intended goals and objectives. Business planning is no different. A business and its owners must plan for the allocation and apportionment of time and resources to accomplish their intended goals and objectives. If there is no plan, how can current business operating activities be evaluated to determine if the company should continue, or change/correct, its present course of actions? Most companies should have a 1 and 3 year business plan. Because the country's business, economic, political and social conditions are changing so rapidly, any planning beyond those two intervals normally does not provide any realizable benefits. Many of the firm's clients schedule a ½ to 1 full day annual meeting with us to review the past 1 and 3 year plans, and update and modify the current 1 and 3 year plans.

BASIC FINANCIAL INFORMATION-

All business clients, no matter what size, should have accurate and timely financial statements and detailed account-management summarizations available for review, discussion and evaluation by their owners. With the availability of inexpensive business accounting software and hardware, this information should be on an owner's desk no later than 21 days after a month's end; we recommend "preliminary-draft" information be on the owner's desk no later than 7 days after month's end. It is not uncommon for some clients to want this information weekly. Depending on the client and its method of accounting, the minimum information provided would be:

1. Balance Sheet
2. Statement of Income
3. Statement of Cash Flows
4. Accounts Receivable Aging
5. Accounts Payable Aging
6. Statement of Work/Jobs in Process
7. Other information deemed critical/important to owner

The above information is important in order for the owner to reconcile that their understanding and perception of how the business activities are doing, are in fact borne out by the dollars reported in the various financial and management reports.

Having accurate and timely basic financial information requires business owners make it a "must have priority" and implement it as a vital business process and procedure. Responsible company employees must understand its importance to the success of the business; they must be adequately trained, given the required tools and properly supervised. Feedback, questions and discussions between owners and company accounting staff regarding the basic financial information should be constantly occurring.

BUDGETS-

Clients should prepare, based on the most current information available, an annual operating income/cost and expense budget. The budget amounts should be reviewed every 6 months, however every 3 months is preferable. An accurate budget is extremely important in monitoring that actual monthly/cumulative operating financial results are conforming to what owners believe is achievable at current operating sales and cost/expense levels. If the actual vs. budgeted variances are above acceptable levels, identification of the reasons must be quickly evaluated, and if needed, corrective action taken as soon as possible. Having a current budget in place has helped discourage, and in some cases discovered, certain fraudulent actions by a company's employees. Because many of the firm's clients have difficulty in conceptualizing the concepts, methods and elements of a budget, or just don't have the qualified employee resources to accurately analyze various "what if scenarios", we are often asked to assist them with this matter.

INTERNAL AND EXTERNAL CAPITAL SOURCES-

All businesses normally require some combination of investment equity (which includes owner invested capital and retained earnings) and cash borrowings or lease obligations. Owners of a successful business have studied and learned what lenders look for when providing a business and/ or its owner with various types of credit facilities to finance recurring and growing business activities. The current business lending environment is said to be as restrictive as any time in recent years. Planning decisions regarding how much an owner's compensation should be, how much income should be retained, how much borrowing should be incurred, and what apportionment of debt-to-equity is best must be addressed more carefully than ever before. In today's business environment lenders want the business owner to have more skin in the game than ever before.

COMMUNICATIONS-

Depending on the nature, size and circumstances of a specific client, they set aside, on a regular interval, phone or in-person meeting time for us to discuss and review their recent past financial results and their present and future business operating plans. Many, many agenda topics are often discussed such as organic and external growth opportunities, admittance of additional owners, investment capital requirements, human resource recruitment and modifications, current tax planning and impending tax law changes, downsizing and rightsizing, and when needed referral to other business professionals.

Although we continually remain proactive with our clients, we encourage them to keep us informed and up-to-date about the good, the bad and even the ugly in connection with their business successes and difficulties; this frequently requires them to pick up the phone and call, or Email, us.

TRUSTED ADVISORS-

Additional trusted professional advisors frequently part of the owner's team of a growing, successful business are:

1. Business Attorney
2. Labor-Employment Practices Attorney
3. Estate, Wills and Trust Attorney
4. Commercial Banker
5. Business-Commercial Insurance Broker
6. Life/Disability/Medical-Benefits Insurance Broker
7. Retirement Plan Administrator
8. Investment-Money Manager

The objectives for the client are to engage professionals whom are proactive, responsive, serve similar sized business and can interact in a collaborative manner with other client team members. We've found many benefits are realized by our clients when they contact us for referrals to various business professionals they need. Although we can't guarantee a love-connection (after all there are personalities, business styles, expectations and price-point breaks to be considered), we do try to refer with the clients best interests in mind.

QUALIFIED RETIREMENT PLAN-

Because of the: 1. current income tax deduction 2. deferral of taxable income recognition and 3. asset protection nature for most contributions to Qualified Retirement Plans, e.g. pension/profit-sharing, 401K, SEP and Simple plans, clients make every effort to adopt a plan that results in the largest affordable contribution amount for them, while meeting the minimum coverage/participation and vesting rules for their eligible employees. It is not unusual for clients to have a majority of their liquid savings net-worth in these types of retirement accounts.

RISK MANAGEMENT-

Commonly considered "the process of analyzing exposure to risk and determining how to best handle such exposure", proactive companies and their owners are constantly evaluating their alternatives for mitigation. This normally includes forming limited liability entities for operating businesses and advanced estate planning, purchasing various forms of insurance coverage, making certain all important contract agreements are in writing and up-to-date, and the other characteristics shared by successful companies and their owners mentioned herein have been evaluated and where necessary implemented.

BUSINESS EXIT STRATEGY-

One of the objectives for many business owners when they are ready to fully or semi retire, is to seek a succession plan for their business under favorable price, tax and financial terms. Although seemingly premature, clients who begin evaluation of succession plan alternatives and educate themselves about their industry's business merger/resale market 2 to 3 years preceding the sale event are much better situated to sell optimally. As an exit strategy begins to take on more importance, clients begin to consult with us, and in many instances we assist them with engaging a suitable Business Broker or Investment Banker.

ESTATE PLANNING-

Estate planning, the process of planning how to preserve your assets during your lifetime and for your heirs at the time of your passing, is not just for the wealthy. Everyone should engage in some form of estate planning. After working hard for many years building up a business or career and accumulating assets, you should make sure those assets will not be unnecessarily diminished by costs and taxes but are preserved for your intended survivors.

Proper estate planning can help to increase the size of your estate, whether large or small. Its basic purposes are to (1) choose how your property will be distributed after your death and to whom, (2) help assure your property will be distributed in an orderly and efficient manner and (3) minimize costs, fees and taxes.

RETIREMENT PLANNING-

Because of the tumultuous financial markets over the past 7 to 10 years and the uncertainty of future Social Security and Medicare benefit payments, clients are discussing, evaluating, planning and studying their retirement alternatives, options and needs with us more carefully than ever before. One common element is business owners, and many others, are realizing the financial and quality of life benefits in continuing to work full or part-time beyond their original contemplated retirement age. Clients, both retired and 3 to 5 years from their planned retirement date, regularly request annual or bi-annual meetings for a comprehensive discussion and review of their retirement circumstances.

WEALTH AND PERSONAL FINANCIAL PLANNING-

Building and preserving personal wealth requires careful, disciplined and recurring attention. It requires comprehensive financial planning and normally includes weaving together some, or all, of the aforementioned common characteristics shared by successful companies and their owners. The primary purposes are to analyze your assets and sources of retirement income, identify your retirement income needs, review estimated shortfalls or excesses, and identify the best way to continue saving or preserving for your retirement given your personal financial situation and risk tolerance. Other issues frequently dealt with are protecting earned income sources during one's work years, paying for college education and leaving a legacy for heirs.

IF YOU WOULD LIKE TO DISCUSS OR NEED ADDITIONAL INFORMATION OR CLARIFICATION REGARDING ANY OF THE 12 CHARACTERISTICS IDENTIFIED ABOVE, PLEASE CONTACT US AT YOUR EARLIEST OPPORTUNITY.

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