focus

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How to manage a business in uncertain times

With an economy that apparently can't decide whether or not it's recovering — in December, the Federal Reserve forecast economic growth for 2013 at 2% to 3.2%, with unemployment at 6.9% to 7.8% — ongoing gridlock and gamesmanship in Washington, and political and economic uncertainty in many other parts of the world, you might want to simply postpone major business decisions. After all, why not wait until the forecast is, if not better, at least a little clearer?

Why you shouldn't wait

As tempting as the idea of putting off the inevitable may appear, it doesn't make sense to put decisions and investments on hold indefinitely. In fact, doing so can lead your business into a downward spiral. Chances are, your competitors are figuring out how to take advantage of uncertainty and they're moving forward. So, standing still really means moving backward.

To succeed, business executives and owners must become comfortable leading amid change.

What's more, it may be wishful thinking to expect that the uncertainty will vanish or even appreciably diminish. Some observers contend that today's rapid pace of change and continued uncertainty are likely to become a way of life. As economist Joseph Schumpeter observed more than 70 years ago, "Capitalism, then, is by nature a form or method of economic change and not only never is but never can be stationary."

Leading in uncertain times

To succeed, business executives and owners must become comfortable leading amid change. That means developing processes that are agile and resilient, rather than fearful and fragile. It also requires making decisions that incorporate both the organization's strategy and its goals, as well as the uncertainty within which it operates. Here are six guidelines that can get you on track:

Be curious. To determine where your company might be headed, identify the demographic, technological, cultural and other changes occurring outside your company, and possibly outside your industry and traditional markets.

Assess how those changes might impact your industry and organization. For example, while it's impossible to know exactly how the United States will look in 20 years, the trends toward a more ethnically diverse and older population have been well documented.

Gain insight on how to succeed in today's world. In addition to your leadership team, talk to employees at all levels and from across departments. Network with peers at companies within and outside your industry.

Figure out what you know. The business world is constantly changing, so you need to change with it. Soak up as much information as you can through trade journals and trade association gatherings.

Challenge your assumptions. Given the pace at which change is occurring, strategies and tactics that worked in the past may not work in the future. As markets, technology and industries advance, you must determine whether your current plans are still relevant. If they aren't, determine how the company can stay ahead of the competition and, as Nike puts it, "Just do it."

Focus on flexibility, agility and resilience. In times of uncertainty, company leaders and employees need to operate flexibly, agilely and resiliently. That often requires continually asking some "what if" questions and planning for a range of scenarios. For instance, what if you had a significant breakdown in your supply chain operation? What if a major customer entered bankruptcy? What if your banking partner tightened its credit standards?

Examining questions like these on a regular basis can help you act prudently, rather than rashly. For example, by identifying the expenses that could be cut before you actually need to start chopping, you'll be less likely to ax programs or projects that might help your company down the road. Assessing the impact of tighter credit conditions before they occur should provide more time to hunt for alternative sources of funding.

Identify needed action steps

Once you've examined the challenges and opportunities facing your organization, outline the steps you'll take to address them. This may mean adjusting your strategy to account for changes in your market, or developing new tactics to reach increasingly diverse customer groups.

Communicate honestly and promptly

Especially in uncertain times, employees need to know how the company is doing and their role in its performance. While you don't want to gloss over or ignore the threats that may face your business, convey the opportunities ahead and the role that employees can play in helping the organization take advantage of them. ◈

Recessionary success stories abound

It may seem foolhardy to launch a new product or start a company when the economy is wavering, but that's exactly when a number of highly successful products and companies got their start. Apple introduced its first iPod in October 2001, in the midst of a troubled economy and just weeks after the Sept. 11 attacks. Microsoft developed its software business during the recession of the mid-1970s. In 1973, FedEx (Federal Express back then) began operations, at almost the same time as the Arab oil embargo.

Going back several more decades, cosmetics giant Revlon got its start by offering a new type of nail enamel during the Great Depression. Its revenue for 2012 topped $1.4 billion.

Renovating your house

Projects that can pay off when you sell

After several stagnant years, the market for remodeling and renovation projects is showing signs of strength. The Remodeling Market Index, compiled by the National Association of Home Builders, jumped from 45 to 50 between the second and third quarters of 2012, reaching its highest level since 2005. The housing market also is heating up. The National Association of Realtors reports that sales of existing homes rose 14.5% between November 2011 and November 2012, while the median home price gained 10.1% over the same period.

So what do these numbers mean to you? Well, they could help you decide which home remodeling projects will offer the most bang for your buck when it comes time to sell.

Think it through

Very few homeowners completely recover the costs of their remodeling projects when they sell their homes. In 2012, the average cost-to-resale-value ratio for remodeling projects was 57.7%, according to the *Remodeling Cost vs. Value Report 2011 to 2012*, from *Remodeling Magazine*. So, for each dollar that homeowners invested in a project, they captured 57.7 cents when they sold their homes.

Keep in mind that few remodeling projects can compensate for a structure that hasn't been properly maintained.

Obviously, this number will fluctuate with the economy and the housing market in your area. For example, in 2005, the magazine stated that the average cost-to-resale-value ratio topped 80%.

Moreover, it becomes more difficult to recoup the costs of projects completed many years before a house is put on the market. The same holds true for projects that are out of sync with the home's value overall — such as installing a commercial grade kitchen on a starter home.

Even if a project's cost isn't completely recouped when it comes time to sell, some renovations or upgrades may cut the length of time your house stays on the market. That's particularly true if your home otherwise would lack certain features, such as a finished basement or outdoor deck, found on most other houses in your neighborhood.

Must-do projects

Often, it's cost-effective to focus on replacement projects. In part, that's because these generally have lower price tags than larger undertakings, such as completing an addition. What's more, many replacement projects can give your home's curb appeal an immediate boost, which helps get buyers in the door, translating to a higher sale price. For instance, the *Remodeling Cost vs. Value Report* indicates that the midrange project most likely to hold its value at resale time is replacing a steel entry door, allowing homeowners to recoup an average of 73% of their costs. Among upscale projects, fiber-cement siding replacement leads the cost-to-sale value list, at 78%, according to the report. Other top projects include garage door and window replacements.

Other ways to shine

Projects that make existing space more usable also tend to do well at resale time. The report indicates that homeowners who convert an attic to a bedroom recover some 72% of the costs, on average. Minor kitchen remodels, such as installing new appliances, countertops, and cabinet fronts and hardware, also tend to be well received by prospective buyers, enabling homeowners to recoup 72.1% of their costs.

Keep in mind that few remodeling projects can compensate for a structure that hasn't been properly maintained. Although prospective homebuyers may "ooh" and "aah" over marble countertops, many will hesitate to place an offer if the furnace isn't working properly or the roof leaks.

Small projects can pack big rewards

Not every home improvement project has to come with a hefty price tag — simply stripping outdated wallpaper and repainting a room can be a fairly quick way to gain a fresh look without breaking the bank. If the carpets look dirty, but are still in good shape, have them professionally cleaned. Rather than redoing an entire bathroom, spiff it up with new paint and updated hardware and lighting.

Of course, cleaning and decluttering the house is critical if you want to make a home attractive to potential buyers. And these no-cost steps are fairly easy to do.

Stand out in the neighborhood

Of course, the resale value of a specific project will depend on the value of your home, the housing market in your area and the cost of the project itself. You'll typically recover more of the costs when you complete replacement projects that are appropriate for your house and neighborhood. ◈

FAMILY BUSINESSES

What's the best way to address conflicts of interest?

It's normal for a family business to deal not only with company issues, but also personal matters. When those issues conflict, trouble can't be far behind. But there are ways to handle such problems and keep them from cropping up again down the road.

Bad for business, bad for morale

Conflicts of interest — whether due to a family member feeling "entitled" to disobey company policies or to take more liberties with bonuses and salaries — can damage your company's external image and credibility. If word gets out that your company is biased in its business connections and transactions, customers and vendors outside the family may be hesitant to deal with your company.

Such matters can also be bad from a family perspective. Not only do such dealings often end up costing the company and its shareholders money and lost opportunities, but they also may generate resentment from other family members in the business.

Suppose your company provides startup capital for your grandchild's new business but, without a sound business plan, the venture fails. In such a circumstance, your company wouldn't just lose its investment — it would also suffer from resentment that you'd supported your grandchild's endeavor over other family members' endeavors.

Conflicts of interest affect nonfamily employees, as well. They may become disheartened if they believe they're receiving inequitable treatment. As you can imagine, this can lead to decreased morale and productivity.

Where trouble may arise

The potential for conflicts of interest naturally increases as a family business grows to include more family members. Consequently, it's important to anticipate and identify the different types of situations that may crop up. You should also consider whether a current situation may develop into a future concern.

Some of the more common sources of conflict may involve influence — such as encouraging your business to hire individuals or use vendors because of familial or personal ties. In addition, misusing privileged business information or mishandling company property, resources or services can lead to a conflict of interest. Last, accepting personal gifts, favors or services from your company's vendors or clients can often lead to a conflict of interest.

And for family businesses in particular, compensation that favors family employees by giving pay raises, bonuses or other perks over and above what nonfamily employees receive is a definite no-no.

Nonfamily employees may become disheartened if they believe they're receiving inequitable treatment.

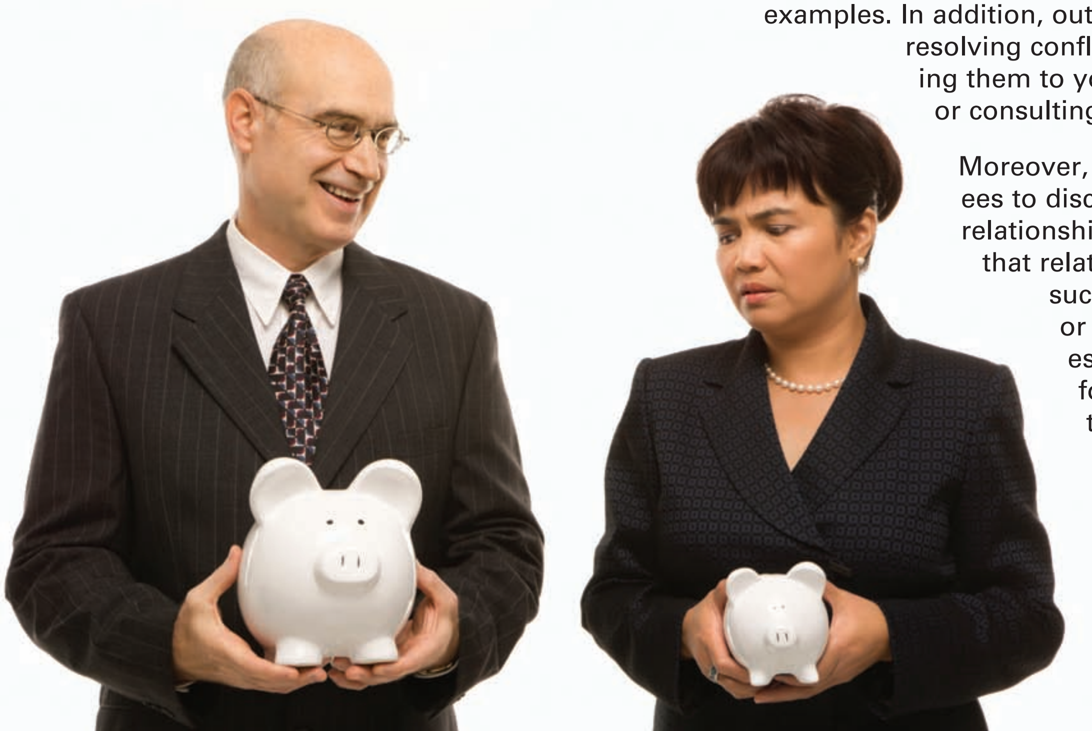
When in doubt, listen to your conscience. Telltale signs that a situation poses a conflict of interest include deriving personal or monetary gain at the expense of the business and feeling a need to conceal details of a situation from others in the company, family or public.

Remedying the situation

Having a conflict-of-interest policy can help your organization identify and remedy potential issues. It also demonstrates your family business's commitment to integrity and fairness, and serves as a guide for potential conflicts.

If you haven't already done so, update your employee policy manual by defining "conflict of interest" and provide several illustrative examples. In addition, outline the process for resolving conflicts, such as bringing them to your board's attention or consulting a business advisor.

Moreover, require employees to disclose any personal relationships or interests that relate to the business, such as with vendors or investments. And establish procedures for a team to objectively evaluate and select vendors. Finally, specify



rules and fees for using company resources and equipment.

To ensure your staff follows the conflict-of-interest policy, incorporate it into your bylaws and employee handbook. Also, have your board and employees review the policy and sign a copy of it annually.

A policy that favors all

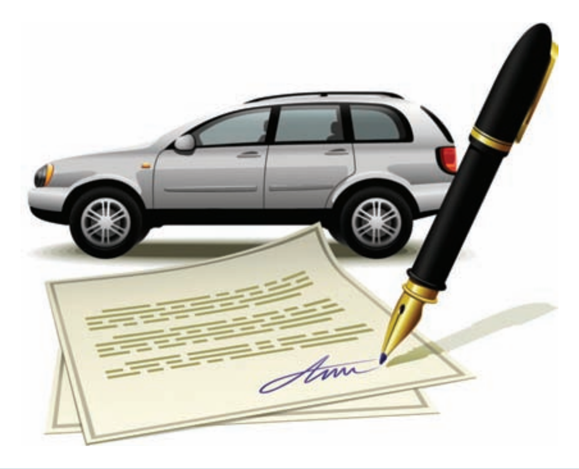
While it might be tempting to favor family members over nonfamily employees by offering higher salaries or greater benefits, don't do it. You'll be setting up a battleground between the "haves" and "have-nots" which can sour relationships for years to come. The best policy is to treat all employees the same. ◈

Before donating a vehicle, find out the charity's intent

Charitable gifts allow you to benefit organizations you care about while enjoying a tax deduction. Cash is the easiest gift, but sometimes it's more advantageous to donate other assets — and sometimes it's not. Take vehicle donations: If you donate your vehicle to charity, the value of your deduction can vary greatly depending on what the charity does with it.

You can deduct the vehicle's fair market value (FMV) if the charity:

- Uses the vehicle for a significant charitable purpose (such as delivering meals-on-wheels to the elderly),
- Sells the vehicle for substantially less than FMV in furtherance of a charitable purpose (such as a bargain sale to a low-income person needing transportation), or
- Makes material improvements to the vehicle. (This, according to the IRS, is an improvement that "significantly increases" the vehicle's value. The IRS doesn't provide specifics, other than saying that "cleaning, minor repairs and routine maintenance" do not qualify.)



But in most other circumstances, if the vehicle you're donating is valued at more than $500 and the charity sells it, your deduction is limited to the amount of the sales proceeds.

To qualify for a donation deduction, you also must obtain from the charity a written acknowledgment (with a copy to the IRS) that:

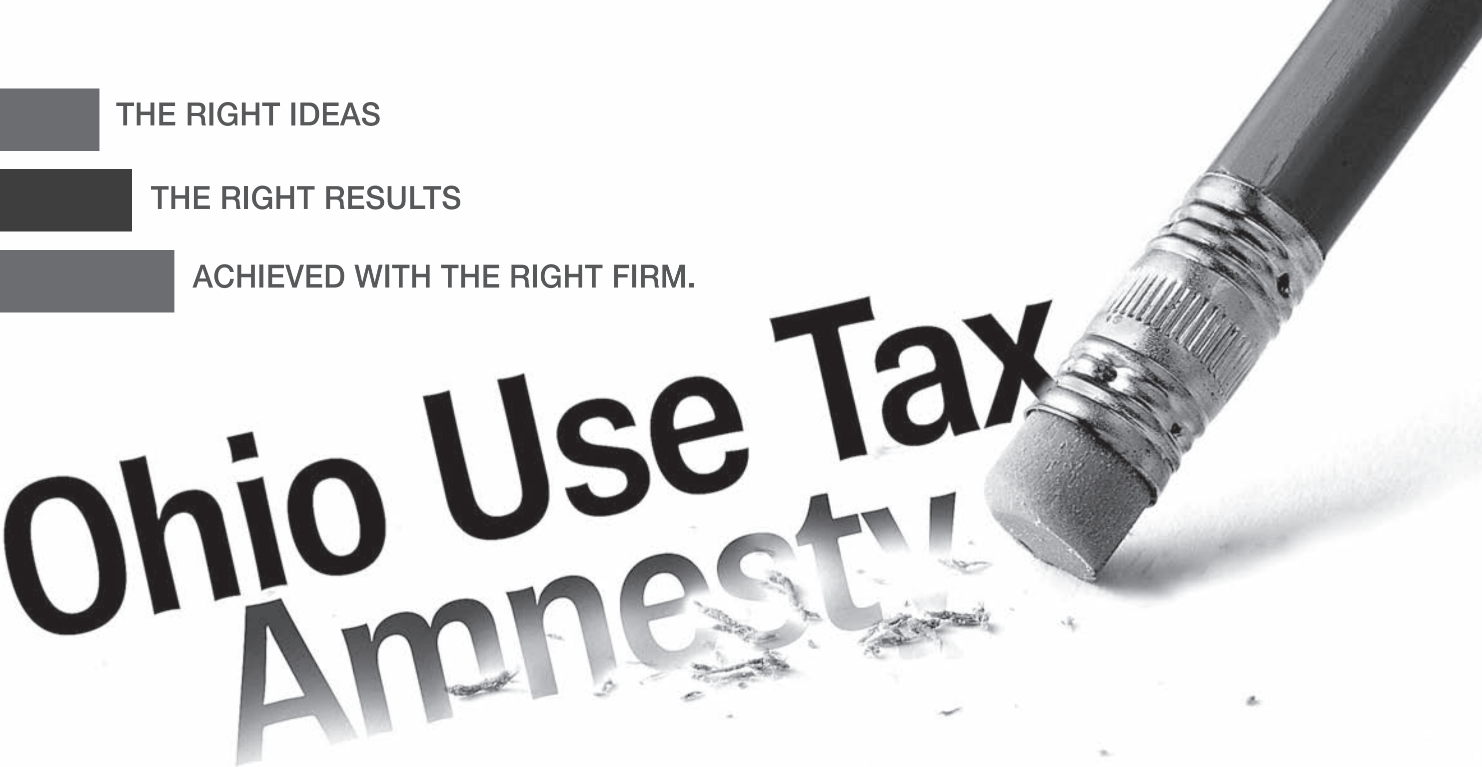
- Certifies whether the charity sold the vehicle or retained it for use for a charitable purpose,
- Includes your name and tax identification number, as well as the vehicle identification number, and
- Reports, if applicable, details concerning the sale of the vehicle within 30 days of the sale.

As with any donation of more than $75, the charity also must disclose whether it provided you any goods or services in relation to the vehicle donation, making a good-faith estimate of the value of any goods and services provided. You must then reduce your deduction by that value.

THE RIGHT IDEAS

THE RIGHT RESULTS

ACHIEVED WITH THE RIGHT FIRM.



GOING, GOING, GONE...

TIME IS RUNNING OUT ON USE TAX AMNESTY.

Has your business prepared for the end of the Ohio Use Tax Amnesty progam on May 1, 2013?

The Ohio Use Tax Amnesty program allows businesses to report and pay their Use Tax obligations while avoiding penalties and potential interest. If your business chooses to take advantage of this amnesty, no taxes, penalties or interest will be assessed for periods prior to January 1, 2009, and liability payment plans may be available to you. **But this program goes away forever on May 1st!** Contact us today for immediate action before Ohio begins issuing letters to non-compliant taxpayers.

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Our State & Local Tax Services are designed to help businesses successfully contend with the myriad of federal, state, and local tax laws.

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