



Cultivating Value

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Thoughts From Tom

The last few months of turmoil and uncertainty created by a seemingly never ending stream of economic crises; have no doubt caused all of us real financial and emotional damage. The unavoidable barrage of 24/7 doomsday declarations by the media have made it difficult, if not impossible, to keep everything in perspective. The bottom line, though, is that even in the midst of this time of crisis, as Americans our collective glass is 95% full relative to the rest of the world. It certainly will take some time, and no doubt, more pain, but we will get through this difficult period and on to a new chapter of growth and development. We can all help to drive this by re-establishing our confidence in the future of this great country and reinvigorating the “can do” attitude that made it great.”

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Our Managing Director



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is the Managing Director of the Vineyard Group, LLC. An experienced executive and advisor, business valuation specialist and litigation support expert, he has twenty years of consulting and public accounting experience along with ten years in senior management positions with manufacturing companies. As a result, Tom has the unique blend of experience, skill, vision and understanding required for handling the complex challenges that today's professionals and businesses are constantly faced with.

In addition to being a Certified Public Accountant and a Certified Valuation Analyst, Tom holds the exclusive designation of Certified Forensic Financial Analyst. He is a member of the New York State Society of Certified Public Accountants, the American Institute of Certified Public Accountants and the National Association of Certified Valuation Analysts.

Steering Your Business Through a Slowdown

As a result of tight credit, rising prices, turmoil in the housing and investment markets, and other factors, many individual and corporate consumers are holding back on spending.

Whether or not your business is experiencing slowing sales and narrowing margins, now may be a good time to take a comprehensive look at your current strategies and business practices. Here are some measures that your business should consider taking.

Draw Up a Contingency Plan

Develop a list of “what if” scenarios that have the potential to hurt your business. Then develop responses your business can take to counter these threats. This exercise will help you act quickly and decisively if any of the threats you've identified materialize. Use these questions to get started on this process.

- What will happen if revenues fall by 10%? By 15%?
- What if your expenses increase by 15% or 20%?
- What will your competitors do if their sales decline? Will they cut prices?
- What steps will you take if your accounts receivable collections slow down?
- Will your business be able to handle it if lenders increase their interest rates?

Once practical step you can take now is to develop a contingency budget based on how you perceive a slowdown might affect your business in the coming year.

Cut Expenses

Does your company have fixed costs that can be reduced? Your spending on sales, administrative, and general expenses should always be kept to reasonable levels—levels that are in line with a business of your size, geographic location, and sales volume.

Look into ways you can cut back on your energy and fuel use. An energy audit is a good place to start since it can reveal areas of potential savings. See whether there are any government incentives for the energy-saving projects you'd like to undertake.

Examine your inventory levels, since excess inventory can tie up your cash. Just be sure that you don't cut inventory so much that your company's operations are compromised.

Improve Cash Flow

Cash is king, especially when the economy is weak. That's why it's so important to review your company's cash flow on a regular basis. You can help speed up collections if you tighten your collection procedures or, perhaps, offer cash discounts for prompt payment.

Keep your eyes open for any warning signs that your customers may be having financial problems. Typically, longer and more frequent delays in settling invoices are a sign that a customer might be experiencing cash flow problems. Be sure that you screen new customers for creditworthiness before you extend credit. During time when the economy is slowing, it may be smart to behave more conservatively when it comes to taking on credit risk.

Talk With Your Lenders

It's always a good move to keep your lenders informed of your financial position and of any noteworthy developments within your business. Your lender is more likely to work with you through tough times if you have established open lines of communication and a sense of trust.

Proactive planning can help your business through good times and bad. We can work with you to devise strategies that can help your business prosper.

VINEYARD
GROUP, LLC



Cultivating Value...Seedling to Harvest

The Risk of Depending on a Key Person

Does your business depend on a key person? Whether this person is the company's founder or a leading salesperson, one important risk to consider in a business valuation is the impact losing him or her will have on cash flow — both revenues and expenses.

Analyzing the Risk

The purpose of a valuation also affects the risk analysis. If you are the key person and you are selling the business, try to maximize the sale price by working to increase the likelihood that strategic relationships will transfer to the buyer.

A succession plan may have transferred these strategic relationships before an owner or manager's death, thus making the estate valuation easier. But an orderly transition period is less likely for an estate with no plan in place.

A valuation for marital dissolution purposes can create wide variations. Some states require fair market value under the definition of Revenue Ruling 59-60. But other family law courts suggest that consideration of the key person issue is unnecessary. These courts assume that the parties involved aren't really contemplating a sale, or the spouse who actively manages the business is, in fact, the buyer and that these risks should have little effect.

How Losing a Key Person Affects a Business

In addition to cash flow, here are some other aspects of a business that may suffer if a key person leaves:

Sales. If one person has the sole working relationship with most major customers, maintaining the sales level after his or her departure may not be possible. Assessing this risk is part of the valuation process. The valuator reviews sales and evaluates whether each relationship could be transferred to someone else, whether the competition can take these sales away and what sales level the company can expect in the future.

Operations. Reviewing vendor relationships can help determine the stability of the company's gross profits. If only one person knows where to buy raw materials at the best prices or has a unique relationship with the vendor, the gross profit margins may not be sustainable if he or she departs.

Work force. Employees whose loyalty stems from a relationship with the owner may leave if the business is sold.

Assess the Impact

Evaluating the risk of reliance on a key person is an important consideration in many business valuations. Owners should address this when preparing to sell their businesses. Proper analysis of its impact on value is essential. Please call if you have questions about how loss of a key person may affect the value of your business, or any other aspect of valuation. We would be glad to help.

Outsourcing Non-Core Operations

Performing functions internally is generally preferable when they are critical to your business. But for non-core functions, outsourcing to a third party can be the better choice if it will reduce costs, improve performance, or allow management to focus on core operations.

Specialized Help

Among the specialized functions that companies often outsource are billing, purchasing, payroll, information technology support, research, and marketing. When a company is not large enough to justify full-time support functions, outsourcing all or some of them to specialized vendors can be more efficient and less costly than relying on part-time employees whose skills may be limited.

Selecting a Vendor

Performance and price are the important supplier-choice criteria when outsourcing. You need reliable service for a cost that compares favorably to handling the work internally. Once you identify an operation that is outside of your product or service delivery core, move deliberately.

Confirm that outsourcing the function will not adversely impact core functions. Then, compare the capabilities and reputations of a number of possible vendors to identify a good fit with your needs and organization. If you start with a month-to-month or other short-term agreement, you will be able to test the vendor's performance against standards you create and evaluate the comfort level of the working relationship that develops.

Payments for a vendor's services may be based on units delivered, a flat rate, cost-plus, or some other method. With a short initial commitment, you will be able to evaluate the full cost impact of the vendor's services plus any hidden costs within your company. And most important, you will be able to confirm that your cost-saving expectations were realistic.

We are proud to announce...

The Vineyard Group is proud to announce the relocation of its Jamestown office to 201 West Third Street, Suite 305, in the new BWB Center. We would also like to announce the opening of our new Buffalo Metro office in Orchard Park at 6666 East Quaker Street. Our phone, fax and e-mail addresses remain unchanged.

Please feel free to contact us at 716-488-2412.

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