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Cultivating Value

A bi-monthly newsletter brought to you by The Vineyard Group, LLC

Thoughts From Tom

The ability to effectively plan and consistently and objectively measure results against the plan is a key to the success of any business or organization. The implementation of this philosophy and the underlying tools to make it work allow management to clearly identify and isolate the parts of the plan that are not working-the exceptions- and to focus their attention and efforts in those areas. This provides an effective platform for thorough root cause analysis and a productive continuous improvement program. On the other hand, the lack of a plan more often than not breeds a "firefighting" mentality where everything seems to be a crisis and system correction and improvement is difficult if not impossible.

In this Issue

The Importance of Planning and Prioritizing

Many of you reading this column are already good time managers. You are an efficient hard worker and know how to get a lot accomplished each day. So why do you feel like you're spinning your wheels? Why do you feel frustrated by all which is left undone? Why is it that all the things you should have done are not and you did the things you shouldn't have?

We spend our time in certain ways because we choose to; although our choices are not always deliberate or visible. Each choice is based upon a reward received or anticipated. Rewards are what you expect to gain from undertaking or postponing a certain task. Learning to manage your time better will free up time to do the really important things. Rewards come from good time management habits.

Planning is the most important part of the formula we call time management. Research shows that for every one minute you spend in planning, you will gain ten in execution. Planning will keep you on course in achieving your goals and objectives. It is the difference between being reactive and proactive.

When you don't plan, you end up responding to the day's events as they occur. Things begin to happen—the mail arrives, the phone rings, people drop by. With a flurry of activity, you respond to these various demands, but at the end of the day, you haven't accomplished anything significant. This approach is often referred to as firefighting. If you don't determine what you want to achieve, you will experience frequent changes in your plans, because others will be perfectly happy to fill your time for you.

The solution is to learn to focus on the priorities of tasks and plan to accomplish them in order of importance. The problem is that the "important" tasks seldom must be done today, but the "urgent" tasks call for instant action. Endless demands pressure every hour and every day. As we push the "important" back one more day, we slowly become slaves to the tyranny of the urgent.

Some of you operate in an environment which witnesses one crisis after another. It is essential to not let the "crisis" or urgent tasks crowd out the important. There will always be a constant tension between these two priorities.

When urgent things act on you, you usually react to them. But you must be proactive rather that reactive to do the important, but not the urgent things. If you neglect prevention and planning, crises will own your life. If you plan daily instead of monthly and weekly, you will live in the urgent, where your "planning" will only prioritize your problems.

So the dilemma is not a shortage of time—it is a problem of priorities. Would a thirty-hour day solve your time problems? Not really. Soon your 30-hour day would be just as full and leave you no less frustrated. It's more complex than not having enough time or not managing your time effectively. Instead, it becomes a lesson in managing priorities and being disciplined.

There will always be more things to do than time to do them. Sometimes you must forego something you would like to do in favor of something that has to be done to accomplish your objectives.

Don't fail to plan. If you do, plan to fail.

Our Managing Director

THOMAS P. BENSON, CPA, CFFA, CVA

is a Member and 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.

VINEYARD
GROUP, LLC

Cultivating Value…Seedling to Harvest

Ensuring Continuity of a Closely Held Business

What would happen if one of your company's owners became disabled or died, decided to sell to an outsider, or suddenly chose to retire? The remaining principals could have a serious problem funding a buyout or working with the outsider. Yet a departing owner deserves fair compensation regardless of others' liquidity situations. Many businesses set up a buy-sell agreement as a practical advance solution to potential ownership difficulties.

Ownership Security

A well-structured buy-sell agreement lets co-owners secure their individual interests by:

⇨Pre-arranging an eventual ownership turnover with requirements or options to buy and sell, or rights of first refusal if a specified triggering event occurs;

⇨Ensuring uninterrupted management regardless of an unfavorable event;

⇨Fairly compensating a departing owner or his or her family.

A departing owner can rely on the agreement's pre-arranged terms of sale. The agreement may, for example:

⇨Require the other owners, the company, or both the owners and the company to buy out the departing owner's stock;

⇨Prescribe the method for setting the purchase price. Possible choices include basing valuation on book value, capitalization of earnings, discounted cash flow, or a sales multiple;

⇨Arrange for insurance to fund a buyout without greatly straining cash flow. (In some situations, funding a buyout wholly or partially with accumulated earnings and corporate profits may be a better strategy than using insurance).

Cross Purchase and Stock Redemption

Most buy-sell agreements are structured as a cross purchase or a stock redemption. With a cross-purchase agreement, each of the corporation's owners agrees to buy out a departing principal's interest when a triggering event occurs. To assure funding if death occurs, each owner usually buys insurance policies on the other principals.

Under a stock redemption agreement, the corporation -- not the other owners -- is obligated to purchase a departing principal's interest and pay for any insurance.

Insurance Planning

Either term or whole life coverage can provide the essential assurance of continuing insurability. The choice generally depends on cost.

Creating a buy-sell agreement that protects the interests of all owners requires the expert assistance of your company's professional advisors. We can guide you in evaluating the impact of different strategies and options.

Cross-purchase Agreement

Pros

⇨A step-up in tax basis for a deceased owner's family;

⇨Life insurance proceeds that are not included in the deceased owner's estate;

⇨An income-tax exclusion for the life insurance proceeds received by the surviving owners.

Cons

⇨Administrative difficulty if many shareholders must buy policies;

⇨Widely differing premium costs for the individual owners if there are large insurability or age differences.

Stock Redemption Agreement

Pros

⇨Easy administration because only one policy per principal is needed;

⇨The corporation pays all premiums regardless of cost differences;

⇨Insurance proceeds are not taxable income to the corporation, although the corporate alternative minimum tax could be a factor.

Cons

⇨If the corporation is a regular C corporation, the remaining owners lose the step-up in basis benefit because the corporation makes the buyout;

⇨The estate-tax impact may be unfavorable if a deceased owner owned a controlling interest in the corporation.