

FORESIGHT

PRACTICAL IDEAS FOR BUSINESS MANAGEMENT

GROWTH BY ACQUISITION

Plan for Long-Term Success

Nothing lasts forever. Indeed, the 20 million family business owners in North America must — at some point — leave their companies to the next generation of leaders.

A transition of this nature can make or break the future of the company. A sound succession plan ensures that the business will continue to thrive and deliver the financial rewards the owner desires. Without succession planning, business owners are putting their companies — and their own financial futures — at risk.

For many owners, leaving the company is inconceivable. They think that no one else can run the business like they do. Or that there are too many challenges only they know how to handle. Or that the business simply can't survive without them.

Progressive owners see opportunities instead of obstacles. Taking the time to train new leaders, address problems and get the business in shape for sale or transfer is the only way to ensure that both the owner's needs and the business' needs will be met satisfactorily.

One key factor is the owner's long-term goals. Is it important to optimize value in the company so that the owner can sell for maximum profit to support a certain lifestyle? Or is the owner more interested in leaving an ongoing legacy and thriving company for his or her heirs or key employees?

The answers to these questions may take a while to discern, and may change over time. But while pondering these big issues, owners can also focus on more concrete factors:

When? Many financial professionals say that succession planning should begin the day a company opens its doors. While this may not be a reasonable goal for most owners, the idea behind it is a sound one. It takes time and effort to create a plan and get everything in place to make it work. Three to five years is an appropriate amount of time, but ten years is even better.

Who? It's a good idea to assemble a team of advisors to guide the transition process. Owners should start by talking to their accountants, who can "quarterback" a transition team of professionals, including an attorney, tax advisor, estate

planner and insurance agent. Depending on the timing, other family members or key company executives may be brought into the process. Confidentiality should be maintained so that employees, vendors and competitors don't jump to conclusions about the future of the company.

What? There are two basic succession paths. One involves transitioning the company to family members, typically the owners' children. If this is the path, the owner must identify a capable, interested successor, get him or her

Are You Prepared?

According to a recent survey by the Canadian Association of Family Business, approximately 71 percent of family business owners plan to transition their companies in the next decade, but only 6 percent have a plan in place to do so.

ready to take over the company, and create a plan to allow the next generation to begin making decisions. Or, if the children are too young or inexperienced, the owner may need to identify an interim successor to move the company forward until a family member is ready to take over.

Continued on p. 3



Protect Your Company from Cheque Fraud

Here's a cautionary tale for organizations that use paper cheques: A charity's \$50,000 cheque to a payroll supplier was somehow intercepted. The payee name was chemically stripped from the face of the cheque and a new payee name inserted. The fraudulent instrument was cashed. The money was gone.

Although the client was eventually reimbursed by its bank, suspicion turned toward staffers at both the charity and the payroll supplier. A perpetrator was never caught, but the work environments at both organizations were irreparably damaged. Employees left. Donors balked. Reputations were tarnished. Could something similar happen to your business?

Since September 2008, the Canadian Payments Association has required businesses to adopt new cheque format standards to leverage emerging imaging technologies. Of course, another important goal of the new cheque standards is to reduce cheque fraud. According to the CIBC, commercial fraud, which includes cheque fraud, costs North American businesses more than

\$20 billion annually. Further, cheque fraud is projected to grow 25 percent each year.

Businesses of all sizes can take steps to protect themselves from cheque fraud. Basic internal controls are the first step, but technology has made other options available as well. The following techniques are listed in order of applicability based on company size, from small to larger organizations. Note that fees generally increase accordingly.

Online Bill Payment: Using an online bill payment system works well for routine payments such as credit card and utility bills. Some suppliers may also accept online payments, although a confirming e-mail or fax may be required to provide invoice information.

Payroll Direct Deposit: Payroll cheque fraud is the most common type, but is easily thwarted by using direct deposit. Stop issuing manual cheques and instead use a payroll service or one of many widely available software packages that generate a bank file for direct deposit.

Cheque Verification: Why not do a daily download of cheques cleared by the bank? Available in Microsoft Excel® or ASCII formats, a cheque verification file can be quickly uploaded into the company's accounting system for reconciliation. Fraudulent changes in cheque amount will be detected automatically, and by reviewing the images, it's easy to catch changes in payee. Daily or weekly reconciliation also saves considerable time at month end.

Positive Pay: If your business writes more than 1,000 cheques per month, consider this option. Positive pay involves generating a cheque file and sending it to

the bank prior to mailing cheques. As cheques clear, the bank verifies them against the file, making it easy to catch fraudulent changes in amount, signature or date.

Electronic Funds Transfer (EFT): EFTs are easy to set up. One list can be used for regularly occurring payments to vendors, and another can be generated for one-time or sporadic payments. Unlike online bill payment, EFTs include detailed information about each transaction, including purchase order numbers, item details, shipping releases and detailed invoices, along with the funds. Banks also offer enhanced security controls for EFT services, including a user ID and PIN for the person setting up the transaction and a different user ID and PIN for the person approving the transaction.

Lockboxes: Instead of customer cheques coming to a business location, cheques can be mailed directly to a bank lockbox address. The bank receives, opens and deposits all incoming cheques, and sends the business an image file along with an electronic file for uploading into the accounting system.

To avoid fraud, some businesses are attempting to do away with paper cheques altogether. As technology has increased the capabilities of clever criminals, and banks have responded with more secure options, the possibility of going cheque-free is becoming more viable — and more attractive.

To find out more about steps your business can take to prevent fraud, please contact Young Parkyn McNab LLP.



Make Your Case to Fund Growth

While the current economy has turned some businesses sour, others are still growing and in need of cash. Some may want to fund an expansion, build a new warehouse or buy new equipment. Others may be growing so fast that their cash flow isn't keeping pace with their growth in inventory and accounts receivable. Still other companies may be approaching a transition and management is interested in funding a buy-out.

These are all valid reasons to seek additional financing, and historically, executives would be greeted by the bank with open arms. Unfortunately, given the current economic situation, banks are looking at all loan requests with a new, hypercritical eye. Lenders certainly don't want to end up owning the loan collateral, so they are being extremely careful with the loans they extend.

Start with Existing Banks

The best place to start a search for financing is at your company's current bank. It's a good idea to get a better understanding of the products the bank offers. For example, the bank may have a leasing department or a capital finance division that would be a perfect fit for the type of loan the business needs. The existing relationship will likely make a new loan easier to obtain because the bank already knows about the business, its management and its strategic plan.

A Second Institution

It is possible to use different institutions for different types of financing. A second financial institution may have an asset-based lending division that fits the borrower's requirements, or it might have a division that specializes in subordinated debt. While there may be start-up fees or other costs involved, consider an institution that is more open

to certain industries or willing to take on a different type of exposure.

Non-bank funding — investment by a private equity firm, for example — is also an option, but it has proven difficult to obtain in the current economy. However, this route is likely still available for very focused types of financing in specific industries, particularly if succession or exit planning is being executed.

Work to Show Strengths

It is a given that the company's financial picture must be sound in order to obtain any type of loan. What is often overlooked, though, is the non-financial story. Financial projections and documents must be backed up with a concrete plan for attaining the financial goals the loan is intended to enhance. It is imperative that the company articulate its competitive advantage and its tactical plan for continued success.

Moreover, it is extremely important to convince lenders of the strength of the

entire management team, not just the CEO and CFO. The leaders of sales, marketing, technology, operations and production should be prepared to meet the lenders and explain how their areas will support the company's growth and success.

As trusted advisors, the company's CA firm can help guide the financing process by not only assisting in preparing documents and projections, but also by helping the management team prepare for their presentations and discussions with the financial institution. In some circumstances, CAs can even help the company "shop" for loans confidentially. The key is to be able to show real-life plans, competitive benchmarks and cost-reduction strategies that will make the loan a winner for the bank and the company.

Young Parkyn McNab LLP would be happy to discuss your company's financing needs and options. Contact us to set up a convenient time.

Continued from p. 1

Of course, the transition to the next generation must be structured in a way that makes sense from a tax standpoint. An outright gift (as opposed to a structured, tax-efficient transfer) could have onerous tax consequences.

The other paths involve selling the company to an outside third party or to key employees. In either case, it will take time to identify potential buyers or set up a purchasing vehicle for employees. When the time comes, it is important to structure the deal in a way that diminishes the owner's tax burden.

How? Regardless of which path is chosen, owners have to get the business ready for new leadership and get themselves ready to start a new chapter of their lives. Sometimes it's easier to identify what the business needs for long-term success than it is to identify what the owner needs for long-term contentment. A new setting, a new hobby, a new schedule — these are just some of the things that owners might want to ease into as they prepare to leave.

The bottom line is that it takes time and effort to create a succession plan that meets the goals of both the business and its owners. Be sure to start early to ensure a good outcome.

Young Parkyn McNab LLP can help you create a succession plan that works for you and your business.

GOOD HOUSEKEEPING

Tax Tips for Businesses

Every tax season reminds us of a few Canada Revenue Agency (CRA) “must-do’s.” Here are several important tax tips:

Pay on Time: Making payments on time is crucial. Paying in a timely fashion eliminates non-deductible interest charges along with frequent offender penalties that can effectively double the interest rate. It also helps in case of a future “Taxpayer Relief” request, when a taxpayer requests waiver of penalties and interest.

Note that “on time” refers to the date the CRA receives the payment, not the mailing date. Also remember that installment payments can be adjusted downwards without penalty if circumstances change. For example, in a

loss year, there is no need to pay installments.

File on Time: To avoid paying penalties, be sure to file by the deadline. Meeting filing due dates will also assist in speeding up refunds and reducing the risk of audits. Like paying on time, it also helps in case of a future Taxpayer Relief request.

Use CRA Online Services: Avoid mail delays, keypunch errors and lost correspondence by using CRA’s “My Business Account.” You can view the status, filing period, and other data for various tax and GST/HST returns. You can also view interest transactions, receive electronic notifications, transfer payments from one period to another

within the same account view, update business activity and prepare and file various T slips.

Watch Family Salaries: Wages for family members must be reasonable and must be paid, not merely accrued or journalized. They should be paid periodically, subject to tax withholdings and based on some formula such as hourly rate or annual salary. It is likely that such wages or salaries are not subject to employment insurance premium deductions.

If you have any questions about these tips or would like to discuss your tax situation, please contact Young Parkyn McNab LLP.



Young Parkyn McNab is a unique and innovative team pursuing excellence in a fun environment. We truly care about our clients, our people and our communities.

Lethbridge	403.382.6800
Claresholm	403.625.4448
Fort Macleod	403.553.3355
Milk River	403.647.3662
Pincher Creek	403.627.5510
Taber	403.223.0056
Vauxhall	403.654.4060

Website: www.ypm.ca