



Our mission is to provide information and strategies to business owners and managers for improvement in the effectiveness of its business management so that key objectives can be realized.

CFO Plus, LLC

Ted Hofmann - Principal/Senior Consultant

John Morre - Principal/Senior Consultant

Linda Panichelli - Principal/Senior Tax Consultant

1450 Grant Avenue, Suite 102

Novato, CA 94945-3142

Home Office: 415-898-7879

Toll Free 866-CFO-PLUS or 866-236-7587

Email: thofmann@cfoplus.net

jmorre@cfoplus.net

lpanichelli@cfoplus.net

Web: www.cfoplus.net

Smart Negotiation Strategies

Have you ever found yourself in a situation where you could have gotten exactly what you wanted, if only you had known how to go about it? Do you know people who always seem to get exactly what they want? Would you like to be a master at the art of negotiation as well? It is not as difficult as you might think. No matter whether you are negotiating with the local dealer for a new car or you are negotiating the specifics of a contract with a client, the same strategies apply and one simple communication technique prevails.

Negotiation is simply the process of reaching an agreement between two or more parties — preferably one that yields a “win-win” outcome. It is different from the bartering process in which one party is in a position of power and the other party must accept something less valuable. Negotiation typically involves a series of ongoing discussions and compromises.

Successful negotiation techniques or strategies originate from a basic premise of human nature which suggests that people act, or fail to act, for the purpose of enhancing their own egos. Successful negotiators who understand this principle know that the best way to determine the other person's position, is simply to listen. Dr. Sigmund Freud, the father of psychoanalysis, stated this principle in these terms, “If you can get the other fellow to talk enough, he simply cannot disguise his real feelings or his real motives.” By listening intently, the successful negotiator can gain useful insight that he or she may use to persuade another person to act in a certain way.

Knowledge is power when it comes to the process of negotiating. This makes it important to gather all the facts you can on the front end and plan accordingly. Answering some or all of the following questions can be very helpful as you prepare to negotiate:

- What are your goals and which ones are most important?
- What are the goals of the other parties involved and which ones do they perceive to be the most important?
- What will be the major issues be in this negotiation?
- What are the strongest and weakest points in your overall position?
- What are the strongest and weakest points in the other parties overall position?
- What is the minimum you are willing to accept?
- In your opinion, what is the minimum the other parties are willing to accept?

So, now you have planned your negotiation, but what are the specific techniques you should use to be successful, here are three very simple ones:

- Pay attention to verbal and non-verbal indicators. Listen to the parties you are negotiating with. In addition to learning more about their motives, you might discover a better deal than you ever thought possible. Don't ignore those non-verbal signals, however. A lack of eye contact or a nervous twitch may give you insight as well.
- Focus on solutions that allow all parties to win. Remember that regardless of what you want, the other parties must feel satisfied.
- Keep your emotions in check. Many times personal conflicts or emotional issues can interfere with an otherwise successful negotiation.

No matter what you are negotiating for, the same rules apply. Successful negotiation strategies, however, must be adapted to the specific aspects of each situation and to each individual involved. Many have wondered how some powerful businessmen have successfully negotiated one incredible business deal after another. Actually, their secret may not be so mysterious. Chances are, they simply encourage the other person to talk while they listen. They know by instinct and experience the truth of Dr. Freud's statement. “If you can get the other fellow to talk enough, he simply cannot disguise his real feelings or his real motives.”

Smart negotiation strategies start with smart business and personal financial strategies. We can help you build a plan for your future. Call us today.



Watch Out for the Key Person Discount

If you own a small business, have you looked closely at the depth of your management team? Do you have a management succession plan in place? If the answer is no, you are not alone. Most small business owners look at one thing — the company's management ability. It may be worth your time to look at both.

Unlike most major corporations with diverse management responsibilities, the success of many small businesses is largely dependent on a single, key person. This key person could be the CEO, who makes strategic decisions based on his business experience, or a salesperson, who has established great relationships with the company's largest customers. No matter which scenario, this person has shown great success when it comes to growing the business, and as a result, stores a vast amount of intellectual capital. The loss of such a person, for any reason, could have a devastating effect on the ongoing cash flow potential of the business. This loss is also likely to reduce the company's value in the eyes of investors or potential investors. As a result, most business appraisers or valuation professionals apply what is called a key person discount when placing a going-concern value on such a business for investment, taxation and/or other purposes.

Key person discounts may have an extremely negative effect on the value of any business. Valuation professionals often apply hefty discounts based on experience factors with little or no other supporting documentation. The Tax Court allowed a twenty-five percent (25%) key person discount in the settlement of one estate tax case. Recent studies indicate a range of discounts between 5% and 10%.

According to Revenue Ruling 59-60, the loss of a key person "may have a depressing effect on the value of the [company's] stock." In addition, this ruling instructs valuers to consider what effect losing a key person would have on "the future expectancy of the business," and "the absence of management-succession potentialities." Key person discounts may or may not apply to small and mid-sized businesses depending on a number of factors, including:

- **Management Composition:** Discounts become less likely as management becomes more diversified in that both strategic and tactical decision making authority is spread to additional persons. Comprehensive management succession plans coupled with appropriate training programs can also reduce the key person discount.
- **Specializations or Operational Complexity:** Some businesses may require a professional designation to conduct business while others may necessitate a great deal of technical know-how to operate efficiently. If a single person possesses such expertise, a key person discount may be applicable if a suitable replacement is unavailable.
- **Sensitivity to Change:** Businesses in cyclical and highly competitive industries have historically been more sensitive to operational changes and more likely to incur financial declines with the loss of a key person. A business that has a high degree of sensitivity to change requires a higher key person discount.

Offsetting factors which may reduce or eliminate the need for the key person discount in valuing a business include:

- **Insurance:** Proceeds from a company-owned life or disability policy on the key person could serve to offset any projected decrease in future cash flows resulting from the loss of the key person.
- **Net Cost Savings:** As a general rule of thumb, the key person's compensation and benefits are commensurate with his/her value and tenure with the business. In all likelihood, any replacement would require less compensation.
- **Non-compete Agreements:** This type of agreement is designed to protect the small business in the event that the key person submits his/her resignation. By implementing a non-compete agreement, the key person may not go into direct competition with the business he or she left.

CFO

Plus LLC

Partners In Growth

Our mission is to provide information and strategies to business owners and managers for improvement in the effectiveness of its business management so that key objectives can be realized.

CFO Plus, LLC

Ted Hofmann - Principal/Senior Consultant

John Morre - Principal/Senior Consultant

Linda Panichelli - Principal/Senior Tax Consultant

1450 Grant Avenue, Suite 102
Novato, CA 94945-3142

Home Office: 415-898-7879
Toll Free 866-CFO-PLUS or 866-236-7587

Email: thofmann@cfoplus.net
jmorre@cfoplus.net
lpanichelli@cfoplus.net

Web: www.cfoplus.net

Watch Out for the Key Person Discount (cont.)

Is your small business prepared to handle the unexpected? Are you thinking of stepping aside and relinquishing control to someone else? Are you contemplating the sale of your business? In any case, watch out for the consequences of the key person discount. A lack of planning on this important issue may result in severe consequences not only for you, but for your investors, or worst of all, your heirs.

We can help you avoid this issue. You can make intelligent decisions, which make your company systems dependent rather than people dependent. Give us a call today to talk about your unique situation.



Our mission is to provide information and strategies to business owners and managers for improvement in the effectiveness of its business management so that key objectives can be realized.

CFO Plus, LLC

Ted Hofmann - Principal/Senior Consultant

John Morre - Principal/Senior Consultant

Linda Panichelli - Principal/Senior Tax Consultant

1450 Grant Avenue, Suite 102

Novato, CA 94945-3142

Home Office: 415-898-7879

Toll Free 866-CFO-PLUS or 866-236-7587

Email: thofmann@cfoplus.net

jmorre@cfoplus.net

lpnichelli@cfoplus.net

Web: www.cfoplus.net

Performance Measurement

Small Changes Make a Big Difference!

Have you ever heard the phrase, "You can't improve what you can't measure," or "What you can measure, you can manage"? These ideas are the foundation of a dynamic fact-based management tool known as performance measurement. Performance measurement goes beyond traditional financial measures, which only tell the story of past events. It provides factual feedback that allows management to make real-time course corrections. The goal of performance measurement is to allow management to view their company more clearly, and consequently, make better decisions. The specific financial or non-financial indicators selected should best represent the factors that lead to improved customer, operational and financial performance. A comprehensive set of measures tied to overall company performance requirements represents a clear basis for aligning all activities with the company's goals.

Most blue-chip organizations use performance measurement systems to determine whether they are fulfilling their vision, achieving their short-term objectives and meeting their long-term strategic goals. The measures and goals are usually narrowly focused on a critical few. It is neither possible nor desirable to measure everything. The focus should be on achieving organizational goals via performance measures, and not the measures per se. If a particular measurement can not be linked back to strategic planning, it should be eliminated. Many companies are now using a relatively new approach to strategic management that was developed in the early 1990s by Dr. Robert Kaplan (Harvard Business School) and David Norton (Balanced Scorecard Collaborative). They named this system the 'balanced scorecard'.

According to Kaplan and Norton, "the balanced scorecard is a management system (not only a measurement system) that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal processes and external outcomes in order to continuously improve strategic performance and results. When fully deployed, the balanced scorecard transforms strategic planning from an academic exercise into the nerve center of an enterprise."

A particularly interesting case study of Dell Computer Corporation demonstrates the concept of performance measurement and shows how seemingly small changes in just one strategic area helped make a big difference in reversing the organization's destiny:

When Thomas Meredith joined Dell as CFO back in 1993, the company had just posted a six-month loss of \$66 million due in part to large inventory write-downs. Sales were increasing rapidly, but cash reserves were dwindling and its stock value was down more than 75% from the prior year. Meredith's assessment of the situation was simply "our balance was out of whack!" He went on to say, "Balance is especially important in performance measurement. Wall Street rewards companies that balance growth, liquidity and profitability. My job is to figure out how to balance those things."

Meredith quickly identified the cash conversion cycle (CCC) as a key performance measure to establish the better balance that he was seeking. Using the metrics of days of sales outstanding (DSO), days of sales in inventory (DSI) and days of payables outstanding (DPO), he added DSO and DSI, then subtracted DPO to determine the CCC. During the next fifteen months, he focused Dell employees on how they might influence the CCC equation. They gradually began accelerating inventory turnover and collection activities while slowing down supplier payments. By the end of 1994, the cash conversion cycle had been improved to an acceptable forty days. By 1998, it had been further improved to a phenomenal negative eight days.

Performance Measurement — Small Changes Make a Big Difference! (cont.)

Dell has continued to grow rapidly, but no longer at the expense of liquidity or profitability. Several new performance measurements (including CCC) have helped the company hone its direct-sales-build-to-order strategy to generate billions of dollars in cash reserves since 1995. Dell has continued to be one of Wall Street's top performers over the past several years.

Unlike historical financial information, meaningful performance measurements allow an organization to make ongoing changes in real time. They provide the tools to look ahead and adjust according to circumstances. Excellence in all performance areas will result in the "bottom line" taking care of itself.

To summarize, if you can measure it, you can manage it and small changes do make a big difference — just keep in mind what Dell was able to accomplish adjusting just one element. When you want to explore the changes your company can realize by making small adjustments, give us a call. That's why we are here!



Our mission is to provide information and strategies to business owners and managers for improvement in the effectiveness of its business management so that key objectives can be realized.

CFO Plus, LLC

Ted Hofmann - Principal/Senior Consultant

John Morre - Principal/Senior Consultant

Linda Panichelli - Principal/Senior Tax Consultant

1450 Grant Avenue, Suite 102
Novato, CA 94945-3142

Home Office: 415-898-7879
Toll Free 866-CFO-PLUS or 866-236-7587

Email: thofmann@cfoplus.net
jmorre@cfoplus.net
lpanichelli@cfoplus.net

Web: www.cfoplus.net

Certified Public Accountant or Profitability Consultant?

Business Performance Advantage Success Story

Recent scandals have served to shaken public confidence in the accounting profession. Accountants, themselves, have spent years trying to step out of the "number-cruncher" stereotype. If you take a close look inside your CPA firm, you could be surprised to find out that your accountant has the ability to be more than your own personal number-cruncher. Yes, that's right, your CPA may have the answer to questions other than what you owe the IRS. As you will see in this Business Performance Advantage Success Story, accountants are taking performance measurement concepts to a new, and quite profitable, level.

"Most companies only go to accountants to get their taxes and financial statements prepared," says one Business Performance Advantage consultant. "But after delivering these standard accounting services for more than 20 years, I realized that there was a great opportunity to step outside the box and offer enhanced services that interpret those same statements." To that end, the BPA consultant offered profitability consulting services for more than five years using a number of modeling programs. According to this consultant, convincing company owners of the value of this service offering was the first challenge. Convincing them that their accountant was the one to provide the service was the next one.

The BPA consultant continued to search for the right tool that quickly and easily shows clients how their financial statement data could be leveraged into forward-looking performance measures. After all, improved corporate performance can often lead to an increase in the client's bottom line. Combining the in-depth knowledge of performance measures with the interactive goal-setting and modeling capabilities of a software program allowed the consultant to finally attain this objective.

The BPA consultant can now quickly break-down complex financial statements into easy-to-understand business drivers. For example, a single page display might show a wide range of key parameters such as average days for accounts receivable, monthly accounts payable, cash flow, etc.

Have you ever wondered what would happen if you increased your prices by 10%? What if your debt was reduced by 20%? Your BPA consultant can work through many "what if" scenarios, which will allow you to set goals for your company. Business owners can specify a desired objective, such as a specific cash flow figure, and the solution will indicate how the stated goal may be achieved by adjusting certain business drivers. For example, a company may increase cash flow to the desired level by decreasing the days in inventory from 120 days to 90 days and decreasing the average days for accounts receivable to 30 days. If this solution is too severe, manual changes can be made and the consultant will respond by indicating how this change will impact cash flow and what other parameters need to be modified to meet the original objective.

One BPA consultant reports that most of his clients are small- to medium-sized businesses whose managers have little or no financial training. "When you talk to them about balance sheets, income statements and cash flow statements, the most common response is a glassy-eyed stare. On the other hand, when financial data is displayed in these terms, their excitement is palpable because now, for the first time, they see information, not data, and they can understand how this information affects their profitability. I have yet to have a client who wasn't impressed with this presentation. But even more importantly, every client who has seen the presentation has substantially benefited from it."

What scenarios do you want to explore in your own business? What goals do you have for this year? Next year? Five years from now? Give us a call to discuss the things that keep you awake at night. We can help.



Our mission is to provide information and strategies to business owners and managers for improvement in the effectiveness of its business management so that key objectives can be realized.

CFO Plus, LLC
Ted Hofmann - Principal/Senior Consultant
John Morre - Principal/Senior Consultant
Linda Panichelli - Principal/Senior Tax Consultant

1450 Grant Avenue, Suite 102
 Novato, CA 94945-3142

Home Office: 415-898-7879
 Toll Free 866-CFO-PLUS or 866-236-7587

Email: thofmann@cfoplus.net
jmorre@cfoplus.net
lpanichelli@cfoplus.net

Web: www.cfoplus.net

HIPAA ABCs for Employers

Some have called it the "health hippo." This nickname is indicative of just how large and far-reaching this act of federal legislation is. The Health Insurance Portability and Accountability Act of 1996, or HIPAA, signifies change for many employers as well as health care organizations. The Centers for Medicare & Medicaid Services (CMS) is responsible for implementing the various and unrelated provisions of this legislation, therefore HIPAA means different things to different people. One of the most common misconceptions is that HIPAA only applies to health care providers and insurance companies. This is not the case. The law applies to any employer that sponsors an employee benefit plan covered by ERISA, or the Employee Retirement Income Security Act. This benefit plan must also have 50, or more, participants or be administered by a third-party for the employer to be required to comply with its provisions.

HIPAA compliance focuses on Protected Health Information, or PHI. PHI includes any health care data, electronic or otherwise, that can be linked to a specific individual. The basic privacy principle suggests that organizations that possess personal information related to an individual's health care, or payment for it, can only disclose the information as outlined in the following scenarios:

- To the individual;
- Pursuant to a signed consent form necessary to carry out treatment, payment or health care operations; if not, then pursuant to a signed and narrowly crafted authorization;
- To the state or federal government for the purpose of public health, abuse/neglect investigations, etc.

Disclosing summarized data, which can not be linked to any specific individual, is generally acceptable.

HIPAA privacy regulations took effect on April 14 of this year for large health plans. Small health plans, or those with annual receipts of less than \$5 million, have an additional year to comply. It is important to note that the penalties for non-compliance can be steep. Violation of a single standard can result in penalties of up to \$25,000. Fines of up to \$250,000, and imprisonment, may be imposed for certain knowing violations. If you have already complied, be sure to keep up the good work. Remember to distribute privacy notices to new hires, to conduct regular training, and to ensure that service agreements with third party administrators and business associates are HIPAA compliant.

So, what is next? For those of you who are still struggling to comply with this year's privacy rules, you may not be thrilled to hear about the new security rules. Security regulations go into effect on April 21, 2005, for large plans, and April 21, 2006, for small plans. These regulations have a more narrow focus and apply only to electronic PHI. Remember, the privacy rules apply to PHI in any form.

Electronic PHI includes any information stored in, received or sent by a computer (email), as well as phone voice response and faxback systems. However, information transmitted by telephones including person-to-person phone calls, paper-to-paper facsimiles, and voicemail messages is not covered.

The new rules do not require the use of any particular security measures but the regulations do set forth a number of required standards, along with implementation specifications for each standard. Administrative, physical and technical safeguards must also be implemented in order to protect electronic PHI.

HIPAA ABCs for Employers (cont.)

- Administrative safeguards include items such as developing policies and procedures regarding workplace security and information access
- Physical safeguards include such items as policies and procedures regarding limiting access to facilities, as well as computer workstations
- Technical safeguards involve the implementation of access control mechanisms and methods to preserve data integrity

Even though the security rules compliance date for HIPAA is a long way off, taking action now may not be a bad idea. Adding information systems representatives to your HIPAA compliance team is a good start. Also, get a copy of the security matrix set forth in the regulations. It will serve as a checklist for evaluating your organization's compliance with each standard. By determining exactly what you already have in place, you can then easily identify the changes necessary for you to ensure HIPAA compliance in the future. If you aren't sure what to do next, give us a call. We'll walk you through the HIPAA maze.