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May 2019

The CFO Advisor

Guidance for Small Business Success™



The April tax deadline is now over, and if your small business is anything like mine, you're ready to do away with all of the IRS paperwork and focus on the other important things in your business, such as your internal operations, and one of your most important assets: Your employees.

In the May issue of "The CFO Advisor," you'll learn several ways that April showers can easily be turned into blooming May flowers for your small business, such as planning for expansions and establishing employee entertainment facilities. You'll also learn helpful tips from a leadership expert on finding success, as well as ways to overcome common team issues.

These are just a few of the great "seeds" you'll find within — keep reading to find several other great reads aimed to refresh and improve your small business.

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Three Things to Consider When Planning Your Small Business Expansion

If you have found that your small business is in an upward swing and you think it's time to expand, congratulations! That's a big step for any entrepreneur, and one that can put you in a position to reach your goals (and then some)! However, the decision to make your small business bigger is not one to be made lightly.

Here are three things to think about before calling in a contractor:

1. Building type

Since money is likely your primary concern, it pays to look into various building types and materials. You may be surprised at the different options available. A standard commercial office building averages approximately \$160 to \$170 per square foot. If you work in a high-priced real estate zone, such as New York or San Francisco, you can expect to pay much more.

As a small or medium-sized business, you may not have to go the full commercial route, especially if you only wish to add office space, a workshop, or warehousing. A metal building is a



smart option when expanding for any of these purposes. South Dakota-based Brown Wegher Construction estimates that a metal warehouse building will cost around \$70 per square foot on the high-end, while a metal office building starts at roughly that price point.

A steel structure is not only less expensive, but is faster to erect. This type of building typically only requires a slab foundation and may be customized in shape, size, and strength. According

to Armstrong Steel, today's steel buildings are built to comply with energy standards that include commercial insulation and other features that can help you meet LEED requirements.

2. Ongoing expenses

Your next consideration when trying to determine whether to physically expand your small business is the expenses involved beyond construction. You must also factor in the added cost of utilities, property taxes, and new employees to fill the space. Furnishing your new

office is going to cost money as well. United Corporate Furnishings estimates that a 2,500 square foot office will cost approximately \$21,500 to outfit with entry-level furniture. High-end furniture for an office of the same size can run \$30,000 or more.

If you plan to finance your expansion, be sure to do your research and choose a loan product that meets not only your needs, but also offers some flexibility should the project exceed expected costs. It may be in your best interest to finance the structure and the furnishings/equipment separately, since there are many loans available specifically for office equipment. Don't forget to factor in the cost of marketing, another operational expense that you may need to prioritize so that you can bring in additional business to support your new size.

3. Potential growth

Finally, you must make plans for growth with the future in mind. If you plan to nurture your business beyond its current level, it will be financially responsible to prepare for that expansion now. The Turner Building Cost Index illustrates that construction fees rose more than 5.6 percent between 2017 and 2018.

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Establishing an Employee Entertainment Facility

If you are considering using a previously established business employee entertainment facility as your own somewhere down the line, you're probably asking yourself IF and HOW you can make it happen.

The good news is, it is certainly possible. But there are some simple rules that apply:

Imagine that your Schedule C business buys a home at the beach, uses it solely as an entertainment facility for business, pays off the mortgage, and deducts all the expenses.

Next, say, 10 years later, without any tax consequence to you, you decide to start using the beach home as your own.

The tax rules state that the entertainment facility you establish must primarily be for the benefit of employees other than those who are considered highly compensated or otherwise officers, shareholders, or other owners who own a 10 percent or greater interest in the business. In this situation, you create:



- 100 percent entertainment facility tax deductions for the employer (you or, if incorporated, your corporation), and
- tax-free use by the

employees.

As a small business owner, the employee facility deduction is straightforward and has three excellent benefits:

- 1) You deduct the facility as a business asset.
- 2) Your employees get to use the facility tax-free.
- 3) You own the property and can use it personally without tax consequence once you no longer need it for business use. (Note that when you sell, you will have a gain or loss on the sale and some possible recapture of depreciation.)

You could achieve the same result if you operate your business as a corporation. However, the corporation needs to reimburse you for the facility costs, including mortgage interest and depreciation, because you want the title to always be in your name, not the corporation's name.

How One Leadership Expert Found True Success

Leadership guru, Warren Bennis, worked hard to achieve a key ambition: to become a university president. When he finally achieved his goal, however, he came to an unsettling realization: He liked having the prestige of being a university president, but he didn't enjoy doing the work it required.

That's when he started developing what ultimately became a four-question test for people seeking success in life. The four questions are:

- **Do you know** the difference between what you want and what you're good at?



- **Do you know** both what drives you and what gives you satisfaction?
- **Do you know** both your own priorities and values, and those of the organization you work for?
- **Can you identify** the differences between the two alternatives in each of the above questions — and can you overcome those differences?

Bennis wrote, "If you can, then success will be yours. In a nutshell, the key to success is identifying those unique modules of talent within you and then finding the right arena to use them."

Small Business Expansion

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If you believe your business will continue on an upward trajectory, adding a few hundred extra square feet to your building now may save you a considerable sum later, and having added space means you will be less likely to experience business-disrupting growing pains.

Any time you have an opportunity to grow your small business is a time full of excitement and hope for the future. However, before you make any rash decisions, you must ask yourself if it's really in your best interest. Consider your plans carefully and, as business expert Jared Hecht suggests find a mentor who's been through the process who can give you guidance and wisdom along the way.

Remember, your goal is growth and financial success. By looking at your expansion plans objectively, you give yourself an opportunity to identify issues that might prevent you from achieving your initial goal. Calculate costs, and plan ahead — your small business depends on it.



Are You In Need of a Trusted Business Advisor?

If you are not my client and would like to explore whether we might be a good fit, please contact me. As an experienced business advisor, I have worked not only in private and public industries but also across many functional areas and can help you implement best practice solutions to improve profits.



Do You Have A Tough Accounting / Finance Question You Want Answered?

I love hearing from my small business clients and friends who enjoy reading my monthly newsletter. I'm always looking to answer pressing questions you might have relating to small business.

If you have a question, tip or idea, please call me at 352-450-2880 or email me at dwright@dlhulseconsulting.com. Perhaps I'll feature you in a future issue!

KEEPING IT IN THE FAMILY

By Michael Vacca

Every small business owner should have a well-thought out plan in place for that day when it is time to move on and make those retirement dreams a reality. One way would be to pass it along to a family member and in this article, we will discuss five steps you can take to put this "Succession Plan" in motion.

Step 1: Experience The successor family member you choose needs to know the business, experience the business, and most importantly, WANT the business. It has to be in their blood. If they are just looking for a job, you are better off looking elsewhere. Just passing it on to family members when they have no experience or interest in the business is a recipe for disaster and the #1 reason that 2/3 of all family transactions end in failure...don't become another statistic.

Step 2: Equal Shares? We want to be "fair" to all but leaving the business equally to your heirs may not be the best solution. Take the example where there are three children, one of whom has been working in the business for 20 years, knows it inside and out, and has put their heart and soul into it, while their other two siblings have other interests or jobs and have never been involved. Splitting the business equally may well create conflicts, infighting, and hinder the operations of the business, thereby destroying value. There are many other ways to create fairness in your estate (and keep the family bickering to a minimum) than to try and split the business equally.

Step 3: Timing: Sooner Rather Than Later Most business owners will tell us "Hey I've got plenty of time to think about that." Don't wait until you are ready to retire to start succession planning. Once your business is established, growing, and profitable, it is time to start. Vehicles (see Step 5) you employ in your plan will be more affordable the earlier you implement them.

The longer you wait, the greater the risks of your untimely demise or a disabling accident leading to business failure. The control of the process is then put in the hands of the government and/or attorneys (Read: expensive).

Step 4: Framework The first thing is to establish goals and a vision for the future of the business once you have exited the day-to-day operations. Be sure that you share these goals with your successor(s), they understand them, and are in agreement. Create a timeline for your exit, identify key management positions,

establish governance guidelines, and have financing mechanisms in place. Make certain the plan is documented, legally sound, and tax efficient. As your business changes and matures, it is also a good idea to shake the dust off and revisit your plan to see if it needs a little tweaking.

Step 5: Implementation There are many ways to implement your succession plan depending on your goals.

Some commonly used vehicles are: Irrevocable Life Insurance Trusts, Grantor Retained Annuity Trusts, Family Limited Partnerships, Supplemental Executive Retirement Plans, and the Gifting of Shares or Assets.



Simple Math

"If I give you two cats, then two more, then another two, how many cats would you have?" the tutor asked.

"Seven," Tyler replied.

"No," the tutor said. "Let me repeat the question. Listen carefully. I give you two cats, and then two more, and then another two. How many cats are there?"

"Seven," Tyler replied again.

"Hmm," the tutor sighed. "Let's try something different. I give you two apples, then two more, then two more. How many apples do you have?"



"Six," Tyler replied.

"Very good," said the tutor. "Let's go back to that first math problem. I give you two cats, then two more, then two more. How many cats do you have?"

"Seven," Tyler replied.

"How do you come up with that answer?" the tutor asked.

"Because I already have a cat," Tyler replied.



Quotes: "To think about your life is to create it. You have to take ownership of where you are right now and know where you want to go before you can get there. Keep collecting evidence for your success. You can believe it, and you can be it." — **Ali Vincent**

"I believe the real difference between success and failure in a corporation can be very often traced to the question of how well the organization brings out the great energies and talents of its people." — **Thomas J. Watson Jr.**

"Creativity comes with being human; it is the power to think new, to imagine, to see a metaphor. Animals mate by instinct. People get new ideas. All you need is an open mind." — **Jean Unsworth**

"Making a success of the job at hand is the best step toward the kind you want." — **Bernard M. Baruch**





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Overcome These Common Team Issues

Building a successful team takes time and effort. You can't eliminate every obstacle, but you can anticipate some of the common barriers to team effectiveness. Watch out for these threats:



- **Goal fixation.** Clear goals are vital, but obsessing over the end result can blind team members to the importance of the process. If they adopt an "ends justify the means" mindset, members may start to undercut each other, or form cliques, without considering the impact on the team as a whole. Goals are good of course, but concentrate on developing guidelines and work processes that will support the whole team's efforts.
- **Power struggles.** Teams need firm direction. But when one member becomes too dominant, turbulence can erupt. This self-styled leader may expect to make all the decisions; other team members may resent his or her attempts to tell them what to do. Successful teams sometimes rotate the leadership role so no one feels left out.
- **Lack of involvement.** Any number of factors can cause team members to withdraw, stop contributing, or simply leave the team. Pay attention to team members who seem to avoid speaking up, don't listen to others, or fail to take their tasks seriously. Remind the team that everyone's efforts are required.
- **Stereotyping.** We sometimes make snap judgments about the people we work with, based on gender, race, appearance, or some other trait. Don't jump to conclusions: The guy from IT may want to get more involved in people issues; assigning him to technology-related tasks could alienate him. Get to know everyone on the team so you can deploy talents in ways that work for all of you.

Get Rich - Or At Least Survive - On The Internet

The Internet has made some people rich. You may not be able to build the next Google or Facebook, but you can succeed in cyberspace by following this advice from Scott Fox, author of Click Millionaires (AMACOM):



- **Find a good niche.** The most successful businesses, virtual and real, begin by targeting a narrowly defined customer need. Don't try to do everything at once: Figure out how you can help your customers do one thing well, and go from there.
- **Be the expert.** Learn as much as you can about your customers, your industry, and your product, then share your knowledge and expertise as widely as you can. When people see you as an expert, they'll be more open to doing business with you.
- **Reach out to customers.** Enlist your audience in helping grow your business. Give them plenty of opportunities for feedback through your company website, Facebook page, and any other vehicle. Engage them by responding quickly and honestly to their comments, and incorporate their advice into your business model, whenever appropriate.
- **Target recurring revenues.** Every business needs repeat customers to survive and grow. Look for ways to capture revenue through subscriptions, service plans, automatic billing, and other strategies so you don't have to constantly chase new business quite as hard.