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From the Editor

Dear Business Owner,

Are you ready? Higher revenue and profit are in your future. We’ve passed the trough in this deep economic recession. It’s all growth from here! This is the beginning of a broad economic expansion that will last six or more years!

You might not feel it yet, but trust me, it’s here. It’s time to come out of your bunker.

You’re positioned for profit, thanks to the austerity campaign brought on by the recession. You’ve wrung cost from your business for more than a year now, aided significantly by our exclusive The Business Owner article series on cost reduction and profit enhancement strategies. The first article in the 12-part series appeared in the January/February 2009 issue. The last is the feature article in this issue. A list of all the articles in the series is on page 5.

You’re aware of the broader economic cycle (page 10). You know where we are. It’s time to shift from cost reduction and process improvement to sales and marketing. With The Business Owner at your side, the game of business isn’t nearly as hard.

Sincerely,

David L. Perkins, Jr.
Managing Editor
The Business Owner Journal
Is your business making a healthy profit? If not, do something about it now. Something drastic. There’s no sense owning and managing a business that’s not growing and generating a healthy profit. Why mess with it? Your time and talent are worth so much more.

Moreover, you won’t survive breaking even while your competitors earn a profit. They’ll have profits to invest toward enhancing their ability to reach and satisfy customers. You won’t. You’ll fall further and further behind in your ability to compete and earn a profit.

To accept break-even or near break-even performance for an extended period of time without doing something about it is like having cancer and not seeking treatment. It’s a death sentence.

If you’re in this situation, do what turnaround expert Gary Sutton says (paraphrasing):

*Take drastic action. Change the way you do business. Find a new, cheaper source for purchased goods or services. Outsource to a contractor what you’re now paying employees to perform. Focus on what you do best and get rid of the rest. Raise prices. Double the sale quota for your salespersons and let go of anyone who can’t hit the new mark. Try new, radical things, without delay. Sure, some may not work, but you’re going to die anyway if you stay on your current course. If you can’t seem to bring yourself to make these kind of changes you need to get out of the business altogether.*

**No Margin, No Mission**

If you provide a product or service that’s competitively sold, odds are there’s a price — or price range — you have to be within to be competitive. Do you know what your competitors charge? Do you know the quality of each of their offerings relative to the price they charge? If you’re not completely sure, find out.

How does your product or service compare to your competition? What is your strategy? Is it a “we do that too” offering that competes on price? Or do you charge more but deliver more? There’s nothing inherently right or wrong with either strategy; you just need to know which is yours and whether you can succeed at the one you select given your particular competencies (or that of your company) relative to those of your competitors.

If you’re not profitable, something is amiss. It might make sense to find out what customers think about your product or service. About how you rate compared to your competition. Then ponder your competencies, those of your competitors, and the strategy that gives you the greatest odds for high profit. A third-party consultant might be helpful.

Do you require a premium price but offer a “me too” product? Do you try to offer a premium product but not charge a premium price?

For example, if you try to compete on price, it does not make sense to offer a premium product. The only way to earn superior, profit-winning sales with a low price is by having the lowest cost structure. This requires you to wring cost out at every turn. The result, of course, will not be (and cannot be) a premium product or service.

Similarly, the only way to earn high profit offering a superior product is by charging a markup that’s greater than the extra cost you incur when adding the extra value.

Only through skilled execution of a clear, appropriate strategy can you earn profits that exceed those of your competitors. Legendary business strategist Michael Porter refers to a lack of strategic clarity as being “stuck in the middle.”

**Pricing as Product**

Sometimes, innovations in pricing can be as important as innovations in product. Take Xerox. Despite the breakthrough technology, its newly introduced copy machines were not selling. The machines were very expensive and executives did not grasp how they could reduce cost. Amazingly, business managers seemed okay with the way they were making copies: secretaries typing with carbon paper. What turned the tide was an innovation...
in pricing as significant as the product. Xerox stopped requiring up-front purchase and began charging by the copy. It placed its machines in large offices for free and charged for copies. No executive approval was required and office personnel quickly grasped its utility and productivity. Usage grew and Xerox revenue exploded.

Another example is Gillette razors. Competitors sold “the handle” for $20 and then cartridge refills for a few bucks. Gillette began giving away “the handle.” Men obviously liked getting it free. All they needed were refills, so they bought them. Gillette razor usage exploded, as did revenue.

Pricing innovations can be as important as product innovations. Maybe your next breakthrough can be an innovation in price. Maybe your customers would rather pay for what they really want, such as a copy or a shave, instead of paying for “a copy machine” or “a razor.”

**Opportunity and Peril in Average Cost Pricing**

If you manufacture custom items, you bid jobs. If you bid these jobs on average cost, you have variances from actual. On some jobs, your average cost model builds in too little profit; on others, too much. The result is that you tend to win most of your underpriced bids (which yield lower profit) and lose most of your overpriced (higher profit) bids.

Obviously, this is a problem. You book a lot of low-profit jobs and fail to capture jobs that, had you not overpriced, you could have won at your target profit margin.

The solution? Find a way to gain the ability to more accurately estimate cost. To be able to bid on actual cost rather than average cost. You’ll earn a higher profit and put your competitors at a competitive disadvantage.

And here’s another problem. If you average cost and your competitors study your bidding history and figure out which types of jobs you underbid and overbid, they could exploit the error in your costing for their own gain (and your loss), for example, allowing you to win jobs you tend to underbid and scraping extra profit from jobs you tend to overbid. On the other hand, you could do this to your competitors (if you develop an ability to estimate cost more accurately than your competitors do).

**Markup-on-Cost Pricing**

This article is the final one of a series on cost reduction and profit enhancement strategies. We hope you’ve implemented the recommendations and wrung considerable cost from your operation. But be careful if you price by percentage markup-on-cost. Don’t give away all your savings! Take the following example:

<table>
<thead>
<tr>
<th></th>
<th>Original Costs + Selling Price Using 33.3% Markup</th>
<th>New Costs + New Selling Price Using 33.3% Markup</th>
<th>New Costs with Profit Protected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Material Cost</td>
<td>$5</td>
<td>$4</td>
<td>$4</td>
</tr>
<tr>
<td>Labor Cost</td>
<td>$2</td>
<td>$1</td>
<td>$1</td>
</tr>
<tr>
<td>Overhead Cost</td>
<td>$6</td>
<td>$4</td>
<td>$4</td>
</tr>
<tr>
<td>Total Direct Costs</td>
<td>$13</td>
<td>$9</td>
<td>$9</td>
</tr>
<tr>
<td>Selling Price</td>
<td>$17.33</td>
<td>$12.00</td>
<td>$16.00</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>$4.33</td>
<td>$3.00</td>
<td>$7.00</td>
</tr>
<tr>
<td>SG&amp;A Expense/Unit</td>
<td>$3.47</td>
<td>$3.10</td>
<td>$3.10</td>
</tr>
<tr>
<td>Net Profit</td>
<td>$0.86</td>
<td>($0.10)</td>
<td>$3.90</td>
</tr>
<tr>
<td>Net Profit Margin</td>
<td>5.0% (0.8%)</td>
<td>24.4%</td>
<td></td>
</tr>
</tbody>
</table>

Column 2 above illustrates what can happen if you strictly apply a percent markup-on-direct-cost following a cost reduction campaign that succeeded in wringing most of the cost savings out of direct costs (as opposed to SG&A). The third column illustrates an approach that would be much more logical and beneficial. The cost reduction campaign allowed this sample company to reduce the price from $17.33 to $16.00 and also increase the bottom line profit per unit from 5 percent to 24.4 percent.

Pricing your products and services is complex. It can also be confusing and frustrating, but it’s essential to your ability to complete effectively and earn a profit.

What and how you charge should match your overall strategy. If your strategy is to offer a low price, you should not add bells and whistles but rather lower your costs. Conversely, if you attempt to deliver superior value, you must charge a premium (to recover the extra cost you incur).

How you price and charge is as important as any other issue you deal with. An innovation in pricing can be as important as an innovation in product or service. So come on! Outsmart and outwit your competition through skilled pricing and earn superior profit. If you think about it, it’s not even really a choice. It’s a requirement for ensuring the long-term viability of your business.
While the new health care legislation signed into law on March 23 is indeed large, complex and far-reaching, we’re happy to report that the alarmist rhetoric emanating from some corners seems to be largely hyperbole. Even the highly publicized recent “one time charge to earning” announced by some large employers such as AT&T and Caterpillar appears to be extreme and politically motivated.

All Upside for Small Business

There are no mandates whatsoever on businesses that employ 50 or fewer. Moreover, employers of 25 or fewer that choose to provide health care insurance benefits to their employees may be eligible to receive assistance in the form of tax credits. This aid to small businesses begins immediately (2010 tax year). The accompanying table provides some of the details.

Impact on Big Business

The law does not appear to have any broad impact on employers of 51 or more until tax year 2014. Then, they may be subject to financial penalties if they do not provide a reasonable health care benefit to their employees. How big a penalty? Well, the quick answer is up to $2,000 per employee, but this is an absolute maximum case that would almost certainly never occur.

First, most large employers already provide health care benefits — many because they must to be competitive in the job market. Second, if a large employer does not provide health care benefits to its employees — or provides only a minimal benefit — any penalty likely would be assessed only on employees who:

a. decline the company plan (if there is one), and
b. obtain coverage through one of the newly formed state health insurance “exchanges,” and
c. qualify for federal health coverage tax credit based on their (low) income level

Big One-Time Charges

Soon after the new health care legislation was signed into law, some large public corporations announced they would take a one-time hit to earnings to recognize future costs they expect to incur as a result — Caterpillar, Deere & Company and AT&T, to name a few.

continued on page 6

“A public-opinion poll is no substitute for thought.”

Warren Buffett
The charges do not stem from any employer mandate to provide health care coverage. It’s related to elimination of a tax break provided to them in 2006. In short, the government has been reimbursing these large employers for offering prescription drug benefits to their retired workers (under what is known as Medicare Part D) and, beginning with the 2006 legislation, allowing them to “hide” the federal subsidies from income. The new law removes the loophole. That is, these employers must now count the cash they receive from the federal government as revenue (as is normal under the federal tax code).

As a case in point, Caterpillar recently announced a $100 million one-time charge for expenses related to the legislation, but according to the Wall Street Journal, Caterpillar’s annual cash flow will decline by only about $7 million per year — less than 1 percent of its 2009 cash flow — and it will continue to receive $10 million in subsidies from the federal government.

Basically, these companies complain because the net benefit of subsidies they receive has declined.

Again, it’s true that the new health care legislation is voluminous, complex and far-reaching, but the employer-related provisions are but a subset and it will be months before all the detailed provisions are even written, much less communicated clearly to the populace. But we do know now that there is absolutely no mandate on employers of fewer than 51 employees. Even more, employers of fewer than 25 may receive financial assistance if they offer a health care benefit to their employees.

In spite of the alarming rhetoric coming from politicians and talk show hosts, there appears to be, at least at this time, “nothing more to fear than fear itself.” At least not until we see the fine print on the legislation slated to affect employers of 51+ beginning in 2014.

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**Summary of Recent Health Care Legislation’s Impact on Employers**

<table>
<thead>
<tr>
<th>Government Mandates</th>
<th>Tax Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employers of 25 or Fewer</td>
<td>None</td>
</tr>
<tr>
<td>Employers of 26 to 50</td>
<td>None</td>
</tr>
<tr>
<td>Employers of 51+</td>
<td>Beginning in 2014, a financial penalty may be assessed if employer does not offer a “decent” health care coverage benefit</td>
</tr>
</tbody>
</table>

---

1. This maximum credit is available to firms with 10 or fewer employees and average annual employee wages of less than $25,000. The tax credit phases out as the employer’s employee count and average wages rise above these levels. Total phase-out occurs when employee count exceeds 25 or average annual wages exceed $50,000.

2. This is for tax years 2010 through 2013. In 2014 and 2015, all provisions remain the same except the tax credit maximum rises to 50% and applies only to employers that purchase their coverage through an “Exchange.”

3. The rules are complex and not even fully developed yet. In short, since this provision of the law does not go into effect until 2014, there is plenty of time to wait for the details to be developed and communicated.

“**It is just not responsible to suggest that the new health care law is bad business. Study after study indicates that this new law will create certainty, stability and reduced costs for American business.**”

---

Gary Locke, U.S. Secretary of Commerce
By Carmine Gallo

Why Your Business Needs a Hook

Cisco (CSCO) found a hook.

Every great song has a great hook, a memorable line created to catch the listener’s ear. As its name implies, a hook catches your attention and reels you in. My 4-year-old daughter cannot interpret the nuances of pop songs — in some cases that’s a good thing — but she runs around the house repeating Lady Gaga’s “p-p-p poker face.”

A hook reels you in. Every great song has a great hook, a memorable line created to catch the listener’s ear. As its name implies, a hook catches your attention and reels you in. My 4-year-old daughter cannot interpret the nuances of pop songs — in some cases that’s a good thing — but she runs around the house repeating Lady Gaga’s “p-p-p poker face.”

Like a catchy song, your business messaging needs a hook. Just as a hook is repeated in a popular song, yours must be repeated in your marketing channels — presentations, Web site, press releases, and advertisements.

Why three seconds matter. New York University’s Langone Medical Center, a top academic medical institution in New York, found a hook for its new ad campaign: the number 3. Billboards were created and full-page ads in The New York Times featured the numeral 3 prominently at the top. In smaller print, it read: “3 seconds matter. That’s why at NYU Langone Medical Center, surgical instruments are hung on the wall, instead of kept in a drawer.” Saving three seconds every time an instrument is used adds up to a lot of saved time, enhancing performance, efficiency, and ultimately delivering higher quality care. But the latter sentence is a mouthful; “3 Seconds Matter” is a hook.

I asked Deborah Loeb Bohren, Langone’s vice president for communications, about the campaign’s hook. She said that hospitals face a challenging environment — especially in New York — and must differentiate themselves to compete. The communications team held a meeting at which they put all of their competitors’ ads on a wall and asked themselves how Langone could stand out. They discovered that the other ads all used the same color (blue), showed stock photos of happy patients, and contained a lot of text — too much to absorb in a short conversation.

The Langone ads would be largely black and white, replace stock photos with action images taken by a professional photojournalist, and contain far less text. Above all, each would put forth one key idea, a hook that acts as a conversation starter. The campaign has been so successful Langone has released 11 ads, each with its own hook.

How do you find a hook? Loeb Bohren says it starts by knowing your essence as an organization. “Be honest about your strengths and differences,” she says. “We are proud of many things at the hospital, but they may not be as important to people on the outside as they are to us. The key is to match your strengths with what people care about.”

Carmine Gallo is a communication skills coach for the world’s most admired brands. He is also a popular speaker and the author of several books, including The Presentation Secrets of Steve Jobs: How to Be Insanely Great in Front of Any Audience. More of Gallo’s columns are available in his ongoing series.

How Business Sale Price Is Maximized

When your mission is to sell your business for absolute maximum, it’s a sales process.

A business sale price is a negotiated item. No list prices to go by. Sure, there are some rules of thumb. Some generally accepted earnings multiple ranges. But the ranges are large. We’re talking doubling and tripling of the prices paid. Millions of dollars hang in the balance for the prospective seller of a midsize company. Pair this with the fact that every business seller wants to sell for maximum value and the question becomes: How does the business owner go about securing maximum value?

While it is true ...

a. The price and terms at which ownership of a business may change hands is a negotiated item, and
b. The price at which businesses actually change hands varies widely

... the prices at which businesses sell will naturally align themselves along a bell curve.

But to maximize the sale price of a business, the packaging must also address a fundamental need of the business buyer: the need for information.

The purchase of a business is an information-intensive and time-intensive endeavor. Skilled M&A advisors do more than build a pretty prospectus. They also fill it with information that business buyers want and need to make a decision. Further, skilled sell-side M&A advisors gather, organize and make available all relevant backup, supporting and “acquisition due diligence” information business buyers want and put it together in a manner that will:

• Provide buyers with information they need
• Allow buyers to move swiftly and efficiently through the data
• Put buyers at ease about the risks and weaknesses of the business
• Position seller as low risk, i.e., honest, cooperative, trustworthy and fair
• Give buyers confidence in the stability and growth prospects of the business

Process

In concept, the process that maximizes sale price is simple. Identify the best buyers in the world for the particular business and then work them simultaneously against each other. Basically, run an auction. A real quiet one, to be sure, but an auction nonetheless. It takes a lot of work, time, energy, communication, experience and skill, but the results, when done right, can literally be golden.

Dealmaker Skill

Shocking as it may be, buyers don’t like to be “worked.” They like to call the shots. Get things their way. If someone is getting worked, they like to be the one doing it.

Most experienced buyers of midsize companies are smart and confident. Strong personalities as well. They don’t like to simply be run through an auction process where the highest bidder wins. So this is where the M&A dealmaker skill comes in. Either they can run this process and keep the buyers engaged or not. Your job is to find one who can.

Enterprise Value

Businesses can’t be sold on packaging, process and dealmaker skill alone, of course. The key is the core value of the business itself. So, there’s no free lunch.

continued on next page
Another group of business buyer-scammers has been convicted. This time it was a father-son team from Farmington Hills, Michigan. In federal court in Philadelphia in November 2009 for “a scheme that allowed them to fraudulently gain control” of businesses and “deplete the assets.”

Kenneth and Frank Mitan, along with their co-conspirators Charro Pankratz and Bruce Atherton, repeatedly defrauded business sellers around the United States over several years by answering “business for sale” advertisements and working out terms of purchase. Often using aliases, they’d offer nearly full price and conduct little due diligence. They’d provide stellar (albeit false) personal financial statements and references, and preferred to effect the purchase via stock as opposed to assets (which is far more typical).

The exact details of each scam varied, but the end game was always to find a way to take possession of the business (and all its assets, accounts receivables, checking accounts, etc.) without paying any money (or very little) at closing. Sometimes the negotiated terms would require little cash at closing, just payments after closing. Other times they’d promise 100% cash at closing, then run into a little administrative problem with their wire transfer but somehow talk the seller into closing on the sale anyway and allowing the buyers to take possession based on the promise to have the payment in a day or so.

The Mitan team, in a matter of days, would sell or remove as many assets as possible, transfer all the cash out of the business, then disappear. The sellers were left with little but a pillaged business. Among their victims was an Arkansas pallet company named Prime-Line, Inc.

In 2006, the members of a group that perpetrated a similar scam on scores of owners of midsize businesses across the United States each pled guilty and went to prison. This group, which included James Robert Nance (also known as Thomas James Alvin and T.J. Alvin), Steven A. Nadroski (also known as Trent Wilson), Donald Nadroski (also known as Don Black and Yaakov Cohen), and Marisa Ponder (also known as Marisa Wolfcale, Jade Hoffman, and Marisa Browning), were the subject of a scam alert that appeared in the July-August 2006 issue of this publication.

Selling a business is complex, time-consuming and risky. Even seasoned business people can and often do make mistakes. When the day comes for you to sell, get expert assistance. Be skeptical, especially if an offer sounds too good to be true. And use competent legal counsel that specializes in business transactions.

Special thanks to business brokerage industry legend Tom West for alerting us to recent developments on this topic.

Building a valuable business is the tough part, to be sure, but the prices businesses sell for are negotiated items. They vary widely and position themselves naturally along a bell curve. The question is: How does one go about securing a price that’s way out to the right on the x-axis? The answer is, of course, packaging, process, and dealmaker skill.

What does this mean for you, the prospective business seller who desires absolute maximum? Secure skilled representation. Hire the most talented M&A advisors you can get. If you own a business with annual profit in excess of $1 million, you’ll earn your investment back in multiples.
Worldwide economic output has grown for literally thousands of years. U.S. economic output has grown since before the United States officially became a country. The long-term average annual rate of worldwide growth has been about 2 percent. U.S. average annual growth has been a bit higher, maybe 2.5 percent. The economy does not tend to grow steadily at these rates but ebbs and flows around the trend line. See the graphic below.

The economy grows for a few years at rates that exceed the long-term trend, and then slows down or even contracts for a few years and logs rates of economic output below the long-term trend. Every six and half years or so the economy contracts or posts negative growth. If negative growth (aka contraction) occurs for two calendar quarters in a row, it is deemed a recession. A depression is simply a particularly long or deep period of economic contraction.

Historically, periods of broad economic expansion have tended to last longer than periods of economic contraction. About five or six times longer.

Periods of expansion tend to last about six and a half years, give or take a couple of years. Periods of contraction (recession) tend to last about a year, give or take six months.

The only relevant data point is that we are either out of the recession already or are soon to be. Act accordingly!

Periods of expansion tend to last about six and a half years, give or take a couple of years. Periods of contraction (recession) tend to last about a year, give or take six months.

The only relevant data point for you as a business owner is that we are either out of the recession already (but don’t know it yet because NBER announces these things typically three to six months in arrears) or we are soon to be. Your sales projections and strategic plans should reflect this.

This rhythmic expansion and contraction of the economy over time is referred to as the economic cycle. It’s also known as the business cycle. The state of the economy, whether expanding, contracting, or stagnating, is measured by “output,” or the total value of all goods and services produced. Economists measure economic output — and rates of growth — for the world, for countries and for regions within countries. A widely used measure of the output of a nation is gross domestic product (GDP), a measure of all goods and services produced during a period of time within a country.

In the United States, the agency that officially measures and releases data on the economy is the National Bureau of Economic Research (www.nber.org). NBER has officially announced that the current recessionary economic period we are in began December 2007. Judging from past recessions, this one should have ended around December 2008, give or take maybe six months. Now, of course, it’s spring 2010. Based on past recessions, we should be well out of this one by now — well into a broad economic expansion. But we’re not, and that is why this recession is called the worst since the Great Depression.

The only relevant data point for you as a business owner is that we are either out of the recession already (but don’t know it yet because NBER announces these things typically three to six months in arrears) or we are soon to be. Your sales projections and strategic plans should reflect this.
A Long History of Recessions

<table>
<thead>
<tr>
<th>Name</th>
<th>Dates</th>
<th>Duration</th>
<th>Time since previous recession</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Late 2000s recession</td>
<td>Dec 2007 – ?</td>
<td>?</td>
<td>6 years, 1 month</td>
<td>The subprime mortgage crisis led to the collapse of the United States housing bubble. Falling housing-related assets contributed to a global financial crisis, even as oil and food prices soared. The crisis led to the failure or collapse of many of the United States’ largest financial institutions; Bear Stearns, Fannie Mae, Freddie Mac, Lehman Brothers and AIG, as well as a crisis in the automobile industry. The government responded with an unprecedented $700 billion bank bailout and $787 billion fiscal stimulus package. A growing number of economists believed the recession may have ended in the fall of 2009. Indeed, GDP grew robustly in the 3rd and 4th quarters of 2009 but unemployment has not begun to recede.</td>
</tr>
<tr>
<td>Early 2000s recession</td>
<td>Mar – Nov 2001</td>
<td>8 months</td>
<td>10 years</td>
<td>The 1990s were the longest period of growth in American history. The collapse of the speculative dot-com bubble, a fall in business outlays and investments, and the September 11th attacks, brought the decade of growth to an end. Despite these major shocks, the recession was brief and shallow. Without the September 11th attacks the economy may have avoided recession altogether.</td>
</tr>
<tr>
<td>Early 1990s recession</td>
<td>July 1990 – Mar 1991</td>
<td>8 months</td>
<td>7 years, 8 months</td>
<td>After the lengthy peacetime expansion of the 1980s, inflation began to increase and the Federal Reserve responded by raising interest rates from 1986 to 1989. This weakened but did not stop growth, but some combination of the subsequent 1990 oil price shock, the debt accumulation of the 1980s, new banking regulations following the S&amp;L Crisis and growing consumer pessimism combined with the weakened economy to produce a brief recession.</td>
</tr>
<tr>
<td>Early 1980s recession</td>
<td>July 1981 – Nov 1982</td>
<td>1 year, 4 months</td>
<td>1 year</td>
<td>The Iranian Revolution sharply increased the price of oil around the world in 1979, causing the 1979 energy crisis. This was caused by the new regime in power in Iran, which exported oil at inconsistent intervals and at a lower volume, forcing prices up. Tight monetary policy in the United States to control inflation led to another recession. The changes were made largely because of inflation carried over from the previous decade because of the 1973 oil crisis and the 1979 energy crisis.</td>
</tr>
<tr>
<td>1980 recession</td>
<td>Jan – July 1980</td>
<td>6 months</td>
<td>4 years, 10 months</td>
<td>The NBER considers a short recession to have occurred in 1980, followed by a short period of growth and then a deep recession. Unemployment remained relatively elevated in between recessions. The recession began as the Federal Reserve, under Paul Volcker raised interest rates dramatically to fight the inflation of the 1970s. The early ’80s are sometimes referred to as a “double-dip” or “W-shaped” recession.</td>
</tr>
<tr>
<td>1973 – 75 recession</td>
<td>Nov 1973 – Mar 1975</td>
<td>1 year, 4 months</td>
<td>3 years</td>
<td>A quadrupling of oil prices by OPEC coupled with high government spending because of the Vietnam War led to stagflation in the United States. The period was also marked by the 1973 oil crisis and the 1973 — 1974 stock market crash. The period is remarkable for rising unemployment coinciding with rising inflation.</td>
</tr>
<tr>
<td>Recession of ’69 – ’70</td>
<td>Dec 1969 – Nov 1970</td>
<td>11 months</td>
<td>8 years, 10 months</td>
<td>The relatively mild 1969 recession followed a lengthy expansion. At the end of the expansion inflation was rising, possibly a result of increased deficits. This relatively mild recession coincided with an attempt to start closing the budget deficits of the Vietnam War (fiscal tightening) and the Federal Reserve raising interest rates (monetary tightening).</td>
</tr>
<tr>
<td>Recession of ’60 – ’61</td>
<td>Apr 1960 – Feb 1961</td>
<td>10 months</td>
<td>2 years</td>
<td>Another primarily monetary recession occurred after the Federal Reserve began raising interest rates in 1959. The government switched from deficit (or 2.6% in 1959) to surplus (of 0.1% in 1960). When the economy emerged from this short recession it began the second longest period of growth in NBER history.</td>
</tr>
<tr>
<td>Recession of 1958</td>
<td>Aug 1957 – Apr 1958</td>
<td>8 months</td>
<td>3 years, 3 months</td>
<td>Monetary policy was tightened during the two years preceding 1957, followed by an easing of policy at the end of 1957. The budget balance resulted in a change in budget surplus of 0.8% of GDP in 1957 to a budget deficit of 0.6% of GDP in 1958, and then to 2.6% of GDP in 1959.</td>
</tr>
<tr>
<td>Recession of 1953</td>
<td>July 1953 – May 1954</td>
<td>10 months</td>
<td>3 years, 9 months</td>
<td>After a post-Korean War inflationary period, more funds were transferred to national security. In 1951, the Federal Reserve reassessed its independence from the U.S. Treasury and in 1952, the Federal Reserve changed monetary policy to be more restrictive because of fears of further inflation or of a bubble forming.</td>
</tr>
<tr>
<td>Recession of 1949</td>
<td>Nov 1948 – Oct 1949</td>
<td>11 months</td>
<td>3 years, 1 month</td>
<td>The 1949 recession was a brief economic downturn; forecasters of the time expected much worse, perhaps influenced by the poor economy in their recent lifetime. The recession began shortly after President Truman’s “Fair Deal” economic reforms. The recession also followed a period of monetary tightening.</td>
</tr>
<tr>
<td>Recession of 1945</td>
<td>Feb – Oct 1945</td>
<td>8 months</td>
<td>6 years, 8 months</td>
<td>The decline in government spending at the end of World War II led to an enormous drop in gross domestic product making this technically a recession. This was the result of demobilization and the shift from a wartime to peacetime economy. The post-war years were unusual in a number of ways (unemployment was never high) and this era may be considered a “sui generis end-of-the-war recession”.</td>
</tr>
<tr>
<td>Recession of 1937</td>
<td>May 1937 – June 1938</td>
<td>1 year, 1 month</td>
<td>4 years, 2 months</td>
<td>The Recession of 1937 is only considered minor when compared to the Great Depression, but is otherwise among the worst recessions of the 20th century. Three explanations are offered for the recession: that tight fiscal policy from an attempt to balance the budget after the expansion of the New Deal caused recession, that tight monetary policy from the Federal Reserve caused the recession, or that declining profits for businesses led to a reduction in investment.</td>
</tr>
<tr>
<td>Great Depression</td>
<td>Aug 1929 – Mar 1933</td>
<td>3 years</td>
<td>1 year, 7 months</td>
<td>Stock markets crashed worldwide. A banking collapse took place in the United States. Extensive new tariffs and other factors contributed to an extremely deep depression. Although sometimes dated as lasting until World War II, the U.S. economy was growing again by 1933, and technically the United States was not in recession from 1933 to 1937.</td>
</tr>
</tbody>
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continued on page 12
Difficult times are not for simply hunkering down and waiting out the storm. It’s a time for courage, creativity and action. Is your business struggling financially? Have you been forced to lay off employees? Are you late paying creditors? If so, your creditors fear the worst. You probably do, too. Maybe there’s a win-win here?

You need to reduce your debt load. Some of your creditors may want to minimize their exposure. If you can come up with cash to apply toward debt reduction, it could be time to deal. Offer a lump sum payment in exchange for debt forgiveness? Be sure they understand that you remain committed to paying them in full. But if they’d be willing to give you an incentive, maybe you could part with some of your scarce cash. Liquidate other assets, such as personal ones, and come up with liquidity necessary to satisfy them.

You both might be able to get a little of what you both want and need in this less-than-desirable situation. If you work out a deal, be sure to put it in writing. And be aware that any debt forgiven is taxable income. But if your business is performing poorly, you likely have losses you can use to offset any gain.

Finally, be careful not to sour a relationship. Be sure your creditors see the deal as a positive development that allows them to trade an uncertain future for a certain one.
Roth Conversion Decision Made Easy

Whether to convert your retirement account(s) to a Roth is not the same for everyone. It makes good sense for some and less for others. But there’s one situation that makes the decision easy:

You have net operating losses.

If you have operating losses in your business — unused losses from 2008 or 2009 or expected losses for 2010 or 2011 — you can use them to offset Roth conversion gains and thereby reduce or eliminate the associated tax bill. You’ll still want your financial advisor to conduct a thorough analysis, but odds are it will make sense to convert.

Even if you don’t have losses, you’ll almost certainly want to convert before year-end if the following apply to you:

1. You have cash outside your retirement account(s) you can use to pay the conversion tax (so you don’t have to pay a 10% early-withdrawal penalty).
2. You won’t need to use the converted funds within the next five years or before you’re 59 ½ (Roth rules).
3. You expect to have “decent” income during your retirement years (and therefore will be in one of the higher tax brackets).
4. You think there’s a greater likelihood that overall income tax rates will be higher in the future, as opposed to lower.

If the above apply to you, definitely talk to your financial advisor about the wisdom of converting your traditional retirement accounts to a Roth before year-end (2010).

All this is predicated on a very simple and indisputable fact: You’re better off with your retirement funds in Roth accounts than any other form of retirement account. This is because:

- Withdrawals from a Roth are not subject to taxation. Withdrawals from other types of retirement accounts are taxed as ordinary income.
- There are no withdrawal requirements for monies held inside a Roth. So if you want to leave your money in your account beyond the age of 70 ½, you can — and it will continue to grow tax-free.
- If your heirs inherit your Roth, their withdrawals are also tax-free.

These are serious advantages. The proverbial fly in the ointment, of course, is that money and/or investments moved from traditional retirement accounts, i.e., traditional IRA, SEP IRA or Simple 401(k), to a Roth is subject to taxation. This is because, as you will recall, you funded the accounts with pretax dollars. Roth accounts work the opposite way: Contributions are made with after-tax dollars and withdrawals are tax-free. Withdrawals from other types of retirement accounts are taxed in the year of withdrawal as ordinary income.

So the benefits of having your money in a Roth are considerable, but moving funds from traditional accounts to the Roth will trigger a tax bill. Which tactic makes the most sense for you depends on your particular situation. The core decision criteria are listed above.

If you convert this year (2010), you can allocate any taxes due to the 2010 and 2012 tax years. Talk to your financial advisors today.

1 Funds held in 401(k) and Solo 401(k) accounts (at least funds in these account types that did not originate from profit share contributions) cannot be moved to a Roth outside of a “distributable event” such as discontinuation of the plan, severance of employment, retirement, or reaching age 59½.
2 If you have made after-tax contributions, they — and investment gains on these contributions — are not subject to taxation when moved to a Roth.
3 Most contributions are made with pretax dollars but after-tax contributions can be made, too.

“I like it, but I’m looking for more of a status symbol. Any way you can double the price?”

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Revenue Follows Brand Value
March 26, 2010
People want to do business with organizations that are credible and trustworthy. They want to patronize organizations that are good corporate citizens. Ultimately, people want to be inspired, have hope and feel good about themselves and others.

People reach for your products when they feel good about who you are and what you stand for.

Douglas said Coke will remain the most valuable brand on the planet only if it can continue to “polish and strengthen” its brand and “make it vibrant, special and resilient.” He said Coke will reach its worldwide growth ambitions if it can continue to be a company that people admire and want to associate with, a company that cares for others and does its part to make the world a better place.

It’s amazing to me that a company as large and diverse as Coca-Cola — 500 brands in 206 countries — manages to rise above its daily business challenges. You know it has serious challenges: human, financial, legal, logistical, and competitive. Every business does. But Coke’s top executive said its No. 1 priority, and the key to its future success, is its brand. He said Coke will maintain and strengthen its brand by being genuine and true to what the company and its products stand for.

Sure, Coke must deliver a quality product and do all the things any company must do, but the top exec of one of the most valuable brands on the planet says that to continue to grow and be successful, it must deliver more than a consistent product that’s tasty and refreshing. It must lead, inspire and “do good.”

Wow. That’s quite a standard.

Here’s the message from the leader of one of the greatest and most successful companies in the world: Do ANYTHING that could tarnish your brand and fewer people will reach for YOUR products. When people see your company, products, services, logo, employees and executives, they must feel good about everything they see. The very future of your business depends on it.

No Place for the Real You to Hide
April 29, 2010
With the advent of websites, blogs, Twitter, YouTube and Facebook, the real you is rapidly and widely disseminated. What people really think about your company today tends to have as much — if not more — to do with how you and your employees conduct themselves as it does with the image you work hard to portray.

This sobering reality is top-of-mind for business owners and managers all over the globe. Is it top-of-mind for you and your employees?

Take Sandy Douglas, president of Coca-Cola North America. He said recently at an appearance in Tulsa:

“Gone is the day companies could ‘talk the talk but not walk the walk.’”

If a company fails to live up to its own image, consumers will quickly spot it, blog about it and call it out publicly.

“Used to be people just watched your commercials and accepted what you said about yourself. Branding was easy then. Those days are gone.”

Couple this with the fact that people want to do business with organizations they admire and trust. Lose their trust and admiration, and you’re in a world of hurt. Coke’s president knows this. He said:

“For example, if consumers don’t genuinely see that Coca-Cola is doing all that it can and should to care for the environment, fewer will reach for Coke products.”

Are you and yours protecting your brand with vigilance? Do you realize how important it is what people think of you and your business, and the direct impact it has on revenue?

“It’s better to hang out with people better than you. Pick out associates whose behavior is better than yours and you’ll drift in that direction.”

Warren Buffett
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- The Logical Buyer for Your Business
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- The Role of Your Key Advisors
- What You Need to Know About Business Brokers and M&A Advisory Firms
- Up-Front Fees and Engagement Agreements
- Scam M&A firms
- Why Not the Business Owner’s Established CPA or Attorney?
- Sale Price vs. Enterprise Value
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