20 Ideas for Your Business

Introduction

Today's business leaders are faced with challenges and opportunities on a daily basis and, over the past few months, those challenges have become greater due to the downturn in the economy and opportunities seem less apparent. While the current crisis can be traced to the credit crunch that hit the banking system in recent months and the U.S. sub-prime crisis, it is important to keep the perspective that economic cycles are a part of our lives. They have come before, and will come again. There are many managers operating companies today that were not even in the work force for the last general downturn in 1989 to 1991.

This document was produced with the purpose of highlighting 20 ideas that you should examine more closely to ensure that your business is healthy and sustainable. Starting with the basics – good business practices, regular attention to operations and planning for contingencies will help guide your organization to good footing. If your business is on strong footing and can maintain its strength, this may allow you to take advantage of opportunities that may present themselves.

Back to Basics

1. Understand Your Business

All businesses have some form of internal management information system, starting with basic, timely financial information and reporting. Ensure financial reports are produced monthly or more frequently, study them, and know the key drivers for your business. Identify ratios or indicators for your business and know what is optimal, whether that is turnover, profitability or investment in current assets. To help you keep track of developments, set them up on a "dashboard" and monitor them weekly.

When there are changes, it is important to understand why the changes are occurring and consider all of your options for dealing with them. In various sectors of the economy, there may be pressure to reduce prices. Monitor the prices you are paying for inputs and ensure you are obtaining the most favourable price and terms possible. Monitor your margins, and don't "buy" yourself into trouble by paying too much or charging too little.

Once an issue comes to light, identify a solution, implement it, and monitor the impact. If one course of action doesn't work, be open to additional options. By being in touch with your business basics you will have the opportunity to stay on top of things.

People who work in your business and have responsibility for a functional area should know what is going on and be able to provide you with a good indication of how your business is doing. Leverage their expertise so you understand the financial reports and indicators.

2. Ensure Your Business Plan Is Current

A business plan provides a business with direction by establishing goals and setting the course to get there. The plan should be flexible so you can adapt to the changing market and remain competitive. Communication is key to ensuring the plan is well understood by your employees and management team. Once communicated, getting them involved helps to ensure the plan happens. The plan should focus on establishing realistic goals, monitoring its progress and making the necessary changes as you move through it. A plan is a work in progress that should be constantly re-evaluated. A clear vision assists a company in taking advantage of opportunities that will help it achieve its goals. Your plan should take into consideration your marketplace, to ensure your capital structure is optimal, and strengthen your business.

3. Do a Financial Health Check

A financial health check is a series of pointers designed to spot potential problems before they get out of control. Identifying areas of concern may not mean your business is facing financial difficulties, but it is a catalyst for you to look closely into your business. Explore areas of concern so appropriate solutions are put in place before your business is in jeopardy. There are core triggers that are crucial indicators that a business may be facing financial difficulties, including:

- Losses, whether actual or anticipated, leading to an accumulated deficit;
- Breach of banking or other financial covenants, whether actual or anticipated;
- Late payment of sales or payroll taxes;
- A going concern note in the financial statements;
- Loss of a key customer;
- Debts to trade creditors over 90 days old;
- Exodus of senior management or key employees; and/or
- Bank or lender's workout group appointed to manage accounts ("Special accounts").

Any of these indicators should cause you to immediately seek advice. Restructuring and insolvency is a specialty area, and many accountants and lawyers have minimal exposure to the relevant issues.

4. Watch Your Cash Flow

One of the first signs of difficulty is a constriction in cash flows. It may be that formerly prompt payers are now stretching receivables. Some customers do this formally by announcing a change in their payment terms. Others do it because they are struggling with cash flow and the result is an extension in payment terms.

Monitor receivables and payment behaviour closely. Document policies for your receivables staff so they know what the expectations are and when additional actions are required. Businesses are not banks, and do not have security for the money that companies owe them. Ensure your customer information is complete. It is difficult to collect money from a customer if you don't know who they are.

For new credit applicants, have a complete credit application on file. Obtain current financial statements and references, then check everything–twice. Sometimes people come to a new supplier in challenging economic times because they ran out of credit elsewhere or have lost suppliers to the downturn. For new applicants, consider a personal guarantee or other security.

Finally, be aware of standard practices for your industry. Review any applicable industry legislation (i.e. Construction Lien Act, PPSA) to ensure your business practices allow you to access legal protection if needed.

5. Ensure Your Business Is Properly Capitalized

The right kind of financing at the right time can be critical throughout many stages of the life cycle of a business. In addition to traditional banks and credit unions, many other sources of financing are available. Some of the common reasons for financing include:

- Debt refinancing;
- Desire to grow and expand;
- Acquisition of a competitor;
- Replace old equipment; and/or
- Management buyout.

Identifying alternative sources of financing and/or possible debt restructuring opportunities are critical elements in this process. Sources of funds that can assist you may include:

- Leasing;
- Factoring of receivables;
- Asset-based lending;
- Subordinated debt;
- Private equity; and/or
- Venture capital.

Some of these sources of financing involve more time, costs and coordination, but can be very beneficial alternatives. Proper capitalization provides many advantages and opportunities that might not otherwise be available.

6. Plan Ahead

Even if your business is not in difficulty now, and you believe you are well-positioned to weather the current economic storm, it is always useful to review the structure of your business ownership, assets, family holdings and other matters to avoid unintended consequences. Once business problems become personal obligations, whether as a result of exposure through a guarantee of corporate debt or exposure to any of a wide variety of liabilities that accrue to directors, it is often too late to restructure and protect assets. If you are considering putting personal resources into a business, consider taking security to protect your opportunity for recovery.

Planning ahead for your business requires a comprehensive approach. Some strategies that work for one area of business may not benefit another. For example, what may be optimal for income tax purposes may not be optimal if there is a risk of creditors holding owners or directors responsible for corporate obligations. Seeking expert advice provides you with a full understanding of what is possible.

Taking Care of Business

With the downturn in the economy, it is important to think about issues that will have the greatest impact on your business. Every business should look at their tax situation to ensure the tax planning practices you have used in the past are still relevant, and help you determine if specific tax planning ideas can minimize or defer taxes.

Protecting your assets is also critical during tough economic times, as issues like employee fraud are more likely to happen.

Keeping a close eye on your financial state is important whether you are minimizing or deferring taxes or protecting your assets.

7. Plan for Capital Losses

Corporations can trigger capital losses and where these losses exceed current year gains, the resulting net capital loss can be carried back to the previous three taxation years. In the case of a corporation, prior taxable capital gains are subject to refundable tax. So, if a dividend was paid by your corporation in the prior three years, the refundable tax associated with these gains may have already been refunded to your corporation. In this case, it may make sense to carry capital losses forward to apply against future gains.

8. Utilize Corporate Group Losses

Where you have more than one corporation, you may find you have income in one corporation and losses in another (or property with an accrued gain in one corporation and property with an accrued loss in another). If this is the case, there are a number of strategies to consider, including:

- **Merge the corporations** – It may be possible to merge one or more corporations so income and losses (or capital gains and capital losses) are offset directly;
- **Review intercorporate interest and expense charges** – Subject to reasonability, it may be possible to adjust intercorporate charges

so income is increased for corporations with unapplied losses;

- **Transfer a gain property to a loss corporation before a sale** – Depending on the circumstances, it may be possible to transfer a property with an accrued gain to a corporation with unapplied losses prior to a sale. This could allow the loss corporation to use its losses to offset the gain; and
- **Loan funds to loss corporations without interest** – Where a corporation has losses, an interest-free loan to that corporation will enhance its ability to generate income.

9. Consider Paying Dividends from Your Corporation

If your corporation has had capital gains in the past or received life insurance proceeds, consider paying a tax-free capital dividend now. Depending on the circumstances, future capital losses can reduce the amount that can be paid as a capital dividend. Also, if your corporation has refundable tax on hand, paying a taxable dividend to trigger a refund of this tax in your corporation may make sense (especially if your corporation can pay an eligible dividend).

10. Review Your Corporation's Instalment Obligations

A corporation can pay income tax instalments based on an estimate if you believe its corporate income tax for the current year will be lower (interest and penalties will arise if tax is underestimated).

11. Review Your Remuneration Strategies

If corporate income falls, you should review your owner-manager remuneration planning to determine whether dividends or salary should be paid. It may also be a good time to revisit income splitting strategies to ensure you pay as little tax as possible on distributions from your corporation. For example, it may be possible to pay dividends to adult family members with little or no tax.

12. Review Your GST and PST Status

When finances are strained, it is more important than ever to ensure you are not overpaying GST and PST. In addition, you may be charging tax in situations where it is not required. Addressing this is beneficial if it means your customers will have more money to spend on your products or services.

13. Ensure Research and Development (R&D) Costs Are Identified and Claimed

Many Canadian businesses are engaged in R&D and don't know it. Most people associate R&D with work done in a laboratory by skilled scientists. However, R&D activities for small and medium-sized businesses are often integrated with daily business activities. The Canadian government's Scientific Research & Experimental Development (SR&ED) rules offer generous tax incentives of which you can take advantage.

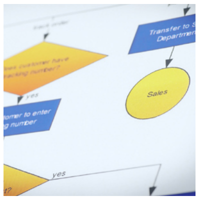
14. Watch for Fraud

Unfortunately we often see an increase in fraud or theft in these challenging economic times. In many cases, the fraud or theft is perpetuated by employees that are experiencing personal financial hardships. Often these employees start with the intention of repaying the funds, but end up getting deeper and deeper in debt until they cannot replace the cash they have taken.

Every business owner learns early on that cash is critical to its survival. It becomes important for controls to be strong, regularly reviewed by management and improved as often as necessary to minimize theft or fraud. Unfortunately, many small to medium-sized businesses cannot afford sophisticated control procedures and fraud or theft sometimes occurs.

This does not mean that efforts should not be made to identify areas where controls are needed. Often the existence of controls, even if small, can be a deterrent for employees considering fraud. In addition, human resource policies that require people to rotate in their positions and take mandatory vacations provide additional protection in preventing the concealment of inappropriate behavior. A review of your practices and controls is a helpful step towards the reduction of fraud and the preservation of your assets.

Opportunities



A company on solid financial footing has many options and opportunities during an economic downturn. They may range from internal opportunities, such as re-organizing the business, to exploring a new process that can make a business more profitable and sustainable, to external opportunities like purchasing a business.

15. Consider a Holding Company

A holding company can provide a number of benefits, including:

- **Pay out corporate earnings of a subsidiary corporation as a tax-free intercorporate dividend** – Where dividends are paid by a subsidiary to a holding company, this may provide asset protection for the amount paid, and may help ensure the shares of the corporation remain eligible for the capital gains exemption;
- **Cash in the tax cost of shares you have acquired** – If you bought shares of a corporation and your tax cost is higher than the paid-up capital of the shares, you may be able to transfer your shares to a holding company in return for debt or paid-up capital, which can be repaid tax-free. This planning may not be possible if you acquired shares from a relative;
- **Protect tangible assets such as land and buildings from business risk** – A holding company can also provide protection for tangible property such as land or buildings. This property can be held in a holding company even if it is being used by a subsidiary in its business. The holding company shares can still be eligible for the capital gains exemption if certain conditions are met; and
- **Protect "GRIP" from future losses** – Under the dividend taxation rules, a private company can pay eligible dividends (which are taxed at a lower rate) to the extent that the corporation has a positive balance in its general rate income pool (GRIP) at year-end. If a corporation has losses in the future, this GRIP balance could be eroded. Paying the GRIP balance to a parent company as an eligible dividend can protect that balance from future losses.

16. Review Your Estate Plan

A downturn in investment and asset values actually presents an opportunity from an estate planning perspective. For example, if you intend to pass on investment or business assets to your children, an estate freeze now can make sense as it will lock the tax that will become payable when you dispose of your assets, either during your lifetime or on death. Under an estate freeze, the current value of the assets is frozen in a corporation for your benefit while allowing future growth accrue to others, such as your children. Also, if you completed an estate freeze in the past, the downturn also represents an opportunity to enhance that freeze. In particular, if the value of the corporation has declined since the freeze, it may be possible to re-freeze your preferred shares at a lower value, thereby reducing the amount that will be taxed in your hands on death or on a sale. A well-prepared valuation report will be beneficial in not only establishing the value of the business, but also in providing the support needed for tax purposes.

17. Enhance Your Business Processes

Whether economic times are good or bad, every business is looking for ways to increase productivity, reduce costs, lower risks and increase profitability. Optimizing your business processes will lead to improved margins, increased revenue, elimination of waste and improved customer satisfaction.

How do you know if you should review your business processes?

- Are your financial processes becoming increasingly technologically driven, adding unwanted costs?
- Are your operations growing quickly and your infrastructure struggling to keep up?
- Are you introducing new systems or operating multiple systems?
- Are your costs escalating and putting pressure on margins?

Linking expensive legacy processes and systems to new, more streamlined and efficient ways of doing business will allow you to map business processes, such as order to cash or hire to pay; transform that map into an application or set of applications; and manage the electronic workflow to monitor that the work gets done in the most efficient and cost-effective manner and allow timely changes with minimal cost.

18. Managing Enterprise Risk

New economic and strategic risks, corporate governance and financial reporting challenges can threaten the viability or success of your business, especially in tough economic times. As a result, both public and private companies need to re-evaluate all of the general, ongoing operational assessments, which identify potential risks that could prevent a company from meeting its strategic goals and objectives. It is an initiative that delves deeper than a basic risk assessment; because it is continuous in nature, it helps to provide an organization with the flags and markers it needs to keep it on course, steering away from potential trouble.

Companies should consider the benefits that a formal enterprise risk management strategy will bring them, including:

- Creating a culture of risk awareness within the organization;
- Enabling better business performance;
- Promoting achievement of goals and objectives;
- Strengthening the internal controls structure; and
- Establishing accountability for goals and objectives as well as risk mitigation.

19. Consider Buying a Business

These economic times can create valuable opportunities that may not otherwise exist. Competitors may need to sell due to financial problems. Your desire to take this opportunity may be strong, but how do you ensure that it's the right decision to make? It's important to consider whether the purchase meets the strategic plan of your business. You need to identify the synergies that may exist, how the purchase compliments your business, whether you are properly capitalized to finance the acquisition and whether other alternative acquisitions would be more beneficial. A proper plan for acquiring a business ensures you are maximizing the use of your valuable corporate dollars. The process should consider the following steps:

a) Identify potential target acquisitions that compliment your business plan;

b) Research the potential target acquisition to understand the business and reduce the risk of an unpleasant surprise;

c) Ensure you get what you are planning to buy – perform due diligence;

d) Ensure you have the capital structure to finance it;

e) Negotiate your best price so it fits your overall plan; and

f) Ensure you have a solid purchase agreement.

20. Consider Selling Your Business

In a challenging economy, it may not be the best time to optimize your return by selling your business. However, there are various situations when a sale may be warranted including:

- Retirement;
- Need of additional capital;
- Partnership/shareholder or family disputes;
- Desire to realize on the success of the business;
- Death or illness of a key member or staff;
- Need for personal liquidity; and/or
- Need for a change.

When selling, it is important that you look at ways to maximize your proceeds from sale. If at all possible, you may want to re-think selling your business, as there may be fewer or no buyers, or you may have to take an offer significantly less than what you believe its worth.

If you have determined that you need to sell, a properly prepared plan will assist your business in maximizing the sale price. Preparation begins long before the sale is announced. Having a solid management team, strong business and marketing plans and sound financial statements are critical steps of the process.

- **Solid management team** – A strong management team is action-oriented, delivery focused and able to integrate the direction of the business with the needs of its various departments. A business that is highly dependent on the owner and/or key employees attracts more risks to a prospective buyer. Spreading the duties, tasks and contacts to others within the business provides greater confidence that its performance can be maintained in the future
- **Strong business and marketing plans** – The existence of strong business and marketing plans provides comfort and ultimately greater value to a

prospective buyer. A strong business plan provides vision, outlines its objectives, its strategies, its market place and its financial forecasts. A strong marketing plan assesses the customer needs, develops a product or service to meet those needs, communicates the attributes of them to the customers and outlines the distribution channels for delivery.

- **Sound financial statements** – Financial statements are one of the most beneficial indicators of the future performance of the business. As a result, the level of reliance that can be placed on those statements is very important. An audited financial statement places the highest degree of reliance. A Review Engagement Report also provides a level of assurance that the financial information is plausible. Often comfort in a non-assurance report can be obtained when they are prepared by a reputable accounting firm.

If these elements are not in place and you have the time, it may be wise to delay so you can make the necessary changes. It's important to be aware that holding on to your business, when you are otherwise ready to sell, contains inherent risks. You can never be guaranteed that these tough economic times will not worsen or last longer than anticipated. In any economic climate, a properly prepared plan to sell your business is vital to ensure that you maximize your price.

Your approach to marketing your business for sale is equally critical. It's important that the business is not offered for sale like a commodity. This process tends to lead to bargain shoppers, which does not generally result in obtaining the best price. Targeting buyers who identify synergies with your business may lead to a higher price for you.

Conclusion

Tough economic times can steer your business towards trouble or opportunity. While it is unlikely one idea will turn a struggling business into a successful business long-term, many of the ideas, undertaken in unison, will help ensure you are able to navigate your company through some rough economic water and put you in a position to capitalize in your marketplace.

These 20 ideas are general in nature and have been selected as they apply most broadly to business. There are more ideas that may apply to specific circumstances that your business may be facing.

Call your BDO advisor today to book a meeting to find out how you can turn these and other ideas into opportunities.

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