



# The Bottom Line

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## Top 10 business survival tactics for a tough economy

During times of recession some businesses have what it takes to weather the storm of uncertainty and are able to adapt and maintain their presence in the market, while others don't. Tough times call for a re-examination of fundamental business principles which on the surface may seem obvious, but are often overlooked. The following back-to-basics suggestions can aid you as you recession proof your business.

- 1. Cash flow is king**—As a business owner, you must know how your cash flows. This isn't fancy accounting; it's simply tracking how cash comes in versus how it goes out. Be sure to get a grasp of this monetary movement.
- 2. Trim the fat**—When cash flow is good, "fat" tends to accumulate. Now is the time to look at where your money is going and eliminate unnecessary items. It's critical that you get your cash outflows to a manageable level.
- 3. Look into the future**—When clients and projects were rolling, most people believed new business would materialize whenever things temporarily slowed down. At least for the time being, those times are gone. Analyze what money is coming in; specifically from where and when. Compare this to your cash outflows. If more is going out than coming in, trim more and find additional income. Do this exercise each month, always looking at least three months out. Also, prepare a worst-case, 12-month cash flow scenario. Assume a 10% to 20% drop in revenues and identify what changes you would make and when. Many times it is too late for recovery once a dramatic drop in financials is discovered. *(Continued on p. 4)*

## From our Partners

With unemployment and the continuing recession dominating headlines and impacting most people's lives in some way, there is no doubt that we are living in precarious times. At Warady & Davis LLP, we of course recognize the magnitude of the economic crisis and are responding to your changing needs. For us, the key lies in helping you while keeping an eye to the inevitable economic recovery and the opportunities it will provide.

As part of our genuine commitment to your success – we are pleased to offer a variety of advice and strategies both herein and on our website: [www.waradydavis.com/recession-resources](http://www.waradydavis.com/recession-resources). As always, we are here to help.

William A. Nichols, CPA, Managing Partner  
Warady & Davis LLP

## Why smart inventory management keeps the cash flowing

Good inventory management is a key aspect of managing cash flow. Too much inventory depletes your business's resources, tying up cash in the form of goods, as well as insurance, storage and interest charges on those goods. On the other hand, too little inventory can result in lost sales, delays and customer aggravation - free gifts to your competitors.

Inventory management is a juggling act. While you need to keep an adequate quantity and variety of goods on hand to meet customer demand in a timely manner, you don't want to invest too much in goods that don't sell well or may become obsolete, spoiled or irrelevant.

Many businesses strive to operate on a just-in-time (JIT) basis, holding stock for a minimal amount of time before moving it, selling it or using it. The keys to effective JIT inventory management are to pinpoint the rate at which each item in your shop moves and to maintain optimum stock levels for each item. To optimize stock levels, consider:

- Anticipated stock turns for each item
- Availability of raw materials and components to manufacture or assemble goods
- Time necessary for delivery by suppliers
- Shelf life for each item

To reduce excess inventory, you may need to sell off outdated or slow-moving merchandise. Remember that stock sitting on your shelves for long periods of time ties up money that is not working for you.

## Finance

# Is it time to change your investment strategy?

Jim Platania, CFP, Registered Principal  
Financial Network Investment Corporation, Member SIPC

If you have not reviewed your investment strategy over the past year, it is long over due. There is no better time than now to re-evaluate your investments and determine the type of investment strategy(s) that will best suit you going forward. It is time to forget about losses of the past and focus on moving ahead; to clearly understand what your money needs to do for you and to assess what strategies are available to best help get you there. In this article we will briefly touch on three investment strategies: Passive, Tactical and Absolute Return.

Understand, doing nothing, or just plainly “staying the course” could turn out to be a terrible plan of action. Why? Because history has shown that during bear markets, similar to the one we are in, many years can pass before we move on to a fresh, new bull market (like the one we experienced from 1982 to 2000). Going forward, markets can move up, down, and sideways, ending at where they started. During these difficult times, take time to reassess your needs, consider new potential risks and understand choices you have to navigate markets in the foreseeable future. Let’s now take a closer look at the strategies mentioned above:

- The **Passive** strategy is the way many people have invested for years. This strategy typically invests in several asset classes (i.e. stocks, bonds, money markets) and periodically rebalances them to the original allocation consistent with their timeframes and risk tolerance. Passive investing works best in a bull market because one typically stays invested and rarely makes changes to the asset allocation model.

- The **Tactical** strategy sets up an allocation using similar asset classes used in the Passive Strategy, but actively makes changes in the allocation based on market conditions. This strategy often utilizes additional defensive or opportunistic investments to manage risk or take advantage of opportunities. It is best used in sideways markets.
- **Absolute Return** is an approach that attempts to manage downside risk. This approach often uses several hedging techniques and can work well in down markets. It is also appropriate for someone who seeks preservation of principal as a priority, but attempts to do better than Treasury Bills or Money Markets.

Think about the importance of your investments and define if you are optimistic, pessimistic, or realistic about the market. Ask yourself if your current strategies are aligned with your attitudes. Forget about what has happened during the past year and a half and focus on moving forward.

Please note that asset allocation is more complex than the simpler concept of diversification. It does not eliminate the risk fluctuating prices and may cause taxable consequences.

For further information, you can reach Jim at 847-870-PLAN (7526).

## Worth reading

### BOOK REVIEW

#### Here Comes Everybody by Clay Shirky

The world seems to be changing so quickly – mainly because of the Internet – that it can make your head spin.

Newspapers are in trouble, protesters organize via 140-character messages and entire encyclopedias are built by volunteers.

Shirky’s book, Here Comes Everybody, tries to explain the social and economic factors behind the new technologies that have transformed a world based on scarcity to one based on abundance, where everyone can create, criticize and contribute without being part of a traditional organization. He tells the story of how thousands of people were mobilized to find a stolen cell phone (and shame its thief) and what makes sites such as Wikipedia, which make no profits and have no real leaders, function so well.

This is a fascinating read for anyone doing business in 2009. After all, if you are to succeed today, you need to be aware of the revolution that is taking place around us.

#### ***How to Survive the Recession ... Stronger than Before***

Even though times may be tough, it’s important to recognize that this is a period of tremendous opportunity. For a free copy of Warady & Davis LLP’s article “**How to Survive the Recession...Stronger than Before—Strategic Considerations**” contact:

nscott@waradydavis.com  
or call 847-267-9600 x214.

## Tax

# Taxpayers need to act fast to take advantage of temporary tax breaks—Tax changes year-to-date; anticipated tax changes to come

If the first half of 2009 is any indication, taxpayers have their work cut out trying to keep up with available tax breaks and potential tax pitfalls of 2009.

In February, Congress passed the Economic Recovery and Reinvestment Act of 2009. The nearly \$800 billion economic stimulus package offers significant tax incentives; however, many of the incentives, as well as other tax breaks, are temporary.

### ***Business temporary tax changes set to expire during 2009 are:***

**Equipment purchases.** The \$250,000 limit for immediately expensing qualified equipment purchases was extended through 2009. The deduction is gradually reduced once annual equipment acquisitions exceed \$800,000. Both new and used equipment qualify for this tax break. Sport utility vehicles are still subject to the \$25,000 expensing limit.

In addition to the expensing option, purchases of new equipment, software, and qualified leasehold improvements can qualify for 50% first-year bonus depreciation through the end of 2009.

**Expanded net operating loss carryback.** The 2009 law extended the carryback period for 2008 net operating losses from two years to as many as five years. To be eligible for the extended period, a business's average annual gross receipts for the last three years must be \$15 million or less.

This option is available to eligible taxpayers for a limited time. A corporation that operates on a calendar-year basis, for example, must elect by September 15, 2009, while eligible individuals (sole proprietors, partners in a business partnership, and S corporation shareholders) have an October 15, 2009 deadline.

**COBRA credit.** Employers providing the 65% COBRA health insurance premium for former employees claim credit for this subsidy on their quarterly or annual employment tax returns. According to

the IRS, businesses can ease cash flow problems by reducing their employment tax deposits by the amount of the credit. The IRS website at [www.irs.gov](http://www.irs.gov) provides details.

### ***Individual temporary tax changes set to expire during 2009 are:***

**First-time homebuyer credit.** This credit reaches \$8,000 for purchases between January 1 and November 30, 2009. Taxpayers must be qualified buyers and satisfy income requirements. Eligible taxpayers also can file an amended 2008 tax return to receive the credit sooner.

### **Motor vehicle sales tax deduction.**

Taxpayers can take an extra standard deduction for state and local sales taxes paid on the purchase of a new vehicle and, in states without a sales tax, taxpayers can deduct other fees to take advantage of the temporary motor vehicle sales tax deduction enacted as part of the 2009 Recovery Act. The amount of the deduction is limited to the portion of the state sales or excise tax imposed on the first \$49,500 of the purchase price of the vehicle and is effective for vehicles purchased between February 17 and December 31, 2009.

### **COBRA premium assistance.**

Individuals laid off from their jobs between September 1, 2008 and December 31, 2009 meeting income limits may qualify for nine months of COBRA premium assistance under the 2009 Recovery Act. Individuals pay 35 percent of the COBRA premium and employers must treat that as full payment. Employers claim a credit for the other 65 percent of the premium on their payroll tax returns.

**Economic recovery payments.** The 2009 Recovery Act authorized one-time payments of \$250 to individuals receiving Social Security benefits, disabled veterans and others on fixed incomes. The Social Security Administration began sending the bulk one-time payments by mail and direct deposit in May 2009.

### **Exclusion of unemployment**

**benefits.** Individuals receiving unemployment benefits in 2009 can exclude the first \$2,400 from their income. The exclusion is only available for 2009.

**Tax evasion forgiveness.** In an effort to shore up tax revenues, the IRS is encouraging taxpayers to disclose unreported foreign bank accounts and assets. In exchange for full disclosure and paying all back taxes plus interest and penalties, the IRS agrees not to criminally prosecute tax evaders and to waive the 75-percent fraud penalty. The settlement offer is only available up to September 23, 2009.

### **Looking Ahead at Tax Legislation**

The rest of 2009 will likely bring additional tax law changes, although many will not take effect until 2010 or beyond.

In May, President Barack Obama released details of his tax proposals. These included extensive reform of the international tax rules, higher tax rates on upper income individuals, extended middle income tax breaks and deficit reduction. Individual tax cuts would total \$736.5 billion over 10 years and business tax cuts would total \$71 billion over 10 years.

In addition, in late July, the administration outlined tax proposals to help pay for health care reform, including a surtax on families earning more than \$1 million a year. Congress has already noted its opposition to some of the President's proposals. However, there are several more months remaining in the year, a growing deficit, an economy that is still trying to find traction and an urgency to reform health care. As a result, it's a fluid time where policymakers can shift their priorities and make concessions in order to move forward the programs they think are important.

## Top 10 business survival tactics *(cont. from p. 1)*

**4. Keep an eye on long-term goals and objectives.** Every decision, every cutback, every improvement you make must be beneficial both now and in the future. Many companies regret hasty decisions after they react by cutting prices, firing employees, eliminating marketing, etc. Do not plan for the short-term, plan for the inevitable upturn.

**5. Get back to basics**—When you first went into business, you may have had to fight and claw to make ends meet. Make a list of the things you did back then to bring in revenue. You probably moved away from many of those strategies when business improved. This is the time to aggressively return to those approaches, if appropriate.

**6. Keep emergency cash reserves**—If you have any money right now, create an emergency fund that equals one, two or three months of your cash outflows. Put this in an account and don't use it unless it's life or death for the business. This provides a cushion just in case something bad comes along at the worst possible time. If you don't have cash now, do everything you can to build up such a reserve.

**7. Bank on it**— If you're having trouble keeping up with your obligations, keep the lines of communication open with your banker. Develop and share a concrete plan for getting cash flows back in shape. Create the basics for the plan and ask your CPA and other advisors for their input. Once it's complete, communicate with your banker clearly, and ask for help implementing the plan. If it's a quality financial institution, they'll want to see you make it and help you any way they can.

**8. The customer is always right**—Ensure that you are providing your customers with the highest level of customer service to protect prices and present new reasons for them to remain loyal. During a recession the customer's buying habits will change. You need to show your customer that you understand that economic times are hard and provide them with solutions that address their problems or concerns. Although you want new business, it's imperative you keep your existing ones. Your competition is desperate, and they may try anything to get your customers. Create the best experience possible for every customer that walks through your door, calls you on the phone or otherwise comes in contact with your business. Call your clients yourself, ask them how they're doing, and if there's anything you can do to help them out. Ask if they're happy with your service and how it can be even better going forward.

**9. Stay on the Growth Trail**—When the future is uncertain, it can be tempting to just "batten down the hatches" and try to "ride out the storm." Too often, companies cut back on new products or services that represent the future of their business. Then once the upturn arrives they find they cannot catch up with the market's expectations and demands. Do not cut back on business development or product development budgets - keep your products or services current and creative.

**10. Diversify** —With the market in a recession, one of the best things that you can do to ensure financial success is to become more diversified. You can do this by looking for ways that you can sell complimentary or supplementary products. If additional products are not a possibility, then invest your time in enhancing the usability of the main product by offering repair services, warranties, etc. You may even consider opening a completely new line of products or services that fulfill a specific need that may exist because of the recession.

Remember that the more services you can offer, the more clients you will be able to find. In addition to creating new products you can diversify even further by repackaging your product and selling it to a different clientele. Although you may be very comfortable in a certain market niche, a recession is no time to remain un-changed. You may have had the competitive advantage before, but unless you diversify along with your competitors, you will be left in their dust.

### *In Memoriam*

**Robert A. Serwy, MBA, BSE, CPA, CITP**—**Director of Information Technology Services**  
**W&D Consulting LLC**

Bob Serwy touched the lives of many W&D firm members and clients with his brilliant mind and steadfast spirit. He led innovative initiatives by combining a unique background of engineering, accounting, business, and technology expertise with his primary responsibility for serving W&D clients and our internal network and technology. He was an invaluable resource to everyone at W&D from the simplest computer question to the most complex request. Bob always responded with good humor, patience and the desire to teach.

Bob was also a key client advocate and advisor assisting with everything from manufacturing floor design to operations processes, from leading edge technology implementation to the design of business information with the goal to provide owners and management with data required to effectively run their businesses and increase performance and profitability.

Bob's intelligence was undisputed, having earned a Masters of Business Administration from Northwestern University as a F.C. Austin Scholar, a Bachelor of Science in Engineering, Magna Cum Laude, from the University of Illinois at Chicago and many professional credentials.

Bob loved a challenge, but he will be best remembered for the support and guidance he provided everyone at W&D and specifically his staff members. "He always challenged us to do more, to have the confidence to take on new responsibilities and knowledge," said one staff member. He backed up this desire to grow his people with the understanding that "I will help you every step of the way." "He was like a Dad to us," reflected another W&D firm member.

A member of the Warady & Davis LLP family for more than 20 years, Bob leaves behind a legacy of friendship and excellence that will be sorely missed. We extend our deepest condolences to Peggy, his wife of 38 years, to his children and family.