THE MONTHLY CEO ADVISORY™

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Dear Friends,

My article this month focuses on something most organizations do not do very well: executing a plan.

I've identified six components of executing that need to be put front and center to ensure success. This is not all on the shoulders of the CEO, but a good management team needs to be in place, because without it, any plan is doomed. Reach out to me if your team is failing to execute. My Business X-Ray program works wonders.

Overseeing a business is the single most challenging task someone could ever take on. It is all consuming and all encompassing. You have little time to learn about all the areas you should. To make it easier for you, each of our articles are short (only one page) and are written with you specifically in mind, covering the following categories:

- Growth & Profits
- Tax News
- Human Resources Compliance
- Commercial Insurance
- Manufacturing Excellence
- Information Technology
- CFO Insights
- Social Media
- The Revenue Game
- Mergers & Acquisitions
- Business Law
- Intellectual Property
- The Future Explained
- Leading Powerfully
- Teamwork and Culture
- Creating Strong Leadership Teams

Please feel free to pass along The Monthly CEO Advisory to others in your network who might benefit from learning something that could positively impact their business.

Please enjoy all the articles in this issue and thank you for allowing us to be part of your continuing business education, growth and success. Stay safe.

Sincerely,

Ken Keller

Ken Keller
CEO

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Business Growth Opportunities to Consider in 2022

The Monthly CEO Advisory is a publication for business leaders. Please enjoy the articles, send us any suggestions of topics you would like to see covered and pass this on to others so that they might benefit. Thank you. Ken Keller

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BUSINESS GROWTH & PROFITS

BETWEEN PLAN AND PROFITS

The missing piece between any plan and desired results is known as execution. Companies consistently falter at this, the art of actually getting things done.

Typically, the CEO and team invests time to create what they think is a plan for the year ahead and soon discover that agreed upon goals are not being achieved, and no one is stepping up to take the responsibility for the shortfall.

Reality is that no plan is worth anything unless it includes who, what, when, where and most critical, how the plan is going to be implemented. Plan progress needs to be monitored regularly and people need to be held accountable for wins and misses.

I've identified six elements that show how to improve the likelihood of successful execution.

The first is simple: what are the goals the company is trying to achieve? If new clients, how many, over what time frame? If trying to get more clients to buy more from you, again, how many are you targeting and what is the goal you want to achieve, in the aggregate and by client? Crystal clear goals matter.

Second, what is the strategy? Strategy speaks as to how the goals will be achieved. It is how the company will win. Strategies should not be kept secret.

The third is a failing in communication. Most companies are interested in a growth strategy but in my experience have not taken the time to develop the clarity required to gain internal alignment and buy-in from all stakeholders. Why is this critical? All employees need to understand what the goals are; what the strategy is and the role and responsibility they have for its successful implementation. Combine a lack of understanding with half-hearted commitment up and down and across the company, and the strategy is negated before the planning session ends. Nodding heads is no buy-in.

Fourth, the roles of each department and individual are not clear and often, the responsibility is diffused. As an example, I've heard department managers in support departments scoff at the idea of helping sales achieve revenue goals when the top performing salespeople were to be rewarded with an exotic island trip. "Why should I lift a finger to help them? I'm not getting a paid vacation!" is what I heard.

The divide between office/warehouse; office/factory floor; or headquarters/field is walls and wedges that lessen chances of success.

Fifth, execution requires executions, meaning, when someone fails to do what they have been told to do, and are being paid to do, there must be a consequence. Companies fail to address under-performing employees at the very first sign of ignoring their responsibilities and the behavior becomes acceptable. This means that unacceptable behavior becomes endorsed. Holding managers and employees to task is essential.

Finally, companies often set goals and create strategies without the necessary resources available to move ahead. For example, salespeople are told they must add new clients every month. But the company lacks a prospecting system that generates quality leads. By simply asking the question "What do you need to succeed?" the CEO can make informed decisions about when, where and how much to invest in resources for the plan to be executed.

Visit StrategicAdvisoryBoards.com today to learn about nationwide peer groups on Zoom or call Ken Keller at 661.645.7085.

Learn about Strategic Advisory Boards by watching https://youtu.be/cYTOZmVjaAM

Ken Keller

We bring CEOs together in Strategic Advisory Boards for education, accountability, and association to improve their businesses and their lives, growing revenue, reducing costs, and improving profits. We provide tools, resources and coaching for already successful leaders to become even better.

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TAX NEWS

PASS THRU ENTITY ELECTIVE TAX

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For California residents that have been limited on their State and Local Tax Deduction within their itemized deductions on Schedule A the Pass-Thru Elective Tax may just be the solution. Beginning with tax year 2021 there was an approved method to allow a full deduction for the amount of state income tax associated with a pass-thru entity that the taxpayer is an owner or shareholder.

This is termed the "State and Local Tax Workaround" or the Pass Thru Entity Elective Tax. This is available for the tax years beginning in 2021 and ending in 2025. It is accomplished through the pass-thru entity electing to pay 9.3% for each electing owner or shareholder and remitting via the entities tax return. This will thus decrease the federal net income included on the owner's K-1.

The owner will report the net income net of the tax payment for Federal purposes and also receive a California tax credit equal to the state tax paid by the passthrough entity on behalf of the owner. This allows the K-1 recipient to reduce the federal adjusted gross income rather than having a state tax deduction on Schedule A, which would be normally subject to the $10,000 limitation.

The election is made annually, is irrevocable and can only be made on an original, timely filed return, including extensions. Therefore, for the tax year 2021 the election can not be made at this point. However, the election can still be made for the 2022 tax year. In order to elect for the 2022 tax year the entity must make two payments. The first payment is due by June 15, 2022. The amount due is the greater of:

- 50% of the elective tax paid for the prior year; or
- $1,000

The remaining amount due must be paid by the entity's original filing date deadline (March 15 for calendar-year taxpayers). There is no underpayment penalty associated with this tax. However, if the entity fails to pay the required amount due by June 15, the entity is prohibited from making an election to pay the passthrough entity elective tax for that year.

The payment of the tax by the entity is deducted by the entity in the year that it is paid. This would mean that a tax payment made in 2022 for the 2022 tax year of the entity would be deducted on the 2022 entity tax returns and thus reducing the pass-thru K-1 to the owners or shareholders.

For federal purposes, these payments are treated as an expense of the passthrough entity at the entity level. Absent different guidance from the IRS, this would mean that the payments would be equally allocated to all owners based on their ownership percentage, even if they did not elect to have a payment made on their behalf.

This will be a major issue for S corporations that needs to be taken into account prior to electing this type of treatment. If you should have any questions about this type of situation feel free to reach out.

COMMERCIAL INSURANCE

YOUR BROKER'S ROLE

What role does your insurance broker play in your company's success? Not long ago, most insurance buyers didn't expect much more from their broker than a low price, and the assurance that they would be covered if there was a loss. Depending on the size of the insured business and the personal relationship the broker had with the insurance buyer they might even drive out and deliver the renewal proposal in-person each year.

Over the past 20 years, the broker's role in their client's success has evolved. Insurance brokers are now asked to play the role of Risk Manager, management trainer, educator, claims liaison, and provider of services and resources. For example, brokers should now be helping their clients understand California's Workers Compensation Experience Rating system and assist them in managing their large open claims to closure. Brokers should have the knowledge and expertise to review their client's leases and contracts before they are signed and explain the insurance requirements. A good broker should also be equipped to provide their clients with the information, services and resources they need to comply with the ever-expanding list of state and federal employment laws.

Employer / employee interactions that were once thought of as inert, now lead to Sexual Harassment or Wrongful Termination claims. Brokers should have the ability and commitment to engage their clients in frequent and detailed discussions about their Human Resources practices and help them develop a solid understanding of the coverage provided in their Employment Practices Liability (EPL) policy, and equally as important, understand what is not covered.

Even the types of workplace injuries incurred by employees have evolved. For nearly three decades, Baby Boomers and other employees have been sitting all day at computerized workstations, many of which were never set up properly for their individual body types. As the workforce has aged, Cumulative Trauma (CT) claims have exploded. Top brokers today help their clients establish customized Ergonomics programs to control the frequency and severity of Cumulative Trauma claims, which significantly increase insurance and human-capital related costs.

Unlike 20 years ago, your broker should be more than an insurance professional who understands policy language. Brokers should remain engaged with their clients throughout the entire year, not just at renewal time, and they should stay informed about the rapidly changing employment law, technology, and insurance environments, so they are aware of the risks to financial loss their clients face from new exposures such as Cyber Crime.

Brokers should strive to be valued and trusted members of their client's inter-circle of professional advisors. A good broker should maintain strategic alliances with other talented and vetted professional service providers, who make themselves available to help the broker's clients address any challenge they have outside of commercial insurance and Employee Benefits.

Great brokers always look for new ways to expand the role they play in their client's success.

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HUMAN RESOURCES COMPLIANCE

ARE YOU REIMBURSING EMPLOYEES THAT WORK REMOTELY?

The unexpected and rapid growth of remote workers since 2020 has changed the workplace permanently. Amid the chaos, employers needed to think about increased use of home internet, more personal cell phone usage, home office enhancements and other expenditures necessary to work from home successfully. Remote work is not going away.

LABOR CODE

Under California Labor Code Section 2802, employees are entitled to be reimbursed by their employers "for all necessary expenditures or losses incurred by the employee in direct consequence of the discharge of his or her duties, or of his or her obedience to the directions of the employer." Section 2802 is interpreted and applied broadly to prevent employers from passing on business costs to employees.

Work from home expenses can be challenging to measure and apportion. Nevertheless, employers must monitor the expenses incurred by employees. By law, employers must ensure that all expenses "necessary" to perform the job remotely are reimbursed.

Employees working from home may see their utilities bills rise because they are using more electricity and need to adjust their climate control systems to be comfortable. A remote employee might have their own print/scan/copy machine that is being used significantly more because of the remote work.

COURT DECISIONS

California courts have interpreted "necessary expenses" to include a reasonable percentage of an employee's monthly internet bill for work-related uses, even when the cost of the employee's internet plan is fixed.

In Cochran v. Schwan's Home Service, Inc. (228 Cal. App. 4th 1137 (2014)), a California court of appeal ruled that an employer must reimburse an employee if the employee is required to use a personal cell phone to make work-related calls, even when the employee did not incur an extra expense because they had an unlimited data plan.

The court in *Stuart v. RadioShack Corporation* (641 F.Supp.2d 901 (N.D. Cal. 2009)) ruled that employers cannot wait for an employee to submit a formal reimbursement request. "Once an employer knows or has reason to know that the employee has incurred an expense, then it has the duty to exercise due diligence and take any and all reasonable steps to ensure that the employee is reimbursed for the expense."

LAWSUITS

Failure of companies to recognize that remote employees are paying out of their own pockets while working remotely already has led to serious consequences for employers.

A significant number of class action and Private Attorneys General Act (PAGA) lawsuits have already been filed seeking expense reimbursements, penalties and even attorney fees, and more are sure to be on the horizon.

The lawsuits include usual claims such as a failure to reimburse telephone and internet expenses and the cost of other office supplies. Some lawsuits, however, also include more novel claims for expenses such as utilities costs to heat or cool a house and even lost revenue for employees who say they could have rented out the space in their home instead of using it as a home office.

The pandemic and subsequent remote work happened so suddenly that many employers had no policies in place regarding expenses associated with working from home, which is driving much of this litigation.

Employers need to determine what expenses are being shouldered by remote workers and whether they are being reimbursed. Creating and implementing a reimbursement policy for remote work expenses also may be appropriate.

Employers should review their current reimbursement policies in consultation with legal counsel to make sure that all reimbursement obligations are being met.

Source: HRWatchdog & JorgensenHR

Barry Cohn, CEO
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I work with top executives of companies with 20-2,000 employees, providing HR solutions including outsourced HR, monthly HR consulting, workplace investigations, and almost everything HR.

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MANUFACTURING EXCELLENCE

STRATEGIES FOR RETAINING MANUFACTURING STAFF

In this era of labor shortages, manufacturers are struggling to retain and add to their labor force. Demand was lagging in 2020 and 2021 due to COVID and manufacturers were struggling to retain staff. We now see in the data, and I am seeing at all of my manufacturing clients, rapidly rising demand.

It will be a struggle into the foreseeable future to build the labor force needed to meet this demand. What strategies can be deployed to minimize this gap between labor supply and product demand?

STRATEGY #1:

Employee retention and engagement starts at the leadership level. As business owners and leaders, we must be engaged in the recruitment and retention process. While we may have relied on staff to focus on this challenge in the past, as leaders, we must be fully engaged in the staffing challenge.

STRATEGY #2:

Listen to employee feedback, and follow through. Employees appreciate the time we spend listening to their concerns. However, if there is no follow through, if commitments do not turn into action, there will be an equal and opposite reaction. That reaction will be employee disengagement, reduced productivity, and over time, the loss of staff.

STRATEGY #3:

Create and support an inclusive culture. I find that especially in the manufacturing sector, employees develop cliques and self-selected hierarchies which can be very corrosive in the work environment. It is our constant challenge as leaders to be in communication with our staff at a very human level. Does every staff member feel they are being treated equally, fairly and with respect? Senior leadership is key to ensuring healthy inter-personal and professional staff interactions.

STRATEGY #4:

Invest in employee growth opportunities. The employees that are going to be critical to building and sustaining manufacturing operations are interested in developing their careers. We need to listen to their desires, interests and goals. We need to provide the training and job opportunities that support those personal objectives. This builds a loyal and productive workforce.

STRATEGY #5:

Go deep with exit interviews. When employees do leave, it is essential that we take advantage of that moment to understand the underlying reasons for their departure. It is a relatively low-risk moment for the departing employee to share his concerns and frustrations. It is also the opportunity to understand the opportunity they are pursuing which they did not feel within their reach in their current position.

Hopefully these 5 strategies are a good reminder and encouragement to continue and develop your current staffing strategies. Perhaps these ideas are known to us, but may need to be moved to the front burner. In the current environment, we need to step up to the plate as we struggle through one of the most challenging employment environments we have seen in a very long time.

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INFORMATION TECHNOLOGY

WHAT'S A FILE-SYNC SYSTEM AND WHY DOES SECURING IT MATTER?

Craig Pollack

FOUNDER & CEO

FPA Technology Services, Inc. – "IT The Way It's Supposed To Be!" FPA provides fixed fee, worry free IT services focused on professional services firms such as RIAs, CPAs, Business Managers, Legal, Insurance, as well as Manufacturers & Distributors and Non-Profits.

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Access to your information from anywhere is becoming more and more of the de-facto standard these days. And one of the most prevalent ways for accessing basic files (ie: Word, Excel, PDFs, etc.) is via a file-sharing system. However, the type of file-sharing system that you'll want to use to do this will not only depend on the applications you work with (ie: Microsoft or Google), but also your risk tolerance when it comes to cybersecurity compliance.

In a nutshell, most file-sharing systems out there are really file-sync systems. They allow you to access files in the cloud by locating and then "syncing" the files on each device. When a change to a file is made on one device, it's synced across all devices (assuming they're connected to the internet at that time).

File-sync systems come in both subscription service and free online software downloads as well. Some systems are more consumer-driven, such as DropBox, while others are more enterprise-centric, such as Microsoft OneDrive. Some of the more popular systems these days include:

- Anchor Sync
- Apple iCloud
- Box
- DropBox
- Google Drive
- Microsoft OneDrive
- Microsoft SharePoint

So, what are the advantages of using a file-sync system, what are the security concerns, and what systems are most ideal?

Because file synchronization allows you to keep files that are stored in various physical locations up to date, it's advantageous for use by organizations that need people to share access to files. With the growth of the cloud in recent years, many vendors now offer software solutions that aid in this process. However, as with any type of system, there are both advantages and disadvantages of using different file-sync systems.

RECOMMENDED FILE-SYNC SYSTEMS FOR YOUR ORGANIZATION

While there's a variety of free file sync software programs available online, businesses and organizations should avoid using any of these free, open source file-sync systems because of the potential of your sensitive data becoming compromised or exposed.

These days, we're finding a ton of success with Microsoft SharePoint and OneDrive. Because we're already living in the Microsoft ecosystem, it's really just the next evolutionary step. In addition, many of our Certified Public Accountant (CPA) clients use Citrix ShareFile to share files with their clients. This allows sharing, but in a more controlled and secure way.

SOME OF THE SECURITY CONCERNS OF CLOUD FILE-SYNC SYSTEMS

While it's true that many file-sync systems leverage the cloud to do this, they work primarily by locating a copy of the files locally on your device. This creates a security threat nightmare for your organization around permissions and user access, tracking changes that are made to files and documents, and most importantly - risking potential data leakage opportunities should the device be lost or stolen.

Consumer-grade file-sync systems (like Dropbox) are commonly geared for individuals to access their personal files across various devices and are not really meant for employees to share and properly secure corporate information (let alone provide the same sort of audit controls). And, because the files are saved in local copies on each device, when employees are out of the office and log in to public Wi-Fi without any cybersecurity protections in place, anyone can access your files and information. This can spell disaster for your organization.

BOTTOM LINE

Please take this with a grain of salt - file-sync systems are great, and provide a ton of benefits, but only when properly maintained and certainly only when properly secured.

CFO Insights

PREPARING FOR THE CLOSE AND TRANSITION

Selling Your Business. *A series of articles providing information to business owners who are starting to think about exiting their business..*

You are almost there. Due diligence is complete to the satisfaction of the buyer and the purchase agreement has been signed. Closing is scheduled in two weeks on the first of the month. Now is the time to start executing on your communications to key constituencies. These will include your employees, key customers, and key vendors.

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I provide strategic, financial, and operational advisory services to the owners of privately held businesses. My goal is to help business owners achieve their success, as they define it.

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EMPLOYEES

Generally, buyers will want to retain most if not all your staff. In your communications to them regarding the sale, you will want to discuss the reasons for the sale (other than the big check you will receive) and how this is beneficial to both the organization and employees. A common reason may be that the Company needed additional capital to continue to grow and compete which the buyer will be providing.

It is common for business owners to show appreciation to their employees for their contributions to building a successful business that was saleable. In this regard, a bonus is frequently paid to employees based on their level of impact and contribution. If an earnout is part of the consideration, a deferred and contingent bonus may also be paid. (Speak with an ERISA attorney as there are rules that need to be followed.) Communication of the bonus will provide reason for the entire team to celebrate.

Finally, discuss the transition and the impact on employees. It is common for benefit plans to change. The value of the new benefit plan relative to the old, will be determined by each employee and their unique situation. For some it will be better, others worse. Introduce the buyer to the employees so that they can discuss positive changes that will be taking place. Just don't withhold any substantive negative changes that will occur.

KEY CUSTOMERS

You have built a relationship with your key customers over many years. You don't want them to hear about the sale from someone else, particularly a competitor. In addition, it is not uncommon for the buyer to want to have some level of assurance that key customers will be retained after the sale. Similar to your employees, discuss with them the reasons for the sale, the value that the buyer brings and if there will be any changes in the business relationship.

KEY VENDORS

Getting your vendors to contractually transition the business relationship to the buyer is key and may also be a closing condition. Vendors are going to be concerned with the financial viability of the buyer. They want to ensure that they will continue to be paid in a timely manner. There may be certain long-term agreements that the Company has entered into which the seller has provided personal guarantees. Leases are a common example of this. The seller will want to have these agreements assigned to the buyer and have the seller's guarantees removed. The seller and buyer will want to work in concert with the vendors to transition these agreements.

Are you ready to sell your business? Would you like to learn more about how much your business is worth? If you are ready to start planning your exit now or would just like to know more about what exit planning is all about, please call me.

B2B CFO SINCE 1987

SOCIAL MEDIA

6 WAYS TO BOOST YOUR WEBSITE'S SEO

SEO, or search engine optimization, can be the difference between making money and going out of business. To keep up with the constant changes in search engine algorithms, it's important to make sure your website is being optimized appropriately.

1) HAVE A MOBILE RESPONSIVE WEBSITE

A mobile responsive website will allow users to view and use your site on multiple platforms– from smartphones and tablets to desktop computers. A responsive design improves user experience and in turn, boosts your website's visibility SEO-wise. Google has stated that they now consider mobile friendliness as part of their **ranking algorithm**, which makes it even more important for websites to be optimized for mobile viewing.

2) USE KEYWORDS

Search engines like Google use keywords in headlines to figure out what your content is about. Some keywords hold more search volume than others. Using a database like Google Search Console allows you to see what other people are searching for, giving you better insight on what keywords to use. You can lace keywords throughout body copy and web pages. However, don't stuff them all into your webpage/blog title; search engines hate that.

3) CREATE CONTENT RELEVANT TO YOUR AUDIENCE

Be sure that every piece of content you create is relevant and valuable to your target audience. When creating content, consider things like search terms, titles and descriptions. If you can nail these three things in each piece of content you produce, users will be able to find what they're looking for with ease. With time and effort, search engines will learn which pages on your site are most popular and rank them accordingly. The result? More traffic!

4) USE INTERNAL LINKS

Creating more links doesn't necessarily improve search engine rankings and lead generation. What matters most is creating **unique** and **relevant** content for each individual page on your site. Avoid linking from one page to another as much as possible. Links are naturally powerful tools for improving website optimization, but too many will dilute their effectiveness. Focus on adding value with new and useful information that users can easily find through Google searches.

5) RUN ONLINE AD CAMPAIGNS

Everyone wants leads, clicks, and increased conversions, but those things don't magically happen. Run online ad campaigns that target potential customers on popular sites like Facebook and Google. Once you know what keywords are associated with your products or services, use AdWords and Facebook Ads Manager to display relevant ads based on those terms. That will help drive more traffic—and ultimately more sales—to your website.

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6) HAVE CLEAR CALLS-TO-ACTION

If there's nothing prompting your readers to **take action**, they'll leave. You want as many of them as possible to engage with you in some way (subscribe, email you for more information, purchase) so it makes sense that search engines consider that a factor in deciding what ranks higher in search results. For those call-to-actions to be effective, they must be clear and simple. The clearer your call-to-action is, the better chance you have at boosting engagement from potential customers.

Contact the experts at Social Spice Media to set yourself up for SEO success! Call 805-482-8312 to get started!

THE REVENUE GAME

DEATH TO THE 20TH CENTURY REVENUE MYTHS

At the start of the 20th Century, **there were no CEOs, CIOs, CTOs, or CFOs**. There was no Lean or Six Sigma. The first digital computer was not invented. Most homes didn't have a telephone, and no one even knew they needed a TV. Cars were measured by the total number in a city or state, and millions of people had never seen one.

Only the largest corporations used terms like president, chairman and vice president. **Most organizations were small, flat, uncomplicated, and local in focus**. By the end of the century, TVs were in every room, cars in every garage and cell phones in every pocket. In the 21st Century, not only do we have CEOs, CIOs, CTOs, and CFOs to support things like global supply chain and distribution, but **now we have the "21st Century Science of "Revenue Generation,"** which requires *CRO Thinking* and deployment skills.

"Revenue Science" adds a new strategic office to the leadership team, the CRO (Chief Revenue Officer) who brings "new rules" and "new tools." **Those of us who want to survive and thrive must learn "Revenue Science" Rules and Tools.** Not using the teachings from "Revenue Science" would be like ignoring computers, medical science, and the requirement to keep learning.

Welcome to the 21st Century Science of "Revenue Generation" and CRO Thinking. If you have committed to surviving and thriving in the 21st Century, you must **stop doing stuff from the 20th Century like**:

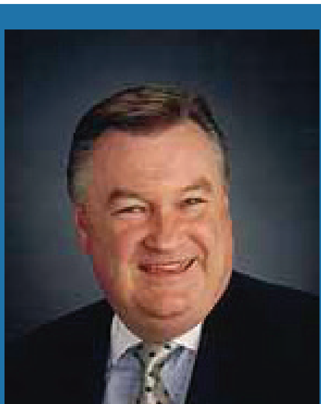
1. Cold Calling
2. Measuring activity unrelated to required buyer behaviors and outcomes
3. Pitching vs. having a customer-focused conversation (about the problem)
4. Selling on price
5. Letting the buyer make you a vendor

To survive and thrive in the 21st Century, **you must do 21st Century "Revenue Science" things** like:

1. Communicating EVERYTHING from the buyer's frame of reference
2. Being clear about the customer's problem you solve that NO one else solves
3. Making sure the value of the customer's problem and the value you receive for solving that problem are clear and reasonable to both parties and you get paid based on the value delivered
4. Saying NO to anything not aligned to your True North Revenue Strategy
5. Deciding if you are a partner or a vendor and then always acting like it
6. Having an organizational worthy intention (a BIG Purpose) and never compromising that
7. Manage your Revenue Resources Required to execute your Revenue Strategy for the greatest possible leverage
8. Intentionally applying "Revenue Science" to every part of your business
9. Knowing if you are an infinite or finite business and acting like it
10. Living a Revenue Culture" where you Maximize Profits after you Optimize a People First Culture

This is a new world for business. Those who ***apply "Revenue Science" will find and benefit from the GREAT long-term opportunity.*** Those who ignore the demands of this new century will be consumed by it.

You decide what next – Last century's Myths or "Revenue Science," Finite or Infinite, Random Culture or "Revenue Culture" – remember you earn what you get.



Rick McPartlin
CEO, The Revenue Game® LLC

If you want predictable CRO outcomes (sales and profit growth) reach out. You and your team will be certified in CRO Thinking. Everyone will speak the same language, work on an aligned Revenue Strategy and "Live a Revenue Culture".

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BUSINESS MERGERS & ACQUISITIONS

POOR FINANCIALS ARE THE UNRIVALED #1 DEAL KILLER

Last month, I shared the top five seller mistakes that kill M&A transactions. Today we'll dive deeper into the #1 deal killer—poor financials.

Most entrepreneurs with revenues under $15M don't see a benefit in strong financial reporting. They know their businesses inside and out and run them by gut feel. If there's sufficient cash in the bank, all is fine. As such, most owners engage low-cost bookkeepers who perform basic tasks—entering transactions in QuickBooks (sometimes correctly), doing monthly bank reconciliations, and providing just enough detail to file the tax return. Sure, business owners can "get by" with unsophisticated bookkeeping, but trust me on this—low-caliber recordkeeping will prevent you from selling your business for anything approaching fair market value.

If you want a premium valuation, you must present your books so the "real" earnings can be validated by buyers. Because buyers of $5M–$50M companies usually value businesses on a multiple of earnings, earnings are the most scrutinized element of any deal. As such, the following activities are essential:

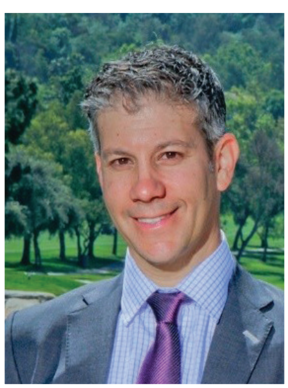
1. Normalize Earnings: Earnings are adjusted on a pro-forma basis to reflect the expected cash flow to the buyer. Common adjustments include adding back personal expenses owners run through their businesses (very common), adjusting owner and family member compensation to market (common), and ensuring the business pays fair market rent when the owner also owns the commercial property. A qualified M&A professional will guide you through this straightforward process.

2. Convert from Cash Basis to GAAP/Accrual Basis: Many small companies report on a cash basis. That's fine for filing tax returns, but it ignores key valuation drivers such as working capital (receivables less payables). Professional buyers look at hundreds of deals annually and compare them on an apples-to-apples basis in accordance with GAAP (Generally Accepted Accounting Principles), which mandates accrual-based reporting. As an example, a software company should accrue revenue over the term of the license, and not reflect full revenue on the date of sale. Otherwise, revenue and earnings are overstated. A qualified CPA/interim finance expert will oversee this process, which is more involved than just clicking the "accrual" checkbox in QuickBooks.

3. Have Books Sanity Checked by a CFO/CPA with M&A and Relevant Industry Experience: Before we take a company to market, we insist the seller engage a third-party CFO/CPA for an independent review. Sellers scoff at this expense, finding it unnecessary, but I can assure you—it is critical! This financial pro will come in on a part-time basis and bring invaluable industry and M&A expertise to the review process. On a recent deal, the interim controller found $1M of expenses that were not run through the P&L. Had this not been caught, the deal would been DOA on day one of buyer diligence, causing tremendous frustration for all involved. I have had many conversations with heartbroken business owners who honestly thought their earnings were two to three times higher than they actually were. Better to find out before going to market than to get a nasty surprise when the deal falls apart!

The time and expense of having your financials professionally reviewed will pay for itself ten times over. You should consider your M&A advisor and CFO/CPA as small but vital insurance policies that significantly increase your odds of success.

As you consider selling your business, we encourage you to speak with us. Kinected Advisors has an 84% success rate in our transactions, well above the 20–30% industry average. We can help you get the best possible deal for your business.



Kevin Berson

President & Founder, Kinected Advisors

We are an integrated M&A Advisory and Consulting firm helping owners of companies with revenues between $5M-$50M plan and execute the sale of their businesses at the highest possible value.

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IS YOUR BUSINESS READY FOR CALSAVERS?

If your business has five or more employees in California, you will be required to offer a retirement savings plan by June 30, 2022. Are you prepared?

The State of California has grown increasingly concerned about Californians' lack of retirement savings. To help combat this, the state created the CalSavers retirement savings program.

WHAT ARE THE REQUIREMENTS?

California businesses with five or more employees must either enroll in the CalSavers program or provide an alternative qualified retirement plan such as a 401(k), SEP, or IRA.

To use CalSavers, join online by registering at calsavers.com and providing your company's FEIN and the CalSavers access code mailed to you from the EDD. You can request an access code on their website if you did not receive one. For each eligible employee, you will need to submit their name, birthday, physical address, phone number, email address, and social security number or TIN. CalSavers will then contact them to customize their account, make savings elections, or notify them of what actions to take if they're opting out. You are required to ensure that your account remains up to date.

If you will instead be using a separate eligible retirement plan, you are encouraged to report your exemption on the CalSavers website to let them know you are in compliance.

You will also want to let your payroll provider and your HR team know that you will be participating, so they have plenty of time to set up payroll deductions.

You must register, or acknowledge your exemption, by June 30. Failure to enroll in time will result in penalties of $250-$750 per employee.

HOW DOES IT WORK?

CalSavers is a Roth IRA. Once you've registered, employees are automatically opted in to the program and are sent an invitation to set up their accounts. Upon enrollment, they have 30 days to choose to opt out. After 30 days, contributions are deducted from each payroll via bank transfer, and the money is added to the employee's account and invested according to their selections. The default contribution is 5% of the employee's gross income, but employees can change it.

You are responsible for setting up and facilitating the employee's contributions from payroll. Answering your employees' questions about the program, giving tax advice, and maintaining their accounts are not your responsibility.

After your policy is in place, new hires are eligible to participate from the first day they're hired. You are required to upload their information to your portal within 30 days of hire.

PROS AND CONS OF CALSAVERS VS PRIVATE PLANS:

CalSavers is free to employers and easy to enroll. It is opt-out, so employees are automatically enrolled with very little paperwork. There is (supposedly) easy access to support from the state if you have trouble. However, there are no tax benefits to the business or its owners, and no option for the business to match employee contributions.

Private plans can be selected and tailored to your business and can provide potential tax benefits to you and the business. Depending on your priorities, goals, and revenue, a private plan might be best for you, your business, or your employees.

INTELLECTUAL PROPERTY

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Marc Andreessen, a venture capitalist, wrote in 2011 'Software Is Eating The World', predicting that: "More and more major businesses and industries are being run on software and delivered as online services. Many of the winners are Silicon Valley-style entrepreneurial technology companies that are invading and overturning established industry structures. Over the next 10 years, I expect many more industries to be disrupted by software, with new world-beating Silicon Valley companies doing the disruption in more cases than not."

That prediction has come true, with a vengeance. For example, in many industries, artificial intelligence and machine learning are proving to be the most influential developments in recent years, driving many industries. Blockchain technology is disrupting financial and transaction services and creating new business models. This holds true even in not so sexy technologies.

Yet, the debate over whether a software invention is patentable is still hot. And if you assume software or a computer-implemented invention is not patentable, then you may well be missing out on valuable protection and commercialization opportunities.

In the United States, to be patentable, an invention must be statutory subject matter. Abstract ideas cannot be patented. In 2014 in a landmark decision *(Alice Corp. v. CLS Bank International)*, the US Supreme Court decided that software related inventions are not patentable subject matter if they are nothing more than abstract ideas. In determining if a software related invention is patentable, the US Patent Office will analyze if the software related invention as described in a patent application is an abstract idea using the following two-part analysis:
Part 1: Determine whether the invention is directed to an abstract idea.
Part 2: If an abstract idea is present in the invention, determine whether any element, or combination of elements, in the invention is sufficient to ensure that the invention amounts to significantly more than the abstract idea itself.

Several nonexclusive examples were given in *Alice* as examples that may be enough to qualify as "significantly more": Improvements to another technology or technical field; Improvements to the functioning of the computer itself; Meaningful limitations beyond generally linking the use of an abstract idea to a particular technological environment.

For example, generally algorithms, if nothing more than the execution of mathematical formulas, are not patentable. For patenting, one may think of software as providing instructions for a physical computing device. The physical computing device functions as a special computing device – depending on the software it is executing. The computing device and memory for executing the instructions are statutory subject matter. If the execution of the instructions produces a new functional result over what is known, then a software invention maybe patentable subject matter. Specifically, if an invention is directed to a method the software is implementing, (e.g., a machine-implemented method) then the machine/system executing the steps, and the memory containing the machine-readable instructions, may be patentable.

Bottom line: Algorithm based inventions can be patented. Software based inventions can be patented. Computer-implemented methods can be patented. Software patents add tremendous value. Software patents protect market share. This is the era of the Internet of Things (IoT) and digital transformation. The pandemic accelerated the transformation and shifting of business models, driven by software innovation. Now, several years after the *Alice* court decision, about 60% of recently granted patents in the U.S were software-related patents. Don't miss out on protecting and monetizing your software-related solutions.

THE FUTURE EXPLAINED

WHAT IS AN "NFT"?

By now, anyone who hasn't heard of NFTs must be living on another planet. Yet it is one of the most complex notions to understand in the web3 ecosystem.

Let's dig into this with a little help from keywords.

1- POSSESSION

Today the typical value of a home in the US is $270,000. How is this value defined and protected? By property titles. They identify the address, lot, square footage, owner, and other essential information such as type of property and usage. They're stored online and are even searchable. The apartment I was renting in San Francisco 30 years ago is still owned by the same old lady!

Now rewind 200 years ago and ask yourself how the value of an asset was protected. The Land Ordinance Act of 1785 was the beginning of property rights in the United States. And now go back 700 years ago in Europe for instance. How were people doing in 1322 in the French Royaume? Back to 2022. The most expensive house in the world is Buckingham Palace. It's worth $3 billion. Would you buy it if it was for sale? Probably not. But someone would.

2- COLLECTION

Collection is an all-time favorite activity of human beings (as well as species such as the bowerbird or the pack rat). According to Wikipedia, "A collectible is any object regarded as being of value or interest to a collector." Shells, stones, coins, paintings, records, cars, guitars, the list is endless of objects one can collect.

Baseball cards were among the biggest collectibles in America in the 20th century. Back then, people thought they could make easy money as the card values were increasing… Instead, billions of cards were printed and abundance killed their investment. Still, the 1911 American Tobacco Company T206 card of Honus Wagner (known as the Flying Dutchman), sold last year for $6.606 million. Would you buy it if it was for sale? Probably not. But someone would.

The most expensive painting is Leonardo da Vinci's Salvator Mundi. Sold in 2016 for $ 475 million. Would you buy this if it was for sale? Probably not. But someone did.

3- DIGITIZATION

Digitization is the process of changing from analog to digital form. It began in the 1950s with the advent of computers and kept growing, transforming all types of industries. Content industries such as photography, movies, music, radio, television, newspapers and magazines were deeply impacted and companies such as Kodak, Blockbuster or Tower Records couldn't adapt. Century-old newspapers disappeared as consumer behaviors changed at incredible speed.

However, and ironically, digitization made 2 things impossible: possession and collection. As they revolve around the notion of objects and as digitization made the objects disappear, owning and collecting became unsolvable equations in the digital world. Records, movies, magazines, art pictures were no longer physical items you could hold on to.

NFTs make it possible to possess and collect again, and they do it for today and tomorrow's digitized world. They are property titles (possession). Of digital collectible materials (collection).

The most expensive NFT is Pak's "The Merge" which sold for $91.8 million. Would you buy it if it was for sale? Probably not. But someone would… I think you got the point, right?

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LEADING POWERFULLY

4 STEPS TO DEFINE LEADERSHIP

Natalie Barron & Lori Tabb

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Ongoing growth is essential for professional success, and developing a personal leadership vision is the North Star that can guide you now and into the future. Informed by your past, focused on the future, and relevant in the present, your leadership vision represents who you are and what you stand for --- and helps you put those values into everyday practice.

1) REFLECT ON THE PAST

Think about what you've observed in others. What are the behaviors of the leaders you'd like to emulate? When did people with authority miss the mark–and why?

Next, look at your own past leadership experience. What are your proudest moments? When did things go awry? What feedback have you received–both from those you lead and your peers? Zero in on the specific beliefs and behaviors behind both your successes and stumbling blocks.

2) ENVISION THE FUTURE

Use your reflections to sketch out a picture of the leader you want to be. Consider what drives you–what are your values, and how will they show up in practice?

Be as detailed as possible regarding:

- The behaviors you want to exhibit
- The kinds of relationships you want to have
- How you want others to see you
- The skills -- including soft skills -- you need to perfect

Take 30 minutes of uninterrupted time to write out your personal leadership vision:

- Summarize in 1-2 sentences what being an excellent leader means to you
- List 3-5 core values that drive your leadership
- List 5-7 specific behaviors that will show that leadership in action

3) SEE WHERE YOU STAND

Take a good, hard look at how your leadership in this moment stacks up against the ideal you've captured in your vision. Note where you see alignment in your beliefs, values, and behaviors–and be brutally honest about where you could stand to grow.

Ask yourself:

- Where do you see gaps?
- What skills do you need to develop?
- What behaviors do you need to practice,
- What relationships do you want to build?
- How do you need to shift your perspective to fulfill your vision?

4) PLOT YOUR COURSE FORWARD

Now that you have a clear vision of your ideal leadership-self and sense of where you are now, write down 3-5 SMART goals (specific, measurable, attainable, relevant, and time-based) that you can work toward over the next six months.

Make a concrete plan for working toward each goal. Some may be actions you can take this very minute, like reaching out to a colleague with whom you need to strengthen your relationship or implementing a simple behavior like giving kudos to others for a job well done. Other goals might call for longer-term planning, like taking a skill-building course or engaging a leadership coach.

Place your leadership vision and goals in a prominent location and refer to them as a daily guide. No matter where you are in this moment, your leadership vision can plot a clear path into the future -- not only for professional achievement, but for a sense of meaningful, values-driven success.

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TWO COMPLEMENTS TO TRADITIONAL PROCESS DOCUMENTS

I recently took part in a panel on business execution. Everyone agreed that documenting their processes would improve their operations. However, telling people to document their processes ignores two nontrivial challenges. The first, is understanding *why* it is hard to document a process. The second is how to get your people to use the process! Addressing these challenges is hard, but there are things you can do to help.

HOW DO YOU DOCUMENT WHAT YOU CAN'T ARTICULATE?

Documenting a business process sounds like it should be easy right? As Simon Sinek noted, the part of our brains that makes decisions is not the part responsible for *language*. When we become proficient at a skill, our actions are reduced to muscle memory. Studies show when someone asks us to explain our actions, our brain can *unconsciously make up stories*. Baseball legend Ted Williams *believed* he could watch a baseball hit the barrel of his bat, but he couldn't. It is a physical impossibility. It happens too fast. Describing what we do is more challenging than most people realize.

How can you address it? Try to capture only what matters most, like the 20% of steps that deliver 80% of the results. Too much detail can *reduce* clarity.

HOW TO GET PEOPLE TO FOLLOW BEST PRACTICES?

Often, staff ignore process documents. Why? A couple of reasons. One is pressure. People find it hard to learn under pressure. Another is expectations. Performance suffers when learning a new skill. We avoid that which makes us look bad.

I find it helpful to remember that my true goal as a business owner is better business *execution*. I want to help my people consistently deliver what our brand promises our customers. The most effective way to do that, I have found is to supplement processes with stories and tools.

Stories create meaning and shape our feelings. Feelings fuel behaviors. When we capture our processes, we also capture the stories of the problems solved. A great process should make the user a hero who solves a problem, not a monkey who flips a switch.

A tool complements the story because, it shapes the user's actions by constraining them. This is where proven process documents are essential. I try to never automate a process I don't understand! Having a fun tool that minimizes errors and maximizes results has a massive positive impact on performance.

CONCLUSION

The next time you set about creating a standard process, think about story and automation. Can you make the person running the process the hero of a story? Is it clear the problem they are solving? Do they have great tools to help them achieve that outcome? In my experience, when my people have a key role in solving a problem, and they have a great tool to do it, their performance soars.

CREATING STRONG LEADERSHIP TEAMS

ELIMINATING THE PINK ELEPHANT IN THE ROOM
HOW TO GET THE BUY-IN FROM YOUR LEADERSHIP TEAM TO ACCEPT AND MAKE CRITICAL CHANGES – PART 2

Last month we looked at the first step in getting buy-in from your leadership team to accept and make a critical change, to answer the question - Where do we want to go or what is our goal?

The second step is to find the feeling. What are the emotions we are trying to identify and engage with, that will get us and our people to really buy into the feeling of success that can come when we make this change?

The second part of finding the feeling is doing what it takes to grow ourselves and our people. We must engage in the training or new system that will take us to our goal.

After the first two steps are in motion, the third step is to continue to practice the new skills and habits we are developing and tweak the environment as we go.

Let's take a look at an actual example of how this worked for a company. In their book, The Heart of Change by John Kotter and Dan Cohen, they discuss how Joe Stegner, a leader who worked for a large manufacturer, identified how his company, through wasteful purchasing practices, was wasting vast sums of money buying work gloves for its employees.

Part of the problem was, different factories, that were part of this manufacturer, purchased their work gloves from different vendors.

This was the pink elephant in the room. Yet this practice went on for years until Joe Stegner came up with a plan. He had a summer intern identify all the types of gloves used in all the company's factories, and trace back what the company was paying for them. The intern reported that they were purchasing 424 different kinds of gloves. Depending on the location, for the same pair of gloves, they were paying anywhere between $3.22 and $17.

"At Stenger's request, the student collected a specimen of every one of the 424 different types of gloves and tagged each with the price paid. Then all the gloves were gathered up, brought to the boardroom and piled up on the conference table. Stegner invited all the division presidents to come visit the Glove Shrine."

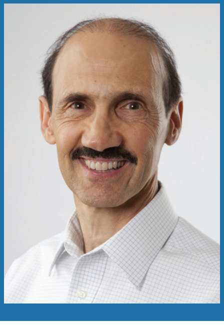
What followed was unforgettable. "For several minutes the presidents were speechless. It was rare that they didn't have anything to say but this day they just stood with their mouths gaping."

If Stegner had simply provided spreadsheets showing the variances in purchase prices for the gloves, it would not have had the same impact. But because these presidents were able to see and feel the impact of the gloves piled high on the conference room table, it sparked a shift in the way they thought and felt, and more importantly how they acted in supporting the change.

It wasn't long after this demonstration that the company instituted a change (new skills and habits) in its glove purchasing process, and tweaked it over a period of time. This resulted in the manufacturer saving over $1 billion dollars during the next 5 years.

How about your company? What is the pink elephant in the room?

Email me to receive the companion exercise to this article that will help you implement the necessary changes in your company or organization and get rid of your pink elephants.



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Tom Borg, President, Tom Borg Consulting, LLC. I work with CEOs, presidents to help them create stronger leadership teams by stopping their disconnect and getting them back on track. I do this through my consulting, mentoring, workshops and assessment instruments, (734) 404-5909 tom@tomborg.com www.tomborgconsulting.com.

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Between monthly meetings, executive one on one coaching is available.

Each May we hold an All Hands Meeting where CEOs and their management teams gather for learning and mid-year reflection.

Each October is the Annual Planning Retreat where participants set company and personal goals for the year ahead.

If you are tired of being alone at the top, reach out to us for a conversation on how we can work together for you to have a better company and a better life.