



CATHEDRAL CONSULTING GROUP, LLC



Wrapping Up the Year December

Our topic for discussion at this month's meeting will focus on items to remember as you wrap up the current year and the finalization of the budget for next year.

Maximizing the Current Year

In October we looked at the activities to maximize the final quarter. As one moves into the busyness of the Holidays, it is good to review these actions. In particular revenue actions and cost management cannot be forgotten in the month of December. Below are a number of topics which add to the operating effectiveness, but here the focus is on maximizing the current year's results.

As we look at the weakness of the current economy, sales in December need to be maximized. Therefore, careful monitoring of inventories and sales activities will be critical. At the same time carrying inventory into next year has several different risks: a) tying up cash when liquidity is critical, b) potential added writedowns both to generate cash and to address declines in pricing, and c) potential obsolescence writeoffs.

Cash Management

For some industries December represents a peak cash flow month, while for others it is a low time. Many companies need to make sudden adjustments this quarter given the decreased spending in the economy, particularly for holiday retailers. For this latter group, cash crunches can make it a challenge to pay final bills prior to year-end. Cash basis tax payers need to evaluate bill payments as part of final month tax planning.

Year End Customer Contacts and Reviews

While combing your customer lists for potential Q4 sales, remember that other companies are also performing the same exercise. Modify your approach to maximize customer relationships and your long-term strategy with this customer. Take this opportunity to wish holiday greetings, especially to those that you have not touched base with for awhile.

Customer Credit Review: With the financial and economic crisis careful consideration should be given to the credit worthiness of each customer. Credit worthiness changes and in times of financial stress those changes can come quickly. In particular, all retail customers pose challenges for suppliers at this time of year. Typically, the holidays are the peak selling season. Therefore, inventories and related accounts payable are at their highest for retailers. In January, after the selling season, a retailer will evaluate their business and if it has become unsustainable, they tend to file bankruptcy before month end and before paying their payables. The idea is to enter bankruptcy with as much cash as they can in order to maximize the

potential of restructuring. This is why suppliers need to be extra cautious, because we have seen many otherwise good companies already file bankruptcy and expect many more in January.

Customer Profitability Review: End of the year is a good time to assess your customers to determine their profitability, especially those that seem to be consuming a large portion of your time or are annoying to you or your employees. The following actions can be considered:

- Evaluate the cost of acquiring new customers: It is helpful in appreciating existing customers to understand the costs required to get another new customer. Too often an existing customer is undervalued.
- Next calculate revenues and costs per customer. Be sure to include the costs of returned products and evaluate overhead costs. The key here is to apply fully loaded direct costs to the revenue from the customer. Customer profitability is critical in evaluating the importance of retention. Portfolios of customers who have been around for a number of years often include customers who are not profitable or marginally profitable.
- Add to the profit analysis the stress on you or your staff of dealing with a difficult customer.
- Finally consider how that time, energy and stress might be better spent recruiting new, more profitable customers and the likelihood of success.

Actions:

1. Customers who are not profitable should be addressed by:
 - a. Looking to adjust the revenue sufficient to make them profitable
 - b. Looking at the impact of removing them from the customer base
 - c. In either case contact with the customer is appropriate. Often a customer will accept adjustments in the relationship when the reason is explained.
2. Customers who are troubling should be evaluated as to:
 - a. Why they are troubling: in some cases we need to adjust our business activity
 - b. Whether they can change their behavior
 - c. What the business will look like without them
 - d. On the basis of a-c decide if you will eliminate this customer
 - e. Again, the customer should be contacted and the reason explained.
3. Marginal customers should be evaluated as to their importance to the enterprise
 - a. Often we find that marginal customers are consuming valuable time and causing the business not to develop newer, more profitable business.
 - b. A similar evaluation as to #1 customers should be done.

Overall this needs to be a fairly aggressive exercise. Honest analysis and honest evaluations are required, combined with decisive actions. A proper customer evaluation will set the business up for a proper budget finalization and next month's discussion on marketing

Budget Finalization

Now that the first draft of the budget was prepared taking into account seasonality and the downturn in the economy, review possible strategies for how to reach the targeted revenues, including the above customer evaluation.

Year-End Tax Planning

Now is also the time to meet with your accountant for any last minute tax plans for how to spend excess cash or write-off additional expenditures. Cash basis tax payers may wish to undertake both revenue deferral and expense planning. These should be done in the context of the overall tax situation of the enterprise, thus the importance of discussing this with the tax accountant.

Closing open issues from the Current Year

At this time of year a business may have a list of items which have not been addressed. While the holiday season is busy, it remains important from an operating perspective to minimize the carryover of these items into the next year. In effect a clean close of the current year allows the new year to be started fresh, with a minimum of distractions from the prior year.

File Clean Up: An example of clearing out a year is file clean up. Just remember the file retention rules in IRS Publication 583 (www.irs.gov) on what records need to be kept and for what length of time for tax purposes. Here are some general rules: Retain receipts for at least three years, the time the IRS has to do an audit. Payroll-related items – at least four years and property related– for at least three years beyond the sale. In this digital age, consider scanning important receipts and documents and burning them on CD's for unlimited time storage.

HR Reviews: Many companies do compensation on a calendar year basis. Completing the personal reviews and file maintenance means that the new year does not have the hold over of this important exercise.

December Goals:

1. Maximize this year's results
2. Finalize next year's budget
3. Close any open issues

Articles for Further Reading

1. Dahl, Darren. "Five Ways to Save Money (Layoffs Not Included)" <http://www.inc.com/magazine/20081001/five-ways-to-save-money.html>
2. "Step it Up: Maximize Year End Sales Performance." This abbreviated white paper includes ten tips for facing sales maximization at year end. http://www.managesmarter.com/msg/content_display/marketing/e3i3c866f1db418d6b1cb58489e160ad42b
3. "Avoiding the Year End Sales Push." Consider sales targets all year long, not just in December. <http://ezinearticles.com/?Avoiding-The-Year-End-Sales-Push-Is-The-Best-Sales-Strategy&id=287801>
4. "When, Why, and How to Fire that Customer." This article reviews letting go of unprofitable and annoying clients that consume too much time. http://www.businessweek.com/magazine/content/07_44/b4056431.htm?chan=smallbiz_smallbiz+index+page_best+of+smallbiz+magazine
5. "Small Businesses Must Plan for Tax Time." Good record keeping minimizes year-end accountant fees. <http://www.msnbc.msn.com/id/17280629/from/RS.3/>
6. "2007 Year End Tax Planning for Small Businesses by an Accounting Firm." <http://www.cshco.com/index.lasso?node=1&pgID=108&set=article>
7. "Wrap it Up Right." Consider deferring income until next year, or accelerate early 2008 expenses to this year for a possible deduction, but only if it is in the best interest in the big picture. <http://www.entrepreneur.com/magazine/entrepreneur/2004/december/73712.html>

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