



## Memorandum

To: Clients, Associates & Friends of Pro@ctive CPA  
From: Mark Wyssbrod, Managing Member  
Date: January 12, 2011  
Re: Avoid Bankruptcy & Small Business Economic Forecast For 2011

### Introduction

Happy New Year! The beginning of the year is often a time for a fresh start. Perhaps you can make a few changes as well with the help of a New Year's Resolution. I will not try to talk you into a crash diet or miracle pill, but I would like to mention making real changes to your business or life-style. These types of changes take real sacrifice, but the reward can be a significantly better future.

We have become accustomed to speed. Our communication style has shortened tremendously over the past 100 years. We started with written a letter which focused on word selection and took several weeks to be delivered. Then the telephone allowed us to reach someone right away or at least they would return our call in a week. The telephone evolved to a cellphone where the individual expected you would always pick up or return a call during the same day. E-mail has similar traits. The latest forms of communication include texting has the highest level of expectation, perhaps even requires, immediate response. Just as our communication style has evolved so has our economy. Everything seems to move faster. Every once in a while we must remember to relax and remember, patience is a virtue.

Best wishes in the New Year,

Mark W.

### Action Items to Avoid Business Bankruptcy

The Atlanta Journal-Constitution (AJC) declared the decrease in small business bankruptcies was a sign the economy was on the mend in its November 30, 2010 edition. The good news is the number of small business bankruptcies decreased by 27% which was the highest decrease of the 15 US markets. However, the AJC is only reviewing the statistic and not the driving forces.

We believe bankruptcies might have spiked during 2009, however just as unemployment has behaved, small business bankruptcies will continue to stay high for a lengthy time. The reason for this conclusion is our analysis indicates:

- Small businesses do not have written business plans
  - The unwritten business plans have produced models which rely on best case scenarios and hope (or gut feeling) instead of current economic environment and facts



- Solution: Hire a business advisor to review your business and create a sustainable business model. Be certain to identify strengths, weaknesses, opportunities and solutions.
- Small businesses do not have favorable financial resources
  - Home equity and business lines of credit were relied on too much during the early-to-mid 2000's
  - As a result the small business balance sheet (assets, liabilities and equity) expanded in an unhealthy way
    - Assets increased commonly through fixed assets which were not efficient and by accounts receivable which were slow to pay or did not remit payment for services and goods received
    - Liabilities increased by additional debt to fund an unproved business model and for owner wages and distributions
    - Equity contracted due to losses and distributions to owners
  - Solution: Owners must now repay debt at the most challenging time of the business cycle. Repaying the debt means not being able to use the funds to grow or for the owners to distribute. The owners must raise capital which may dilute their ownership interest and will hold them accountable to other parties.
- Unemployment remains stubbornly high
  - Unemployment statistics reported in early December indicated a rise in both the unemployment rate to 9.8% and the U-6 under-employment rate increased to 17%
  - Most small businesses depend on other small businesses or consumer spending
  - High unemployment and the pressure for consumers to save more and reduce debt will restrict consumption
  - Solution: Diversify your revenue source to small businesses which depend on larger businesses, small businesses which depend on acts of nature (restoration companies) and larger businesses. Additionally, you can create a niche for your business which should reduce the competition.

Be certain you know who you are doing business with so you can try to avoid having a customer send you a bankruptcy notice. You may want to set up collection procedures and safe guards. Some safe guards may be to keep a credit card on file and to complete credit checks with all customers on a regular basis.

These action items will help you strengthen your business which will increase your net worth. There are other discussion items to assist you to reposition your business and be well positioned for the future. Please contact us if you are interested.



## **Important Dates**

1/15/2011 – 4<sup>th</sup> quarter 2010 estimate tax payments due

1/20/2011 – Sales & use tax returns and payments due

1/31/2011 – 4<sup>th</sup> quarter 2010 payroll tax returns due

1/31/2011 – 2010 annual payroll tax returns due

1/31/2011 – 2010 1099s due to vendors

## **Economic Forecast For 2011**

2011 will continue to provide a challenging environment for small businesses, especially with revenues under \$1 million in revenues and low barriers to entry. Unemployment, which we forecasted correctly in January 2009, will continue to stay close to 10%. Debt financing for small businesses will remain challenging, unless dramatic changes by financing sources occurs.

General Small Business: Small business which depends on small business we expect will have slight revenue increases, but margin pressures will neutralize any profitability. Small business which depends on acts of nature we expect will have revenue growth 10-15% with stable margins. Small business which depends on larger businesses we expect to have 20% or more revenue growth.

Real Estate: We expect real estate management companies to continue to grow although at low margins due to past real estate investors not interested in managing their own portfolio. Additionally, we expect real estate investors who purchase and sell properties are taking on increased risk, perhaps to excessive levels, without knowledge. We expect real estate prices to continue to decline. To be profitable in these activities the investor will need to purchase the property 50% or more below market price and sell it quickly at 10 – 20% below market price. This of course pressures the fair market value on the remaining surrounding properties.

## **Financial Ratio of the Month**

Advertising to sales is a metric which show the company's percentage of sale to advertising.

Advertising to Sales = Advertising / Sales

This can be used to determine how effective your business's advertising strategy is (are you spending money or getting a return on it!).

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