To: Clients, Friends, Family & Associates of ProActive Advisory
From: Mark Wyssbrod, Managing Member
Date: April 1, 2015
Re: Differences between Small Business and Mega-corporate America

In this memorandum you will receive information about the following:

- Small business positions
- Differences between small business and mega-corporate America
- Deadline reminders
- Financial ration of the month

Please contact me should you have any questions. Review your fiduciary responsibilities and restructure as you can.

Small business positions

Many small business owners have three main positions: employee (worker), officer (manager) and owner (stakeholder). The employee or "worker bee" position is easy to define (you do the work). Additionally, the owner position may be easy to define (you are the investor and receive equity distributions). In fact small business owners have no problem with giving themselves a nice salary and bonuses as an employee as well as lucrative equity distributions as owners.

The position that is harder to define and understand is the small business owner's fiduciary responsibility as an officer of their company. Officers are charged with acting in the company's best interest, not the employees' best interest via compensation and not the owners' best interest via equity disbursements. Officers must ensure the business is operational and has the working capital to execute. This means compensating the employees reasonably and retaining equity in the business instead of draining the company's financial position.

Corporate America generally has three distinct parties in each role that ensure the roles are being properly managed. Small businesses generally have limited (one or two) individuals to fulfill all roles that have conflicting interest, uncertain understanding of the requirement of the roles and minimal experience in all of the roles.

It's time to rethink your roles in your company and then take action to improve your understanding and management of all three primary roles!

Mark W.

Differences between small business and mega-corporate America

There are many differences between main street America businesses and mega-corporate American businesses in both operational style and financial positioning.

Operational differences

- Organization
    - Small business are generally more flexible and innovate and use technology more quickly
        - Small business owners quickly find out they are the employee, the owner, the administrative assistant, the office manager, human resources, the bookkeeper, the marketing department and the janitor!
        - On a side note, small business owners need team members who will learn new skills and say “yes” to trying something new; saying “I don’t do that” hurts efficiency and moral
    - Mega-corporations are generally more structured and, therefore, slower to adapt new technologies and procedures
        - Mega-corporations have support staff and departments
            - These positions are very well defined, and, due to internal control policies, you may not be allowed to go above and beyond in your responsibilities
- Tax structure
    - Small businesses are generally “flow through” entities for tax purposes; this means the individual is reasonable for and remits payment for the income (and self-employment) taxes
    - Mega-corporations are generally c-corporations and the company is responsible for and remits payment for the income taxes
- Accounting and human resources
    - Small businesses generally do not spend any money on what they “don’t understand”; they see costs but do not understand the value
    - Mega-corporations understand the importance of these departments and the return on investment (not costs) they can have

Financial differences – a look at balance sheet account differences:

- Cash position
    - Small businesses generally have minimal cash position and working capital

    - Mega-corporations generally have 10% of revenues in cash and amble working capital
- Accounts receivables
    - Small businesses generally extend credit to whomever, as every customer is important
    - Mega-corporations run credit checks to ensure the sale will result in a positive cash flow; with larger deals contracts are required
- Inventory
    - Small businesses generally purchase what the sales main is pushing
    - Mega-corporations have inventory management systems as well as models to predict which inventories to order; additionally, they negotiate with vendors on pricing
- Investments
    - Small businesses generally do not have any investments in the company
    - Mega-corporations have finance departments which invest a portion of their working capital and profits
- Fixed assets
    - Small businesses generally over-purchase fixed asset with some non-operational items (SUV, tablets, etc.)
    - Mega-corporations generally purchase fixed assets which will increase revenues and/or increase margins and operational efficiency
- Accounts payable
    - Small businesses generally have similar accounts receivable and accounts payable balances, leaving minimal working capital and funds for overhead
    - Mega-corporations generally manage vendor relationships driving favorable terms and payments
- Credit cards payable
    - Small businesses generally use the card more freely, lots of non-essential purchases and meals and entertainment
    - Mega-corporations generally hold the employee very accountable for charges
- Line of credit
    - Small businesses generally are hoping and bleeding with financial institutions just to get a line of credit and then have to give a personal guarantee
    - Mega-corporations generally have more access to debt markets and do not have to personal guarantees due to investments on the books
- Long-term debt
    - Small businesses generally have too much long-term debt that the owners are generally personally responsible for

  - Mega-corporations generally negotiate with financial institutions for better terms and manage their debts efficiently
- Equity
  - Small businesses generally have minimal equity in their business
  - Mega-corporations generally have industry-standard equity amounts to in order to report to their shareholders the responsible use of equity and return on equity provided
    - Mega-corporations also have access to capital markets

Perhaps your business can select the best characteristics of small businesses and mega-corporations! Please contact us if we can assist you in repositioning your business.

Deadline Reminder

Important Dates to Remember:

- April 1 – Business Persona Property Tax Returns are due (for Georgia Counties)
- April 15 – Individual Tax Returns are due (or extension and any tax payments for 2012 are due)
- April 15 – Partnership & Trust Tax Returns or extensions are due
- April 15 – 1st quarter estimated tax payments are due

Financial ration of the month

Return on Equity = Net Income / Total Equity

Return on Equity (RoE) measures how much profit is being returned on the shareholders' equity each year. It is a vital statistic from the perspective of equity holders in a company. The higher the better!