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*PRESENTS*

# BOTTOM LINE

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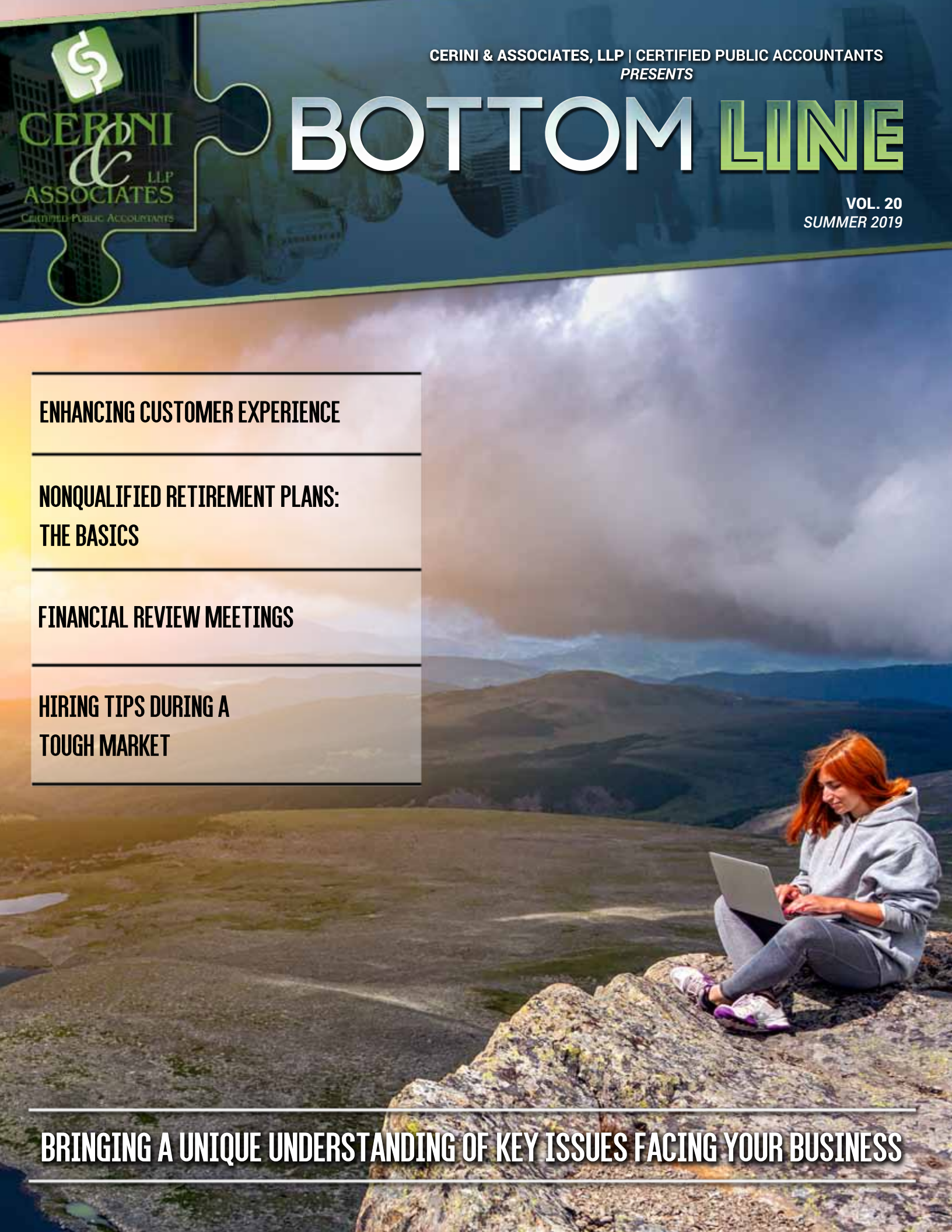

BRINGING A UNIQUE UNDERSTANDING OF KEY ISSUES FACING YOUR BUSINESS

# FROM THE EDITOR - TIMOTHY J. McHALE, CPA

The end of the 2019 Summer is approaching and with that comes the latest edition of the Bottom Line, our newsletter targeted toward helping your business.

2019 brought us the first filing season under the new tax laws. Though many taxpayers were upset with the changes to deductions, the decrease in rates and new business friendly provisions helped to mitigate these changes. While there are a few open items remaining (*where art thou Retail Glitch fix?*) the law's implementation has been relatively smooth.

2019 has seen a very hot hiring market, driven by the overall success of the economy even as uncertainties loom. Our focus for this issue was to help provide some guidance for businesses in this market, starting with some tip on how to hire in a tough market. We ourselves have experienced this just as much as your businesses and wanted to share some ways, such as flex scheduling and work life balance, we have used to attract and retain staff.

Another item that is always important and can be the key to the extra edge during strong markets, is how to enhance and improve the customer experience. Even though it's business, a strong emotional connection is crucial in the overall experience, no matter what industry you are in.

With the strong economy, it is likely your business is growing, so we wanted to present some tips on financial review meetings. Most people when they hear *"meeting"* immediately have an involuntary negative reaction and a meeting about numbers makes it even worse and typically is just a countdown to the glassy-eyed, *"thousand yard stare."* but hopefully these best practices can help avoid this.

Finally, we offer some basics on Nonqualified retirement plans, which can be a great tool in attracting and retaining executives and staff, as they allow for more flexibility in retirement contributions and often do not have an immediate cash flow hit.

2019 has been a strong year thus far – we hope it continues into 2020 and beyond. We hope you enjoy the insights we provided in this newsletter and look forward to working with as many of you as possible.

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# ENHANCING *CUSTOMER EXPERIENCE*

As most business owners know, a key aspect to being successful and sustainable is to make sure your customers are always happy with your product or service. Research by American Express found that 60% of customers are willing to pay more for a better experience. The real question is *how you enhance the customer's experience so that they will keep coming back?* Giving your customer an enjoyable experience is crucial because it builds brand loyalty and leads to word-of-mouth referrals, which will both help increase revenue and potentially corresponding profits.

As a business, the first thing you should do is analyze who your customers are, understand what they want, and be transparent and straightforward with them. Honesty is the best policy, so be clear with your customers to build trust and form a relationship. The Journal of Consumer Research has found that more than 50% of an experience is based on emotion, as emotions shape the attitudes that drive decisions. Making consumers feel special is a great way to build an emotional relationship, so making personalized products or services to cater to them will help enhance their overall experience and their opinion of your company. There is plenty of emotions data available since people are always posting on social media how they feel and what's going on in their lives.

Although it can be expensive, investing time into creating an emotional connection with your clients and forming a bond is worth it, and will prove to be beneficial over time for both the consumer and the business. The best way to know if your customers are truly satisfied is to simply ask them, such as sending a follow-up email to each one using a post-interaction survey. Appropriate questions to ask are *"On a scale from 1-10, how likely are you to recommend this product/service to a friend or colleague? What is the primary reason for your score? Why? What can we do better?"* Questions like this will help give you an idea of what new clients you can expect and what your current clients would like to see more of. Link the feedback from the surveys to specific team members to show your team the impact they are making to the business through engagement with their customers. Another useful tool is to gain feedback from employees. If you allow employees to share ideas on how to improve the customer experience, managers can gain a sense of how engaged employees are in their jobs.

In the social media age we live in, people tend to base their purchase decisions off reviews that their friends or family have provided them, so ensuring a positive experience for your customers could directly lead to potential new clients. If you are going to implement change within your company to improve the customer experience, you should measure the resulting ROI to see if the cost-benefit relationship was worth it. The problem is that ROI is not always easy to measure as it can be subjective and difficult to find a direct correlation. Since it may not be possible to determine an exact return on your investment, you can keep track of new clients to gain an idea if you are heading in the right direction. At the end of the day, if you want to give your customers the best experience possible you have to: understand why they are buying your product/service, build an emotional relationship with them, and make them understand that you genuinely value them. After following these steps all that is left is to monitor the results and adjust accordingly for future success.

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NONQUALIFIED RETIREMENT PLANS:

# THE BASICS

Many companies use nonqualified deferred compensation plans to reward, retain, and attract executives and other highly compensated employees. These key employees are typically highly compensated and already contributing the maximum amount to the more traditional deferred compensation plans, for example their 401K plans and traditional IRAs. These **Nonqualified Deferred Compensation Plans**, or **NQDC plans**, aren't like other workplace savings vehicles, which typically let employees defer a portion of their salary into a segregated account held in trust, and then invest these funds in a selection of investment options.

A nonqualified deferred compensation program is an unfunded, unsecured promise by the employer to a key employee to pay compensation at a specific time or upon a specific event in the future. The program is a contract between the employer and the key employee for the payment of these future benefits. The term *"nonqualified"* means that the plan is not required to meet most of the requirements of the **Employee Retirement Income Security Act (ERISA)** or the Internal Revenue Code that are imposed on tax-favored, or qualified, plans.

Often an NQDC plan is more like an agreement between you and your employer to defer a portion of your annual income until a specific date in the future. Depending on the plan, that date could be in 5 years, 10 years, or in retirement. Deferring this income provides one tax advantage: You don't pay federal income tax on that portion of your compensation in the year you defer it (*you pay only Social Security and Medicare taxes*), so it has the potential to grow tax-deferred until you receive it.

***There are four general types of nonqualified plans:***

### 1. SALARY REDUCTION ARRANGEMENTS

Employees choosing this type of NQDC plan choose to receive a portion of their earnings at a future time, reducing their current salary.

### 2. BONUS DEFERRAL PLANS

Employees participating in this type of NQDC defer income from bonuses to a future time.

### 3. SUPPLEMENTAL EXECUTIVE RETIREMENT PLANS

Covers a wide range of income deferring options that are typically used by a company's upper level management or higher paid employees.

### 4. EXCESS BENEFIT PLANS

Employees participating in this type of NQDC plan are employees whose benefits are limited by their employer's qualified plan.

These general descriptions encompass a litany of options for deferred compensation arrangements.

## NONQUALIFIED TOP HAT PLANS (THPS)

Employers offer THPs as a perk to certain employees who, in the words of the IRS, are *"highly compensated."* The IRS defines this type of employee as one who owned more than 5 percent of a business in the current or preceding year, regardless of the employee's actual compensation; or an employee who received more than $120,000 of compensation from the business during the preceding years of 2015 through 2018 (*more than $125,000 if 2019 is the preceding year*). There are generally three types of THPs:

### 1. GOLDEN PARACHUTE PLAN

In the event a company is taken over by another company, or merged with another company, a *"golden parachute plan"* offers top-level executives a lucrative benefits package if they're terminated by the owners or managers of the newly formed company. Although it's not specifically designated as a retirement plan, benefits from the golden parachute plan can certainly help fund an employee's retirement, particularly if the employee is at or near retirement age.

### 2. GOLDEN HANDSHAKE PLAN

A *"golden handshake plan"* is similar to the golden parachute plan, with a notable difference. Golden handshake plans do include specific retirement benefits in an executive's severance package.

### 3. GOLDEN HANDCUFFS PLAN

A company may want to hold on to a valuable, highly compensated employee for a long time. The *"golden handcuffs plan"* offers incentives to the employee that often carry a time constraint. For example, the employee benefits from stock options that vest only after the employee remains with the company for a certain number of years.

## TAX CONSEQUENCES TO THE EMPLOYER

The tax consequences to the employer are substantially different from qualified plans. Unlike qualified plans, contributions to a nonqualified deferred compensation plan are not a currently deductible expense to the corporation. Corporations may only obtain a deduction from the plan at the point when the key employee is subject to tax on the benefits due to actual or constructive receipt. What's more, if any funding amounts are informally set aside, the employer is generally subject to taxation on any investment earnings generated by those assets. Thus, interest, dividends, and realized gains or losses on any investments would generally be taxable income to the employer.

## RULES AND RISKS OF AN NQDC

Employees face one major risk when accepting deferred compensation via an NQDC. Unlike with a 401k or other items where the funds are held in a separate trust, NQDCs are held in the general assets of the company. The means that if the company is sued or goes out of business, this compensation may not ultimately be paid. NQDCs have a strict distribution schedule rather than at will as with qualified plans, and have no early withdrawal provisions.

## CONCLUSION

A deferred compensation plan for key employees is often a cost-effective, flexible, and powerful tool to provide appropriate incentives and rewards and encourage the retention of valuable leaders within the organization. With the right design and careful implementation, a nonqualified deferred compensation arrangement can help achieve many organization objectives.

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# FINANCIAL REVIEW MEETINGS

Instituting a financial review process & meeting can be a key driver in the continued growth and success of your business. These meetings represent an opportunity for both reflection of past results to see what worked/did not work and a forum for leadership to focus and plan for the future. Organizations need to use this time effectively in order to keep people invested and to have positive results in these meetings.

## GENERAL BEST PRACTICES:

- ***Schedule the meeting for a fixed time each month.*** Doing so sets clear deadlines for the finance team to have the data prepared and sets the routine for the executive team so that they can try to avoid conflicts for that specific time. The time should be long enough after month-end to have complete data but soon enough as to be relevant.
- ***Circulate the data prior to the meeting.*** Whether it is a full financial report, a summary slide deck or minutes, circulate the data and agenda at least a day prior to the meeting so all parties have a chance to review and prepare questions. The advance data will help give better insights and also can assist in keeping the meeting moving.
- ***Consider inviting outside parties.*** Similar to a board meeting for a corporation or non-profit, consider inviting outside advisors (*accountants, consultants, lawyers, etc.*) to these meetings from time-to-time to have an outside voice available. It can assist in seeing things from a different view.
- ***Use each meeting as a chance to improve the next meeting.*** The key players in presenting the meeting, such as the accounting and finance team, should take time afterward to consider what parts of the meeting were successful, which could use improvement and potential areas to explore. Use each prior meeting to further refine and change each subsequent meeting organically to help the organization meet its goals.
- ***Less can be more.*** Use the time you have effectively and do not present so much information that the attendees are overwhelmed.

## DATA PRESENTATION TIPS:

- ***Use an executive summary.*** Early in the presentation or slide deck, try to have a brief, short summary of the key takeaways from the meeting, even before you present them. It can help similarly to a topic sentence in an essay to keep your presentation focused, get the key point in the attendees' mind early and a quick summary to refer back to after the meeting has ended.
- ***Make the presentation fit your audience.*** The information that would be presented to a finance, accounting or HR only meeting will likely be more granular and technical than that to an executive team. Try to think about what items in advance are of key importance to the stakeholders and tailor the presentation to hit these points early and often.
- ***Be mindful of signal/noise.*** Similar to knowing your audience, your presentation and data should have enough information to be helpful, but not so much as to lose the message in the details. The details should be available if necessary, but not the focus as sometimes this deep dive can curtail the bigger picture.

## FINANCIAL REVIEW BEST PRACTICES

- ***Identify and highlight the key metrics.*** Key performance indicators are great quick review items to include in the executive summary and items to focus on during the presentation. These can include the gross margin on sales, cost per unit or unit of service, percentage of sales costs, etc.
- ***Compare to prior periods.*** Seeing both how the business has grown against absolute and ratio numbers over time can help to spot trends and weaknesses in the business. Used in combination with the key metrics, it can help to identify major areas for improvement. Sales have increased over the past 6 months but the bottom line has stayed flat – seeing the month to month margins, cost per unit and sales volume can help to identify if the sales teams performance may be lagging, even with increased sales.
- ***Compare to expected results.*** Organizations should have a budget and expected results for the year. Comparing against the expectations can help find areas that are now growing as expected or costs that have increased and allow for the company to address quickly.

Meetings have a reputation for being ineffective. However, a financial review meeting can be a strong tool to help businesses of all sizes to understand their finances better, identify strengths & weaknesses and help fuel growth.

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# HIRING TIPS DURING A TOUGH MARKET

At just 3.7%, the unemployment rate is the lowest it has been since the late 90s. Low-wage sectors with historically low job quality are seeing rises in pay and benefits, more full-time employees, and more flexible and stable schedules. If you are an employer needing to recruit new talent, this isn't such great news. In fact, in such a tight labor market, you may be struggling to keep up with the competition. This combined with the baby boomer workforce in retirement mode, makes for a tough recruiting market.

Businesses today have to offer more than just a paycheck. Accommodating your employees' needs can help retain workers, such as providing work schedules that allow employees to take public transportation or work from home, but companies still have to find new talent to replace those leaving or to sustain growth. In this market, candidates have many opportunities to choose from so businesses need to find a way to differentiate themselves. Here are some tips to help you stay competitive with hiring quality talent.

## FOCUS ON RECRUITING

Gone are the days of putting up a job posting and being able to pick and choose from the desperate candidates that would jump at any offer. Having a *"post and hope"* mentality now will leave you with few choices. Many companies are hiring, so you must attract candidates instead of relying on them to come to you.

### *RESEARCH YOUR COMPETITION*

Know what other companies are offering. Salary, benefits, work-life balance. These will all be considered when candidates decide which company to choose. Skimping on what you offer will hurt your chances of securing the talent you want. Consider implementing benefits that may not cost much while enticing candidates, such as flexible schedules, working remotely, and access to wellness programs.

### *EMPLOYEE REFERRAL BONUSES*

According to Society for Human Resource Management, this is the most powerful source of finding candidates. These candidates are typically higher quality, are hired more quickly, and stick around longer. Tap into more of your network and implement an employee referral program.

### *SELL YOURSELF*

Selling yourself is important before and during the hiring process. Consider giving your company's social media accounts an upgrade to include information for potential candidates about working for your company. Tell job seekers what it is like to work for you and highlight the benefits, flexible work schedule, growth opportunities, and social mission. Do this with your job postings, too. The postings should convey why your company is a good choice.

Then, be prepared for interviews. Yes, even the interviewers can benefit from being prepared. Anticipate the interviewee's questions about your company and be ready to speak to the benefits and opportunities you offer.

After conveying the best aspects of your company to job seekers, then you can worry about the job description and requirements. Be realistic. Really identify what requirements are truly *"must have"* and which ones are *"nice to have."* Keep in mind that some skills can be transferrable. For example, if you need the candidate to have experience with you company's financial software, it may be just as beneficial to hire a candidate that is skilled at another software similar to yours as the learning curve will be small. Dropping some of the *"nice to have"* skills from your requirements will broaden your candidate pool.

## CHANGE HOW YOU SEARCH

Improving your searching process does not only include loosening your requirements. You need to balance increasing the size of the talent pool and narrowing the pool to only those candidates you would want to consider.

### *WIDEN YOUR SEARCH*

Too many hurdles push candidates away to another employer. The hurdles include long lists of requirements, high minimum GPA, pre-employments tests, multiple interviews, long wait time while candidates are compared, and more.

Consider dropping some of these hurdles and instead look to hire based more on cultural fit, soft skills, and business acumen. We talked about identifying true *"must have"* skills. Make sure the candidate has most of these required skills and train the other skills to fill the gap.

### *TARGET YOUR SEARCH*

Increasing the quantity of candidates helps, but you still want quality. Keep this in mind when upgrading your social media accounts. Use social media advertising to target the right talent. LinkedIn is a standard resource for sourcing talent; but today, Facebook and Twitter are useful tools as well.

### *MOVE QUICKLY*

You can implement every trick in the book to attract quality talent, but you will be wasting your time if you are wasting the applicant's time. Many candidates lose interest in a business if they do not hear back within a week or two.

Even if you are the best company, candidates will not wait if they don't have to. They are being hired quickly, and if you don't match the pace, you'll be left behind. After revamping your hiring process, condense your interview process as much as you can. Most importantly, when you find a candidate with the talent you are looking for, **HIRE THEM!**

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