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PRESENTS

# BOTTOM LINE

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**BRINGING A UNIQUE UNDERSTANDING OF KEY ISSUES FACING YOUR BUSINESS**

## FROM THE EDITOR - EDWARD MCWILLIAMS, CPA

Out of the fire, into the frying pan. That's what it feels like for many business owners right now. I will never forget the conversations we were all having with business owners and executives at the start of the COVID-19 pandemic, trying to figure out how to adjust operations to remote on the fly and maintain employee payroll and business operations in the face of just incredible uncertainty. While certainly COVID-19 has shuttered the doors of many businesses, I like to think overall (*and especially when compared to those early days*) that most businesses survived and many even came out stronger and felt like a bright future was ahead. However, that bright future has not materialized for many yet. What we thought would be a period of relative smooth sailing has been as hectic (*at least from a business perspective*) as the early days of the COVID-19 pandemic. Many businesses are still suffering from staffing shortages, unable to find the help they need to grow. Further, we are experiencing the highest inflation in 40 years and a rapid increase in prices for materials and supplies and in interest rates as a result.

So much has been made of the so called "Great Resignation" but another area businesses need to be very concerned about is burnout, both for themselves and their employees. The craziness of the past 2 years has increased the stress in all facets of life for nearly everyone and has increased the prevalence of burnout. Beyond the decrease in productivity, burnout can impact the mental health and wellbeing of individuals which can lead to serious problems, so learning to help identify and deal with stress is essential.

At the start of COVID-19, many businesses had to also face the reality of their succession plan. COVID-19 was/is a serious illness that has claimed over 6 million lives. What was a plan that often would be a back-burner item, "I'll deal with it later," has become much more relevant. And as the pandemic started to subside, many went back to this train of thought; however, a good succession plan is something that should always be on the forefront of a business owner's mind.

So yes the start of COVID-19 was very stressful, and that stress is showing no signs of subsiding, even if it's no longer just COVID-19. To get through COVID-19 there were several programs introduced by the CARES Act. While the most "popular" of these programs, the PPP Loans, are for nearly everyone now in the rearview mirror, we are still finding many companies are unaware that there are other programs, such as the Employee Retention Tax Credit, which they may be eligible for. Equally, we have found an increase in "predatory" service providers who are taking aggressive approaches and interpretations of eligibility which could leave businesses vulnerable or are charging ridiculous fees for services. Businesses should make sure they feel confident that they have gotten all the support they are eligible for but also that they receive the correct advice regarding these programs.

We understand that times are getting tougher, and for a business owner/CEO you don't always have someone to reach out to bounce things off of. We are here for you ... reach out to us, we would love to connect.

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## SUCCESSION PLANNING



### A good succession plan can help:

- Transfer ownership when the time comes
- Maintain your lifestyle in retirement
- Provide for your heirs financially
- Prepare the business to handle unexpected events

A succession plan is very important because life happens and unless you have a plan to deal with the unexpected, the business you worked so hard to build could collapse if you become disabled, die, get divorced, or decide to split with your business partner.

### SELLING THE BUSINESS

If you are passing the business along to your family, *are they qualified or can they be trained?* This is something that should be considered before allowing a family member to take over the business. *Are there family issues regarding the business that need to be resolved?* If so, they should be identified now so that they can be solved before you're gone. If there are other business partners, selling your share of the business to them may be the way to go. However, without proper agreements in place, it can be tough to do so. When a business partner dies, their share usually passes to their spouse who may not have any interest or the knowledge necessary to run the business. It's helpful to have a buy-sell agreement financed by insurance. This way, the individual partners can purchase life and disability buyout insurance on their fellow partners. In the event of a partner's death or disability, the remaining partners can use the insurance proceeds to buy back that partner's shares.

If the previous options aren't viable, another option is selling the business to a key employee. However, financing is the biggest challenge for this option, since few employees can finance the purchase of a business. Options include getting a business loan or seller financing, which would allow you to receive a percentage of the business's value at the sale and the rest of the payments over time.

Similarly, establishing an **Employee Stock Option Plan, or "ESOP,"** may be the right answer for you. An ESOP is an employee benefit plan that enables employees to own part or all of the company they work for. ESOPs can create higher productivity, employee retention, tax advantages and higher job satisfaction, as employees feel they have a stake in the business they work for.

Selling the business to an outside buyer is another possibility. It is difficult however to find a ready, willing, and able buyer that is ready to accept your price, terms, and within the time frame you choose. Businesses that can continue running without the owner on board are some of the most valuable options to potential buyers. There are also other key value drivers that make a business more attractive to acquirers. Understanding these drivers and putting resources toward improving them can go a long way toward successfully selling your business.

### BUSINESS VALUATION

Conducting a business valuation has many benefits, even if you aren't planning on selling your business. You can develop a retirement income strategy, properly value future owners' shares, and purchase adequate insurance for protection planning. Additionally, it may make it easier for your business or potential buyers to get loans or attract investors. A valuation from an impartial third party is more credible to potential buyers. Therefore, you should hire a credentialed valuation expert if you do plan on having a valuation performed.

### PREPARING FOR TRANSITION

Regardless of the way you exit your business, you want it to keep going and growing. However, the transition period to new ownership is a vulnerable time for the business. To prepare for this, there are important steps that should be taken.

- Identify weaknesses in the business and developing a plan to fix them
- Fine-tune your business's systems and processes
- Train your successor
- Create incentives for key employee that you'd like to remain in the business
- Get comfortable delegating tasks
- Decide the role you'd like to play in your business and the transition
- Put the necessary legal and financial tools/resources in place

Remember, a business value is often based upon a business' profitability (*whether it be EBITDA or some other measure*). The more you can manage and grow this through improved operations, increased revenue, streamlining expenses, automation, whatever, the more your business will be worth when you finally do transfer it.

### REVIEW THE PLAN REGULARLY

Circumstances may change, such as key employees leaving your business and family members losing interest in the business. As this happens, your own plans may change. Therefore, the succession plan should be reviewed regularly so that these circumstances can be taken into consideration and the plan can remain effective.

JAMES LAINO  
SENIOR ACCOUNTANT



**F**irst recognized as a syndrome in 2019 by the **World Health Organization (WHO)**, burn-out has been on the rise for a number of years. While tight deadlines, high pressure, and stress have been part of working culture since the times of Henry Ford, the COVID-19 Pandemic, increased connectivity via technology, and staffing shortages across various industries have exacerbated this feeling for business owners, managers, and employees. Like many other mental health symptoms, there is still unfortunately an inherent stigma around talking about, and ultimately dealing with, burn-out; however, ignoring the signs and impacts of burnout could have a disastrous effect on people’s personal lives and work life alike.

**SYMPTOMS AND SIGNS OF BURNOUT**

“Clinically” speaking, the WHO defines burnout as “*chronic workplace stress that has not been successfully managed*” and characterized by three dimensions:

- ▶ *Feelings of energy depletion or exhaustion*
- ▶ *Increased mental distance from one’s job*
- ▶ *Reduced professional efficacy*

When trying to assess if you or a member of your team may be experiencing burnout, the above sounds nice but certainly is not one size fits all and feels a little sterile. Some signs that may indicate you may be suffering burnout include:

**1. EXHAUSTION:**

While all of us claim to be tired all the time, exhaustion can be an entirely different feeling like you are “*running in sand*” or lethargic.

**2. DREADING WORK:**

Even for the most impassioned individuals, the lucky ones who “*do what they love*,” ultimately work is still work.

**3. DIFFICULTY SLEEPING:**

*Imagine being both exhausted but also unable to turn off your mind and stress and being unable to sleep? Sounds miserable.*

**4. DEPRESSION:**

A very serious psychological issue that can lead to a myriad of problems, depression can feel different for everyone, but typically takes the form of persistent sadness and lack of interest.

**5. SHORT TEMPER:**

Getting easily upset and angry over the smallest items is both unhealthy for yourself and for others around you.

**6. WORK-LIFE IMBALANCE:**

Whether this is a symptom or the cause is probably a great debate, but if you feel as if you cannot take any time away from work and have no-time for non-work activities this can be a sign of burnout.

Without minimizing these feelings, it is important to note that is it normal to experience these from time to time (*hey, were all human*)! However, according to mental health professionals, the difference between general stress and burnout is typically that stress is short-lived and will ultimately diminish over time with some recovery and a return to “*normalcy*,” while with burnout you feel these emotions or feelings over longer periods of time and these feelings are constant and not subsiding.

**COPING WITH BURNOUT**

Much like with the symptoms, there is no one size fits all solution to coping with burnout or avoiding it all together. Everyone has a different tolerance and handles the stresses of life and work differently. First and foremost, everyone should make sure they are taking care of their mental health in whatever productive and healthy form that is for them. There have been great strides made in both de-stigmatizing getting help in various forms in the past years and we should all be encouraged to take care of our mental health the same way we take care of our physical health. Beyond these steps, here are some additional ways that individuals can help avoid burnout or can do when they are feeling burnt out:



**1. REST, RECOVERY, AND DISCONNECTING:**

While increased technology has made it easier to do things, so many of us are never truly offline. Having time away from work and the related stresses is crucial for everyone. Setting schedules, times, and boundaries to do so, whether its Tuesday date night with your partner or time for your favorite TV show can help with this. Find your passion, the thing that helps you disconnect and get out of your head, and make regular time for it ... like you would for any other work related activity.

**2. RECONNECTING WITH YOUR WORK PASSION:**

Many have chosen their career path for a reason beyond compensation that drove them in the first place. Remembering why you chose to work in a field or what about your field first interested you at a time when you weren’t feeling burned out can help to remind you of that feeling and bring purpose back to your work.

**3. TREATING YOURSELF:**

Sometimes we just need to remind ourselves of the fruits of our labor at work and treating ourselves to a special treat, whether that be a tangible item or an experience (*like a vacation*) which can also help with rest, recovery, and disconnecting.

**4. FINDING A WORK-LIFE BALANCE:**

For many, this may feel as elusive as a unicorn or bigfoot, but resetting the work-life balance can help many mitigate many of the stressors that can lead to burnout. Remembering what your non-work priorities are and what they mean to you and set time aside for them first (*rather than last*) can help make this more realistic.

It is a near guarantee at some point or another we will all feel some form of burnout from work, it is only natural. Recognizing the symptoms can help you realize when it may be time to do something, especially if it is impacting performance. Many of the above mechanisms for coping with burnout can work equally well as preventative care to help avoid burnout in the first place. The important thing is to take care of yourself.

**EDWARD MCWILLIAMS, CPA**  
*PARTNER*

# THE ECONOMIC CRISIS

Everyone is feeling the crunch in 2022, especially those who run businesses. Inflation is at a record high, employees are demanding better wages and better work environments, and the ability to get the products needed to do business has continued to be a major challenge. The predictions that the COVID-19 pandemic's effects would begin wearing off as more and more people got vaccinated have been heavily debunked, and with the war in Ukraine and other world events continuing to disrupt supply chains and increase the costs of items like gas, many companies that have historically relied on imported goods or cheaper shipping costs are finding it hard to exist in the market. The metropolitan New York City area has felt this particularly hard, with rent prices returning to pre-pandemic levels this year.

## EVERYTHING IS MORE EXPENSIVE NOW

While originally thought to be “transitory,” inflation has taken off in 2022. The May **Consumer Price Index (CPI)**, released in early June 2022, was up 8.6% year over year, a .3% increase from April 2022 and the highest level since 1981. The core index, which excludes food and energy, increased 6% year over year in May 2022. In short, everything is more expensive now.

Many products became cheaper during the 2020 COVID-19 pandemic. As companies struggled to stay in business, various deals were offered, and as gas prices and insurance rates decreased, companies were able to offer products at a better deal. Now with gas prices soaring partially due to a ‘return to normalcy’ and partially due to the Russia-Ukraine war, companies are having to raise their prices. Furthermore, since many businesses did not survive the pandemic, there is a decrease in competition on the market, allowing sellers to sell their products for more.

On the bright side, the metropolitan area has experienced significantly less inflation than the rest of the country. While the national average rate of inflation has been about 7.9%, the NYC metro area has only experienced a 5.1% increase. Still, that increase is severe, and the increase in gas prices and rent can still be felt not only by consumers but by business owners as well. Furthermore, even with a slightly better inflation rate than other states, the rising costs of everything have led to other issues in the modern workplace. What's more, the prime lending rate is up 1.25% since the beginning of the year, and it is anticipated that there will be 4 to 5 more increases by year end.

## NEW HIRES HAVE MORE DEMANDS

The desperation that the lockdowns created has caused many in the workforce to seek out non-traditional employment, and with the rise of the gig economy (*Fiverr, Amazon Flex, etc.*), it has become increasingly difficult to lure in potential new employees with the same promises of the pre-COVID era. Despite overall unemployment of 7.6% in New York City, people are not returning to the jobs they had prior to the pandemic.

Some of this has to do with perceived risks. The main businesses of the NYC area are traditionally office environments and in person event driven (*e.g. entertainment, dining*) work, both of which saw massive layoffs during the pandemic. Many workers in both finance and tourism are afraid to return to these industries, having seen how quickly their job can be pulled away from them.

The rising cost of everything has also made workers afraid to return to in-office work. Many potential employees have become accustomed to working from home. This has also caused employees to realize that they save significant money on food, gas/commuting, day care, and more, which has kept them from returning to their office environments.

This has caused an imbalance of power, where employees are able to demand more, thus increasing overall business costs when hiring. Businesses are having to not only pay better wages to match inflation, but they are also having to offer things like gas reimbursement or free lunches in order to entice new hires to keep their offices and businesses running.

A March 2022 Report states that compensation costs for non-government workers increased 1.4%, seasonally adjusted, for the 3-month period ending in March 2022, and that wages and salaries increased 1.2% and benefit costs increased 1.8% from December 2021. (*US Bureau of Labor Statistics*).

## THE SUPPLY CHAIN HAS STILL NOT RECOVERED

During the last two years, international supply chains have been pushed to the limit, revealing many shortcomings in this highly complex system that affects just about everything - from toilet paper to state-of-the-art computer chips. The result was disruptions that affected nearly every country on earth, including the US.

Most analysts believe that the supply chain concerns will not see any improvement in 2022. Some project a degree of catching up in 2023, but as more people continue to not use traditional brick and mortar stores and continue to rely on shipping, the delivery mechanisms are still thoroughly gummed up.

More trucks are needed, but truck production is still being delayed by shutdowns earlier this year in countries like Malaysia and Japan. This makes doing business in the NYC metropolitan area particularly challenging, as most businesses rely on imports from the mainland. Thus, companies are selling out of products long before the demand has come close to being met. Millions of potential dollars are lost on simply not being able to get products out.

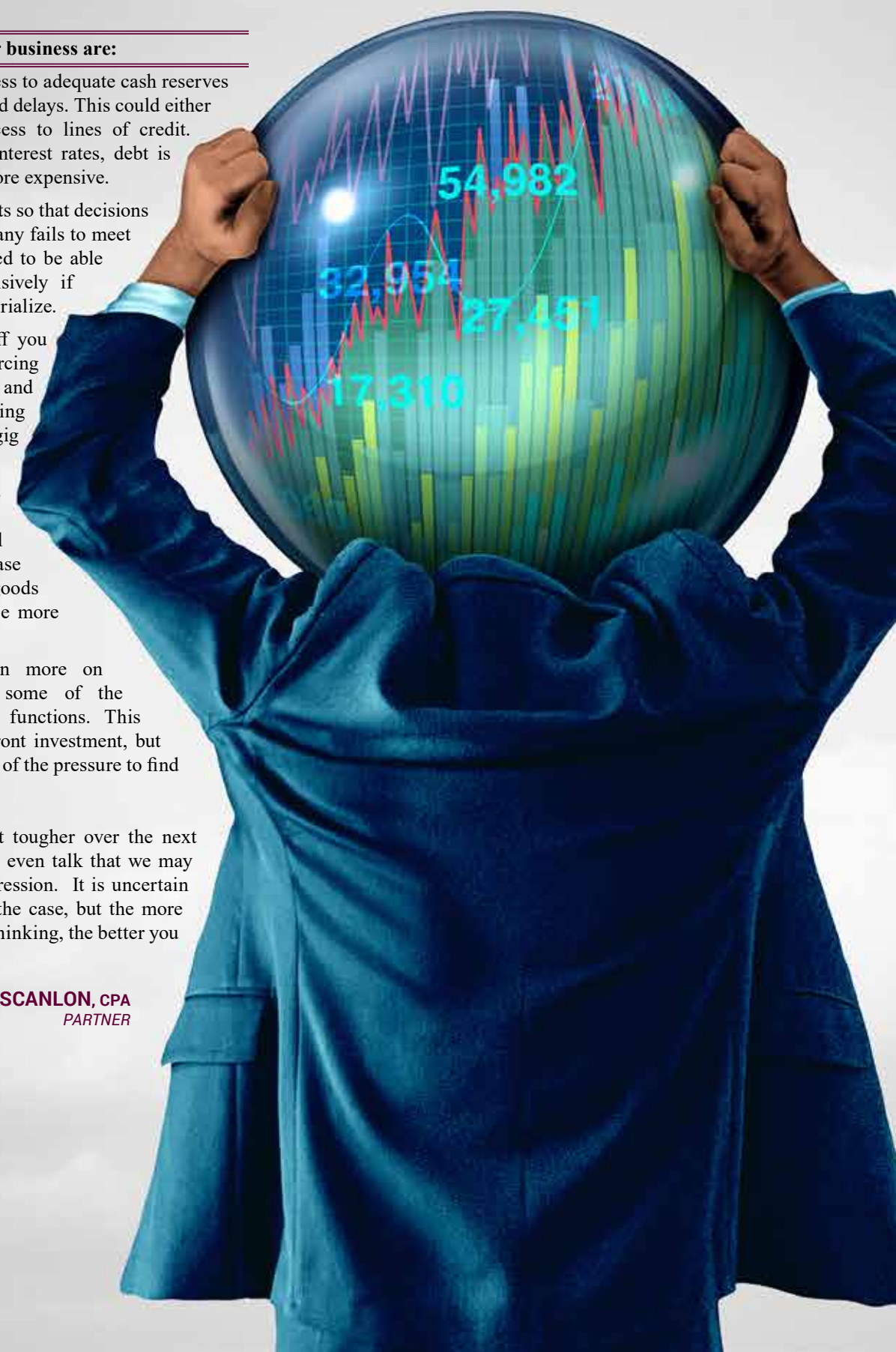
There is some hope on the horizon. Shipping companies do expect improvements to the shipping delays, and there is talk of Russia and Ukraine coming to the table for peace talks, which would help with the price of gas. The Biden administration has talked of implementing plans to curb inflation as well, so time will tell if these particularly rough times come to an end soon.

## The keys for business are:

- ▶ Ensure that you have access to adequate cash reserves to ride out slow-downs and delays. This could either be cash balances or access to lines of credit. Remember, with rising interest rates, debt is going to become much more expensive.
- ▶ Set up contingency budgets so that decisions are in place if your company fails to meet revenue targets. You need to be able to act quickly and decisively if revenue levels do not materialize.
- ▶ If you can't find the staff you need, consider outsourcing certain back-office and other functions utilizing outsourced labor or the gig economy.
- ▶ Look for other avenues to source product ... including more local sources. With the increase in fuel costs, importing goods is going to continue to be more expensive.
- ▶ Look for ways to lean more on technology to replace some of the manual, labor intensive functions. This may require a little up-front investment, but it will help alleviate some of the pressure to find and train staff.

Times are anticipated to get tougher over the next 6 to 12 months, and there is even talk that we may drop into a recession or depression. It is uncertain whether or not this will be the case, but the more strategic you can be in your thinking, the better you will be prepared.

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