BEALL BARCLAY
Beall Barclay & Company, PLC

Business Owner's Perspectives

Trends and Strategies for Owners of Closely Held and Family Businesses

Winter 2018

Customer Rating Systems

Which Customers Should You Focus On?

"The customer is always right." In recent years, this saying has been adopted by many companies to stress their focus on customer service and willingness to do whatever it takes to make sure their customers are happy.

But is the saying really true? Are customers *always* right in *every* situation? Of course, the answer is no. And rather than pretending that they are, your business might be better served determining which customers you'd be better off *not* working with so you can devote more resources to serving your best customers.

Rate Your Customers

One way to do this is to create a customer rating system. Such a system will assign each of your customers a numeric (such as 1, 2 or 3) or alphabetic (such as A, B or C) rating based on what kind of fit they are with your business. For example, an A, B or C customer rating system might look something like this:

"A" customers: These customers are highly profitable for your business and they purchase from you on a consistent basis. They are easy to work with — they're not overly demanding and are generally very pleased with the quality of your company's products and services.

"B" customers: These customers are usually profitable for your business and they purchase from you somewhat regularly. They are hit-and-miss, however, when it comes to your relationship with them. Sometimes they are pleased with your business, but sometimes they can be difficult to work with.

"C" customers: These customers are marginally profitable or unprofitable for your business. Their purchasing patterns are inconsistent, which makes cash flow forecasting tricky. And they can be very difficult to work with, often complaining about your products and services and trying to return products that aren't really damaged or defective.

Allocate Your Resources

Once you've placed all of your customers in the A, B or C bucket, it's time to make some strategic decisions about how you allocate corporate resources to serving them.

You will generally want to devote whatever resources are required to make sure your A customers receive the highest level of product and service quality from your business at all times. If there's any customer who is "always right," it's these customers.

In addition, you may also want to look for more opportunities to work

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Word to the Wise

Consider Trusts for Wealth Preservation

Estate planning is often a difficult subject since it involves envisioning what will happen when you're gone. But one positive way to think about it is that good estate planning gives you control over what happens to your hard-earned assets after you die.

With the proper estate plan, you can control how and when your business and personal assets are disseminated to your heirs. Trusts are a useful estate planning tool to help you accomplish this.

What is a Trust?

A trust agreement spells out what you want to happen with the property or assets held in trust for your beneficiaries. There are many different types of trusts, and each has advantages and drawbacks.

Among the advantages are tax benefits and protection from creditors. Trusts also provide an efficient way to distribute assets to heirs without the cost and delay of probate court. In addition, trusts provide a degree of flexibility that your will alone cannot.

Drawbacks to trusts include the costs associated with drafting, establishing and maintaining them. Also, depending on the type of trust you choose, you may lose substantial control of the assets held in trust during your lifetime.

Types of Trusts

Two types of trusts are popular for estate planning purposes: grantor trusts and dynasty trusts.

A grantor trust is one in which the trust's creator, or grantor, maintains some control of the trust. Many business owners create grantor trusts into which they put their S Corporation or partnership interests, thereby keeping the income from their business out of their estate.

Grantor trusts are generally revocable, meaning you can undo the trust if you choose. You can also amend and change these types of trusts and substitute assets in them as desired. This flexibility is quite appealing. For example, if you are concerned about the tax basis of the assets in the trust, you can swap low-basis assets for high-basis assets as needed.

Note that because the grantor maintains control over the trust's income or assets, a grantor trust protects the business income from estate tax, but not from income tax.

A dynasty trust is designed to preserve wealth for future generations while avoiding transfer taxes. Because dynasty trusts can be set up with very long terms, they can theoretically last for a century or more and cover many generations.

Dynasty trusts are generally set up with the creator's children as the beneficiary. After the children's death, the grandchildren or great-grandchildren become the beneficiaries. Beneficiaries can receive distributions from the trust at the discretion of a third-party trustee, who is instructed as to your wishes.

Note that dynasty trusts are generally *irrevocable*. This means that you maintain no control over the trust's assets, yet those assets are removed from your estate. Assets in the trust grow tax-free and as long as beneficiaries lack control over the assets, assets are excluded from beneficiaries' estates as well.

Talk to Your Advisor

Be sure to discuss trusts with your estate planning advisor. He or she will know which types of trusts will be right for your family.

It's never too early to talk about estate planning. Contact us today to get the conversation started.

Raising Up Leaders

Leadership Training Tips for the Millennial Generation

The Millennial generation has been given many different labels. Some of them are good, like a high degree of tolerance and an entrepreneurial mindset, and some are not so good, like impatience and a lack of discipline.

If you own a family business, though, none of these labels really matter. Because there's a good chance that Millennials will be the ones responsible for taking over the leadership reins of your company when you're ready to retire.

Developing Leadership Skills

According to the 2017 Deloitte Millennial Survey, a high percentage of Millennial leaders feel like their leadership skills are not being adequately developed. So it's critical to devise a plan for how you will prepare next-generation Millennials to assume the business leadership mantle in the future.

Here are 5 tips for nurturing Millennial leaders who will be well-prepared to run your company:

1. Make your leadership training experiential. Millennials usually don't want to sit in a classroom and listen to a lecture. They'd rather learn on the job via real-world management experiences. So involve them directly in the day-to-day work that you do — everything from meeting with customers, vendors and board members to strategizing with executives about the future direction of the company.

2. Share the "why," not just the "what," of leadership. Most Millennials tend to be purpose-driven. For example, they want to understand the mission and vision of the organization and see the big picture beyond increasing sales and generating more profit. As you train Millennials for future leadership roles, be sure to share with them your vision for the future and purpose of the business to help ensure that your legacy lives on.

3. Keep the communication lines open and provide lots of feedback. Millennials thrive on feedback so be generous with both praise and constructive criticism. Also be willing to listen to their opinions and thoughts on various aspects of running the business and implement their suggestions when appropriate. And make sure they're comfortable asking questions, no matter how simple or silly a question might seem to be.

4. Loosen the reins a little. Give future Millennial leaders some real responsibility when it comes to making decisions. This includes decisions that entail a certain degree of risk and consequences. It's better for them to make consequential decisions now, even if they turn out to be wrong, so they can learn from their mistakes before the stakes rise even more later.

5. Invest yourself personally in the training. Raising up Millennials and getting them ready to lead will require a significant investment of time, energy and resources on your part. This isn't something you can hand off or delegate to your staff — you must invest yourself personally in the mission. Strive to become the kind of mentor future Millennial leaders can look back on with pride later in their entrepreneurial lives.

Get Started Now

It's never too early to start investing in leadership training for the Millennial generation. Talk with your executive management team and board members about what a Millennial leadership training program might look like at your company.

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with these customers. For example, can you develop new products and services that would be appealing to them, or cross-sell existing products and services to them?

Similarly, you will probably want to do all you can to ensure that most of your B customers are satisfied as well. The key question with these customers: What can you do to move them into the A customer bucket where they will generate more sales and profits for your company?

What About the C Customers?

Not surprisingly, the customers in your C bucket will present the greatest challenge for your business. You have two main choices with these customers: Either try to move them into the B or A buckets or get rid of them.

If you decide to try to salvage these customers, consider the impact these efforts could have on your other customers. Diverting resources away from serving A and B customers to try to placate C customers could damage relationships with some of your best customers — something you should try to avoid at all costs.

Conversely, you might decide to "fire" some or all of your C customers. This can be a hard decision to make, but sometimes "addition by subtraction" is the best thing for your company. Give these customers enough advance notice so they can try to find an alternate product or service provider. And try not to burn any bridges — you never know when your paths might cross again in the future.

Set aside time now to create and implement your own customer rating system. This could help lay the groundwork for a more productive and profitable year for your business.

Got more questions about creating a customer rating system? Give us a call to talk further.

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What's in a (Family) Name?

What do fashion design houses, wineries — and yes, accounting firms — have in common? Many have their owners' names on the door. Ask these owners what's most important to the success of their businesses, and the answer will likely involve their name and reputation.

As a family business owner, you probably feel a special responsibility to honor your family legacy. If you derive full benefit from your family name and reputation, you can often distinguish yourself from competitors because customers know you're putting your name on the line when doing business together.

So, like it or not, if your name is on the door, you and your family members have a responsibility to live and work in a way that supports both your business and your legacy. This means acting according to your "brand promise" at the office and in your personal life.

The upside of this responsibility is that you have unique opportunities to market your products and services backed by a known name and solid reputation. You can make an impact in your area as an employer and a community supporter, generating goodwill for your company and your family for generations to come.

The downside is that your family members carry the extra burden — and privilege — of representing the company 24/7. If a family member has a problem or is involved in an accident, scandal or an unpopular cause, an easy Internet search quickly attaches that issue to the family and therefore to the family business.

When your name is synonymous with the company, it can also be more difficult to separate family decisions from business decisions. Though it may sound backward, it's imperative that decisions be made with the success of the business as the primary objective.

In the long run, putting the business first provides the greatest benefit to the family.