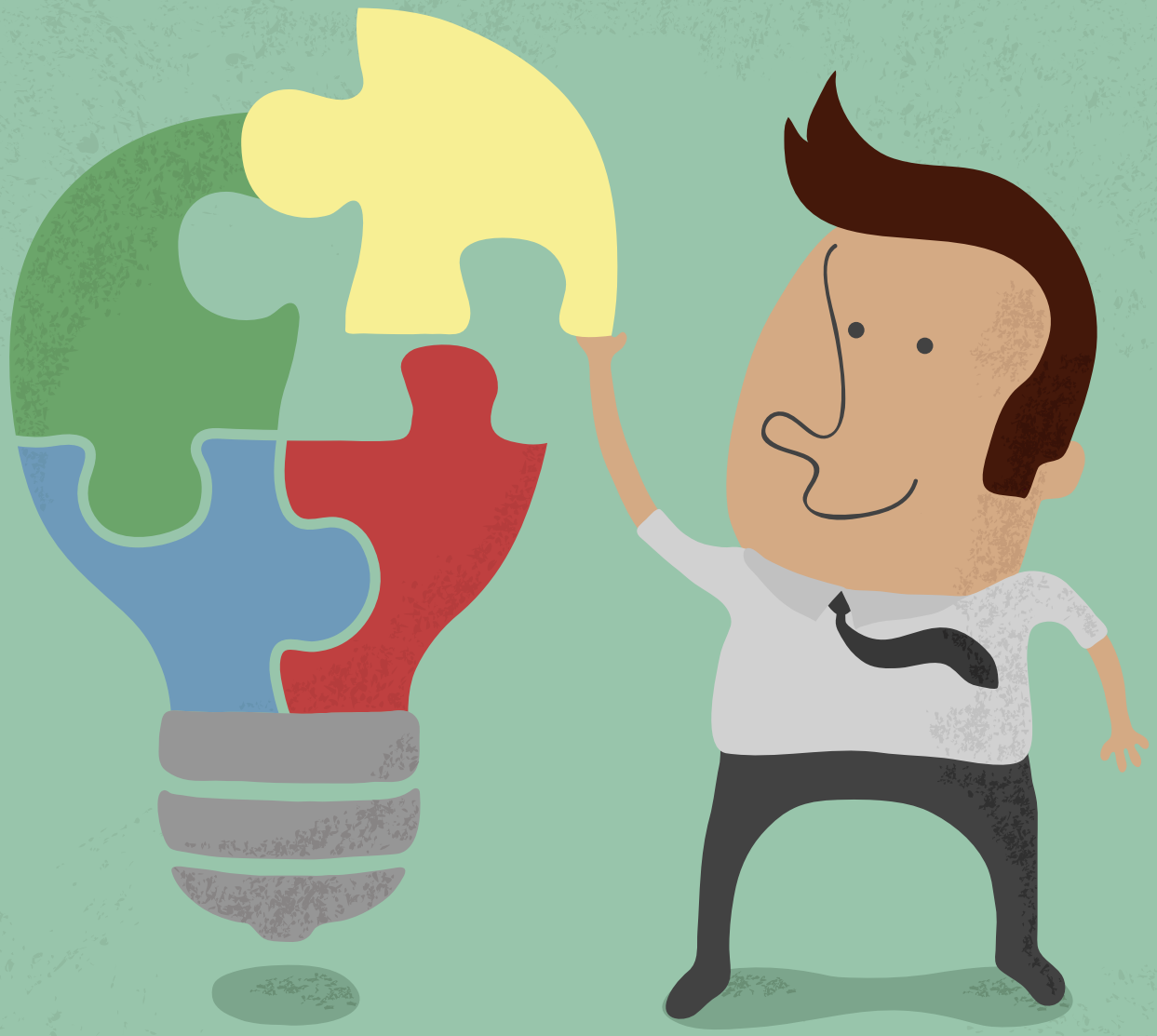
industry UPDATE

CPA CHARTERED PROFESSIONAL ACCOUNTANTS

WINTER 2014

FOCUSING ON MEMBERS IN INDUSTRY



When to Start Your Succession Plan

Transitioning Family Businesses

Is it time to change your corporate culture?

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Industry UPDATE

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British Columbia's CA, CGA, and CMA bodies are currently working to unite under the CPA designation, *CPABC Industry Update* is their online magazine for members, candidates, and students working in industry.

About

CPABC Industry Update is published online four times a year, and is sent to over 27,000 CA, CGA, and CMA members, candidates, and students in British Columbia. Opinions expressed are not necessarily endorsed by the ICABC, CGA-BC, or CMABC.

Contact us

Visit us online at **bccpa.ca**, or email **info@bccpa.ca**. Editorial inquiries can be sent to James Eisner, **james@cmabc.com**.

Appreciating Small Business

Small businesses are the lifeblood of British Columbia's economy. They employ over one million British Columbians and make significant economic contributions. In this issue of *CPABC Industry Update* we look at BC small businesses, the challenges they face, and how we, as CPAs, can help meet their needs. We hope that the engaging articles will keep members informed about the small business sector.

This issue also includes news about the upcoming CPABC Spring Leadership Conference taking place in Vancouver on May 22nd and 23rd. The Conference boasts many practical workshops that will help members push themselves to "do more."

We are constantly working to meet our members' needs and are continuing to work to cover relevant topics that industry-based members can use in their businesses or workplaces.

We hope you enjoy the Winter 2014 edition of *Industry Update* and we look forward to hearing your feedback.

- Richard Rees, CPA, FCA, CEO of CPABC and ICABC,
  Gordon Ruth, CPA, FCGA, CEO of CGA-BC, and
  Vinetta Peek, CPA, CMA, CMA (Hon.), President and CEO of CMABC.

In this Issue

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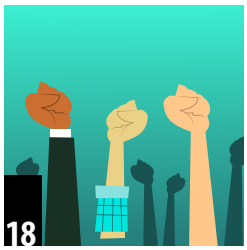
in every issue



Industry Snapshot: Small Business*

EMPLOYMENT

2% are **large businesses**, defined by the BC govt as employing 50 people or more.

392,800 Total number of businesses in BC in 2012.

98% are **small businesses.**

82% of these small businesses employ fewer than five employees.

56% are self-employed business operators without paid help.

43% are businesses with some paid help but with fewer than 50 employees *(includes incorporated self-employed).*

The accommodation and food services industry CREATED **4,600** **NEW JOBS** from 2007-2012 – making it the largest provider of new small business jobs in BC.

38% of self-employed people in BC are women — the highest rate in Canada.

Small business provided **31%** of all wages paid to workers in BC.

17.17% increase in the number of people employed by small businesses from **2001-2012**

1,000,000+ number of people employed by small businesses in BC in 2012 *(includes self-employed with no paid help).*

SELF-EMPLOYED WORKERS accounted for **22%** of total private-sector employment

ONLINE

ONLY 20% of Canadian small businesses are selling on the web right now.

30% of SMEs don't even have a website.

IN 2012, British Columbians placed 25.6 million electronic orders valued at $3.0 billion. This is equivalent to 14 separate orders per person and spending averaging $1,668.30 per person.

$3.0 BILLION

SIZE

BETWEEN 2008 AND 2012, the number of small businesses in British Columbia climbed **1.2%**

SMALL BUSINESSES PROVIDE **55%** of all private-sector jobs in BC — the 2nd highest share in Canada.

BC leads Canada in the number of small businesses per capita.

Real estate led all sectors for small business growth in BC (2007-2012).

96% of BC's high-tech businesses have fewer than 50 employees.

THE KOOTENAY and **NORTHEAST**

-16.3% **-14.1%**

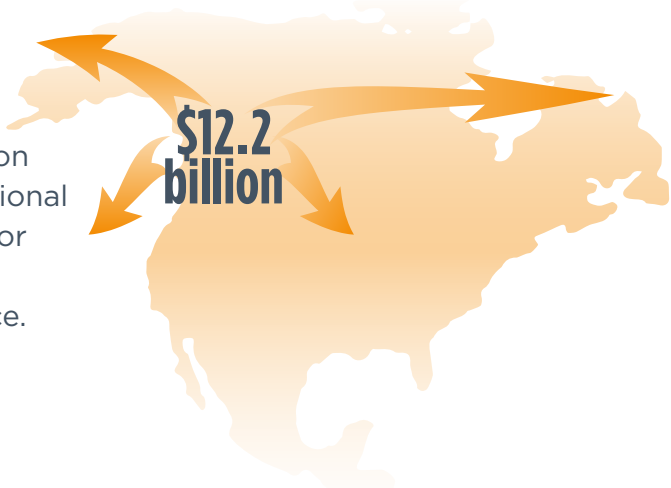
regions experienced the largest decline in the # of small businesses **(2007-2012).**

BC'S SMALL BUSINESSES GENERATED ~26% of the province's GDP in 2012

Regions with most growth in # of small businesses (2007-2012): **Thompson-Okanagan (5.3%)** and **Vancouver Island/Coast (3.2%).**

EXPORTS

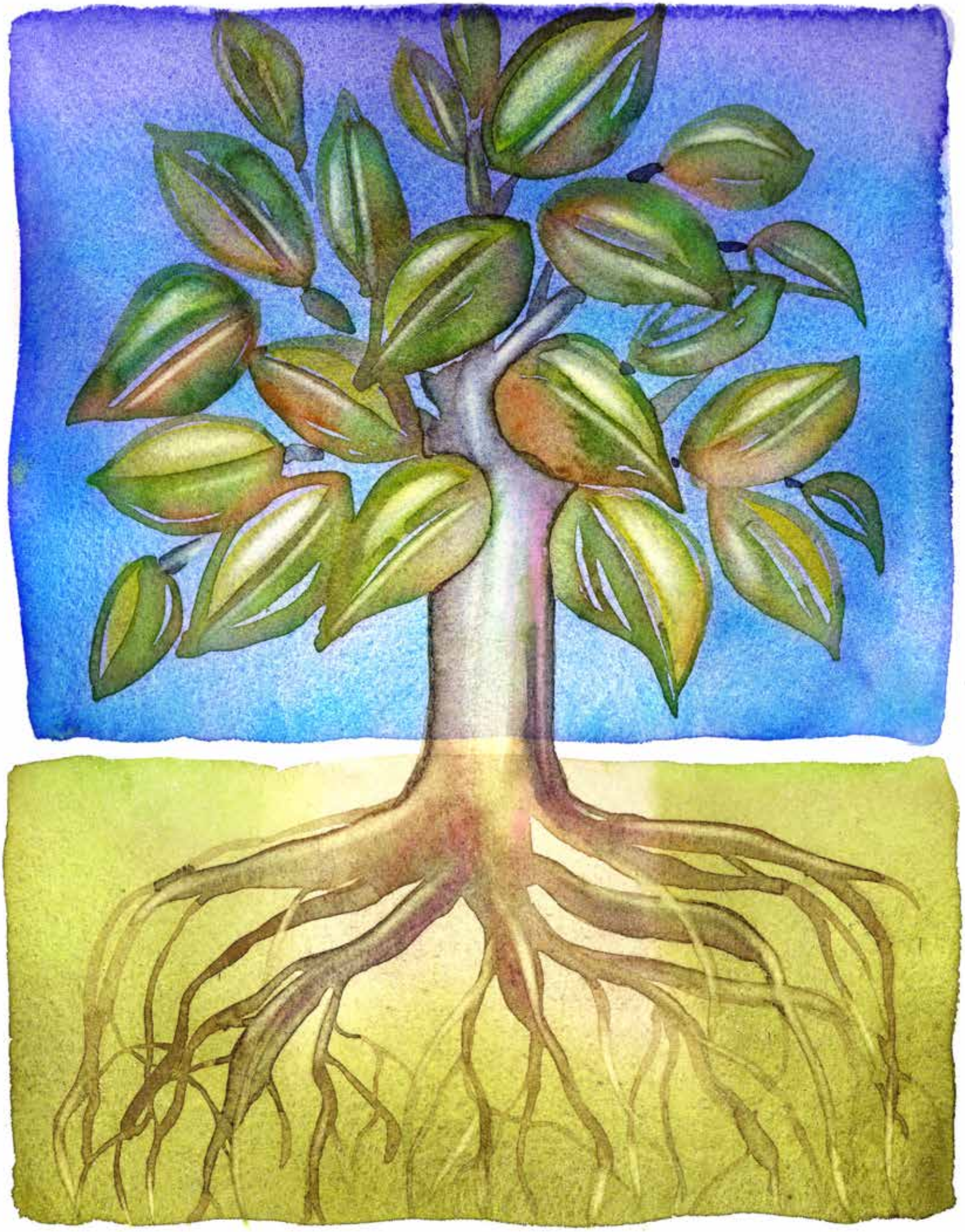
British Columbia's small businesses shipped approximately $12.2 billion worth of merchandise to international destinations in 2011, accounting for almost 42% of the total value of goods exported from the province.



85% of all exporters in BC are small businesses (firms with fewer than 50 workers).

but only **1.4%** of BC's small businesses are involved in exporting goods to foreign markets.

* Main data source: *Small Business Profile 2013,* published by the BC government and BC Stats. Additional Info: Business Council of British Columbia, *Policy Perspectives*, Volume 20, Issue 4, October 2013; Nicole Clark, "Future of B.C.'s Small Businesses is Online: Economist," *BCBusiness*, October 24, 2013; BC Stats, *Infoline* Blog, Issue 13-44, November 4, 2013.



Family businesses are a stable and often underserved market segment for accountants. To provide comprehensive and strategic services to this market, professional advisors must have a deeper understanding of the complex family business landscape. This article will provide background and a recommended starting point for strengthening an advisor's ability to serve family businesses more thoughtfully.

Becoming Strategic Advisors

By Wendy Sage-Hayward and Michael Louie

The Complexity of Family Enterprise

Advisors who work with family businesses already know how different they are from non-family businesses. The family business environment is layered with complexity; it is an environment that integrates the private, emotional, and traditional world of family with the public, objective, and adaptive world of business. Individuals who belong to a family business wear many hats. An individual family member can be a brother, boss, father, shareholder, director, and CEO all at once. It can be confusing and difficult to determine which hat to put on for each decision.

Despite their complexity, family businesses thrive all over the world. In fact, research highlighted in the *Journal of Finance* indicates family businesses outperform non-family businesses in most countries. However, this complexity also has its challenges – one of which is succession to the next generation. Advisors to family businesses are in a unique position to assist families in this transition. However, it is imperative that they move beyond their traditional, single-discipline approach and consider becoming more strategic in how they work with families in business.

Moving from a Traditional Accounting Role to a Strategic Advising Role

The business of accounting is becoming more competitive in most markets. In order to flourish, both professionally and fiscally, it is important for accountants to distinguish their services from those of their competitors. To do so, accounting professionals need to work to become a client's trusted strategic advisor. Strategic advisors offer much more than the traditional services performed by accountants such as preparing financial statements and tax returns. Strategic advisors look and plan ahead rather than looking to the past to address issues. However, this represents a significant change in perspective for many accounting professionals.

For accountants who have successfully established this type of client relationship with a family business, being a strategic advisor is professionally satisfying. More importantly, this approach builds a long-term relationship where the client will begin to request input and guidance on aspects of the business outside of tax and accounting.

A framework that can help accounting professionals shift towards this strategic advisor role is called the Three Circle Model. Featured in the *Family Business Review*, this framework is deceptively simple, yet offers an informative starting point to lay out the complexity of the family business environment. The circles provide an organizing structure for the challenges of a family business operating with three integrated and interacting subsystems: the family, the ownership, and the business.

Given their professional training, accountants typically provide advice in one part of the family business system – the business or ownership subsystem. When an advisor

evaluates the family business system through only one of the three subsystems, they are seldom aware of the other integral parts and how these parts influence the work they are doing. They are also generally unaware of the impact their work can have on the family.

To be served well, family businesses need advisors to take a more expansive view by understanding the whole system as well as the interactions between each subsystem. Strategic advisors work with their clients to identify and address all of the issues in the system regardless of whether it is in the family, business, or ownership subsystem. This is not to suggest that strategic advisors personally address all of the issues in the three circles; each advisor must continue to work within their own discipline and training. However, strategic advisors should be conversant in the whole family business system and have a network of professionals they can rely on to support the family in other areas outside of their expertise.

The following scenario illustrates how strategic advisors may respond when faced with a family business issue. Client A is nearing the end of her leadership role in the family business. She faces many issues, some more pressing than others. She asks her strategic advisor to meet with her to go over her most recent financial statements and raises the topic of her impending retirement. For strategic advisors, some of the interconnecting issues that immediately spring to mind include:

- Who will replace her as the leader of the business?
- Who in her family might be interested in leading or owning the business?
- How will these decisions be made?
- Which family members are important to include in the planning process to ensure this will be a successful transition?
- How effectively do her children communicate and make decisions together?
- How well do they deal with conflict as a sibling group?
- What preparations do her children need to take to be knowledgeable and responsible owners of the business?
- What are the issues of fairness for her and her family when it comes to ownership or leadership succession?
- What communication will be necessary within the family around her decisions?
- How will the next generation share and manage the family's recreational property in their partnership?

Strategic advisors can help her identify which issues are most relevant, prioritize these issues, and then begin a planning process on how to address them. Many entrepreneurs are so focused on running the business that these non-business matters are not addressed, or, if they are addressed, it is often not in sufficient depth. This line of professional advisory service can only be developed by meeting clients face to face and listening to their needs from a broad perspective.

How to Begin

How can accountants begin the process of becoming a trusted strategic advisor? Change often begets change. Accountants may be able to identify key considerations in the change process and begin new conversations with their client. Consider the following potential client situations where change is imminent:

- Changes in the business (growth or challenges)
- Health or other issues for the principals of the company
- Change in relationships within the family (marriage, divorce, grandchildren).

A successful advisor to family businesses

a) is one who can comfortably identify and discuss a variety of issues in a sensitive, respectful, and open manner with an intention to preserve the family and the business; and

b) is one who draws from and works with outside professionals and resources, when needed, to best serve the family.

With the above strategies in mind, advisors can have a rewarding and flourishing professional practice catering to family businesses.

Wendy Sage-Hayward, MA, FEA, is a consultant at the Family Business Consulting Group. Michael Louie, MBA, CPA, CA, is a principal at D+H Group LLP.

Transitioning Family Businesses

By Matthew Wesley

Imagine this is the owner of your workplace.

She runs the business and her hope is to pass it down to the next generation. She may have taken over the family business, succeeded in her time there, and doesn't want to repeat the mistakes of the first transition or she may be a founder who recognizes that the upcoming transition is likely to be messy and doesn't know what to do about it and her family doesn't want to discuss it. When the topic does come up, the tension is indicative of different perspectives and some strong emotions.

She is not alone.

The challenges of business succession are well known. According to the *Small Business Advancement National Center*, over 70% of businesses fail to survive the first generational transition, 90% have disappeared by the second, and 98% are gone by the third. This means that only 2% of family businesses survive for 100 years.

The results of this failure are often measured in missed economic opportunities and fractured families. What could have been a vibrant hub of economic prosperity for the family and the community is lost forever.

The Causes of Business Failure

What causes these failures is fairly well understood. On the technical side, there is often a failure to plan. Business owners need solid estate plans, governance documents, and transition plans. However, many family businesses fail because the family cannot make these plans work. Besides technical failures of planning, what destroy businesses are human failures of communication, trust, preparation, and alignment. Families fracture and their businesses fail.

The disagreements that create these fault lines are actually quite predictable. They usually involve, either individually or in combination, the following five questions:

Who *will control the business and how will power be distributed within the business and between the business and the family?*

Who *gets to work in the business and how is family employment done fairly and effectively?*

How *do we communicate information about the business in ways that create engagement and sufficient transparency?*

What *are the values that should drive our business decisions, and how do we reconcile different value systems, personalities, worldviews, and communication styles?*

How *will money be reinvested, divided, and distributed?*

These "hot button" issues often trigger disputes among family members. Each member tends to have strong feelings about these matters and they can lead to conflict. Many families maintain a code of silence and don't address these issues because they recognize the volatility of raising these questions. When they do arise, they often lead to conflict, the exit of family members, the formation of opposing factions, or a stalemate that is difficult to resolve. At the extreme end of this spectrum, people file lawsuits. Short of that, the business' performance will decline and the family cannot thrive.

The Solution

Many family businesses attempt to adopt best practices. They create governing documents and structures to coordinate both the family and the business. They also work on understanding and adopting role differentiation and boundaries. While these are valuable, if the family does not have the underlying skills to make these "best practices" work, they are for naught.

One way to develop these skill sets is through regular family gatherings designed to address the tension of these hot button issues and to do so in ways that will lead to creative solutions and productive agreements.

We are at a point in our knowledge of human behavior and group dynamics where we can design processes that allow people – who often disagree, sometimes aggressively – to meet and engage in honest dialogue to come to agreements that work. These proven techniques, in the hands of a skilled facilitator, can unlock potential, decrease conflict, create momentum, and generate productivity.

How it is Done

No one solution or approach will fit every family. While the types of issues may be common, the manifestation in any particular family dynamic is unique. This means that every family gathering must be carefully designed to meet the needs of that family in that moment in its history together.

The first key to creating a successful family gathering is to conduct extensive interviews that uncover family dynamics, core concerns, areas of agreement and disagreement, and roles and identities in the family. This phase may also require in-depth written assessments of things such as communication styles or values. It is essential that the facilitator gain the trust of the family members and comes to be seen as an honest broker for the family as a whole.

Once this phase is over, there comes a period of sifting through this information to determine what levels of stress the family can tolerate, what family patterns are likely to appear in the gathering, and the learning styles of the various participants. It takes hours of evaluating, prototyping, and thinking through scenarios based on years of facilitative experience to do this work well.

This leads to designing the meeting. The meeting itself must deal with the family's core issues that are fraught with tension and concern. It cannot circumvent these topics by structuring an agenda based on a purely rational discussion. At the same

time, the meeting must be structured to normalize the tension by using it constructively. In any family gathering, the primary goal is not to cause any harm to the business or family.

The meeting design must be adapted to the family dynamics, address the needs of individuals, and use the right tools from the facilitative toolkit to create forward movement. This almost always involves taking a creative approach to addressing old problems. By pushing the family away from their traditional discussion habits, they find new ways to talk about the things that matter most to them. This unconventional approach must be fun and engaging, spark curiosity, diffuse but harness tension, and appear fair and open minded to all. As a result, the process and outcome of each family meeting will be unique.

Through facilitated conversation, appreciative inquiry, ritual, storytelling, dialogue, or a host of other techniques that could be chosen for that particular family gathering, the family can come to a new understanding of their common ground and the individual needs of the family members. From these new perspectives, agreements can be forged. These agreements don't require everyone to like each other or get along – only that, as adults, they hold themselves and one another accountable to the agreements that will allow the family and the business to go forward with greater clarity, collaboration, coherence, and commitment.

The surprising thing is once these agreements are in place, families often gain new confidence in themselves and family bonds that were once strained are more relaxed. This does not happen overnight, but I repeatedly hear from clients that relationships once thought to be broken beyond repair are mending.

Beyond that, the business starts to thrive as a result of the clarity of the family and the agreements they have reached. These agreements become powerful tools for creating alignment and working through tensions created by the hot button issues faced by family businesses.

Matthew Wesley, founder of The Wesley Group, was a respected estate planning attorney with over twenty years of experience before establishing his firm.

The CAFE 2014 Family Business Symposium

Building Strong Families for Successful Transitions

For 30 years, the Canadian Association of Family Enterprise (CAFE) has been helping families in business succeed by bringing them together to share knowledge and experiences. CAFE is where business families connect with peers and find resources to help them succeed.

Friends and families of CAFE will join together May 21 – 23, 2014 at the ultimate gathering of family enterprise in Canada. Held at the Westin Bayshore in Vancouver, CAFE's 2014 Family Business Symposium consists of two days of keynote presentations and interactive workshops delivered by industry experts.

Visit **www.cafecanada.ca/symposium** for more information or to register.

When to Start Your Succession Plan

By Mark Hoag

While there is plenty of information available about business transition and succession planning, many business owners say to themselves, "This doesn't apply to me since I am not going to retire any time soon." However, even in the early stages of a business, it is important to think about an exit strategy to ensure you maximize the value of your business and mitigate your tax liability when the time comes to retire. Some of the most common questions that need to be answered are:

- What are your plans for retirement? – When are you planning to retire and what does retirement look like to you?
- What are your retirement cash needs and how will those needs be funded?
- How, if at all, will your family members continue to be involved in the business following your retirement?
- Who will participate in the future growth of your business?
- How will potential conflicts among family members be resolved?
- Does your vision for the future of the business coincide with the vision of your successor?
- What steps can you take today to maximize the value of your business if you plan on eventually selling it?

The following advice will answer the above questions and help determine when to start your succession plan.

Shareholder Agreement

If you have a business partner, it is important to draft an appropriate shareholder agreement in the early stages of the business. There are an overwhelming number of items to address when starting a business, and succession planning is often forgotten. However, what happens when one partner wants to exit the business before the other? Does the remaining partner have the right of first refusal to purchase the shares? What if the partners cannot agree on a price for the shares? These questions, along with many others, can be addressed in a shareholder agreement. Leaving these issues unresolved until the time when someone decides to leave the business can be time consuming and costly.

Winding Down a Business

Some businesses may wind down by ceasing operations and selling the remaining assets. Although this does not maximize the proceeds from disposing of the business, it may be the only option if there is no market for the business. While not as common, this does not imply that planning for winding down your business is not necessary. The business may cease to exist but there are likely accumulated retained

earnings that need to be distributed. Rather than paying all the retained earnings out at once, the company could, for example, be maintained and the funds could be extracted over time at lower marginal tax rates to minimize the overall tax exposure.

Selling a Business

Selling a business tends to provide the maximum value. This can be done by selling the shares or the assets of the business. As many people are aware, there is a lifetime capital gains exemption available under certain circumstances. The exemption, which has recently increased to $800,000 and is expected to increase with inflation after 2014, can be applied to the sale of shares of a business. However, there are a number of specific rules regarding the use of this exemption. Appropriate financial and tax planning will need to be done well in advance of the sale of the business to ensure any gain on the sale of the shares qualifies for the capital gains exemption. Sometimes, a buyer may be willing to pay more for the assets of the business than for the shares. If this is the case, a hybrid sale may also be possible to achieve the benefits of both an asset and share sale.

Potential planning ideas include:

- Multiplying the capital gains exemption by having other family members own, directly or indirectly, shares in the business; and
- Separating the real estate or investment assets from the operating assets of the business. When selling the business, you may want to retain some assets, such as real estate or other investments, as passive income earning sources for retirement.

Both ideas need to be contemplated well in advance of the sale of a business, as it may be difficult to segregate these assets without adverse tax effects immediately before a sale.

In some situations, there may also be employees who are interested in purchasing the business. This can provide a more natural succession, as the employees are more privy to the ins and outs of the business. The employees could first purchase a small interest and increase their ownership over time. This strategy may be more manageable for an employee than purchasing the business all at once.

Family Succession

Passing a business on to family members is another common succession plan. Like the other options discussed, advance planning is necessary to ensure the maximum benefit is achieved.

Some considerations include:

- Using a family trust. Family trusts have the ability to provide greater flexibility in transferring a business to the next generation.
- Maintaining equity of the family assets amongst all the children is important; family members who are not involved in the business should also be considered.
- Setting up an estate freeze can be used to crystalize the taxable gain to the current shareholder(s) and transfer the future value to the next generation tax free.
- Purchasing insurance may be beneficial as it can cover the tax expenses of the parent.
- Establishing the opportune moment to begin the ownership transition to the family members. In order to increase the commitment and interest of the next generation in the business, you may want to provide them with the opportunity to participate in the future growth of the business well before your planned retirement.
- Determining the individual(s) to take or maintain control of the business.

A lack of effective communication among family members can be a root cause of succession failure. A key feature of any successful succession plan is establishing forums to allow for communication among family members.

There are a significant number of things to consider when it comes to succession planning. While it may seem overwhelming, speaking to your tax and legal advisors, as well as your financial planner, early in the process of setting up a business will help minimize the stress involved with future decisions. It will also ensure the overall tax effects of starting, operating, and transitioning or selling the business are reduced as much as possible. The key is to remember that it is never too early to start your succession plan.

Mark Hoag, CPA, CA, is a partner with KNV Chartered Accountants LLP, who focuses on working with owner operated businesses

A fully integrated ICABC, CMABC, and CGA-BC PD program will be introduced in fall 2014.

- **Go to CGA-BC's PD Program**
- **Go to ICABC & CMABC's PD Programs**

UPCOMING CONFERENCES

Spring Leadership Conference 2014

May 22-23, 2014, Hyatt Regency Vancouver, Vancouver

Information Technology Conference 2014

June 19-20, 2014, Vancouver Convention Centre (West), Vancouver

2013/2014 PD PASSPORT

It's not too late to purchase a PD Passport – the 2013/2014 PD Passports are valid until July 31, 2014.

Save up to 40% off seminar prices from the ICABC/CMABC PD Program with the Personal or Flexi PD Passports. For further details, visit the **ICABC PD website**.

Highlights from CGA-BC's WINTER 2014 PD SERIES

Business Management

Essentials of Controllership

This program is based on the 'Management Planning and Reporting' and 'Management Control' manuals from the Carswell Controllership Guides. This program is designed for existing Controllers who want to share their professional experiences and update their skills, and for those anticipating to move into this position. The topics covered apply to both the public and private sectors and offer an ideal opportunity to share ideas and concepts between different types of organization.

April 24-26, 8:00am-4:00pm

Costing and Decision-Making for Controllers

This program complements the three-day 'Essentials of Controllership Program', and covers topics in the Carswell Controllership Guides related to 'Costing' and 'Technology & Systems'. The program provides a brief review of the Controller's role, strategic financial management, and basic cost and reporting topics. It then builds on these topics using more advanced issues.

May 9-10, 9:00am-4:30pm

Management

The New Manager's Toolbox: Concrete Skills You Need for Your New Responsibilities

This dynamic seminar will provide leaders—both new and those who "missed the manual"—with everything they need to lead successfully. It will benefit anyone who is in a new managerial or supervisory role, or thinking of taking on such a role..

March 11-12, 9:00am-4:30pm

Excel

Excel - Advanced (Lab)*

Learn about the features and functions in Excel that will make accounting and finance tasks easier, faster, and more accurate. In this seminar, you'll work with the many advanced features and best practices to analyze, sort, report, and present information in Excel.

March 7, 9:00am-4:30pm

** Qualifies for the Certificate of Achievement in Excel*

Executive Leadership Programs

The Controllership Program – Operational Skills

Are you responsible for management and financial reporting? Do the business managers look to you for guidance? Are you trying to improve controls, reporting, and accountability? Would you benefit from meeting peers and discussing state-of-the-art developments that affect financial managers? If you can answer "yes" to these questions, then this program is for you. Register before March 3, 2014 to receive the early-bird discounted fee.

Some New Titles from our Winter 2014 Program for Industry Members

- Feb 20 (Vancouver) – **The Mobile Office**
- Feb 21 (Vancouver) and Feb 26 (Abbotsford) – **Excel Best Practices**
- Mar 6 (Vancouver) – **Writing Effective Business Reports and Emails**
- Mar 11 (Vancouver) – **Managing Change and Transformation**
- Mar 21 (Vancouver) – **Data Analysis Expressions in PowerPivot**

In-House Presentations

In-house presentations are seminars tailored to fit your needs. We will find and secure the right instructor and supply the course materials. By designating your own meeting facilities and selecting your own time for these presentations, PD can be made convenient and cost-effective for you! For further details, visit the **In-House Presentation section** at the ICABC PD website.

ICABC/CMABC is pleased to continue offering fundamental two-day seminars converted into two-month interactive online modules. Many members have told us that this convenient, economical, and interactive seminar delivery system is a perfect alternative for those who have difficulty attending our seminars, and/or who want to experience a new and innovative way of learning. Titles include:

- ASPE: A Survey of the Standards
- Auditing in the New CAS Environment
- IFRS: A Survey of the Standards
- Income Tax Planning Refresher: Corporate Tax
- Income Tax Planning Refresher: Personal Tax

PD AUDIOWEB

PD AudioWeb are direct recordings of a selection of live Executive Breakfast and half-day PD seminars. They are available as downloadable MP3 audio files, and any corresponding handout materials are provided as PDF files. PD AudioWeb offerings are eligible for verifiable CPD credits after successful completion of a quiz. For further details, visit **PD AudioWeb**.

MARK YOUR CALENDARS!

PD sessions in your area are scheduled as follows:

Victoria Professional Development Day

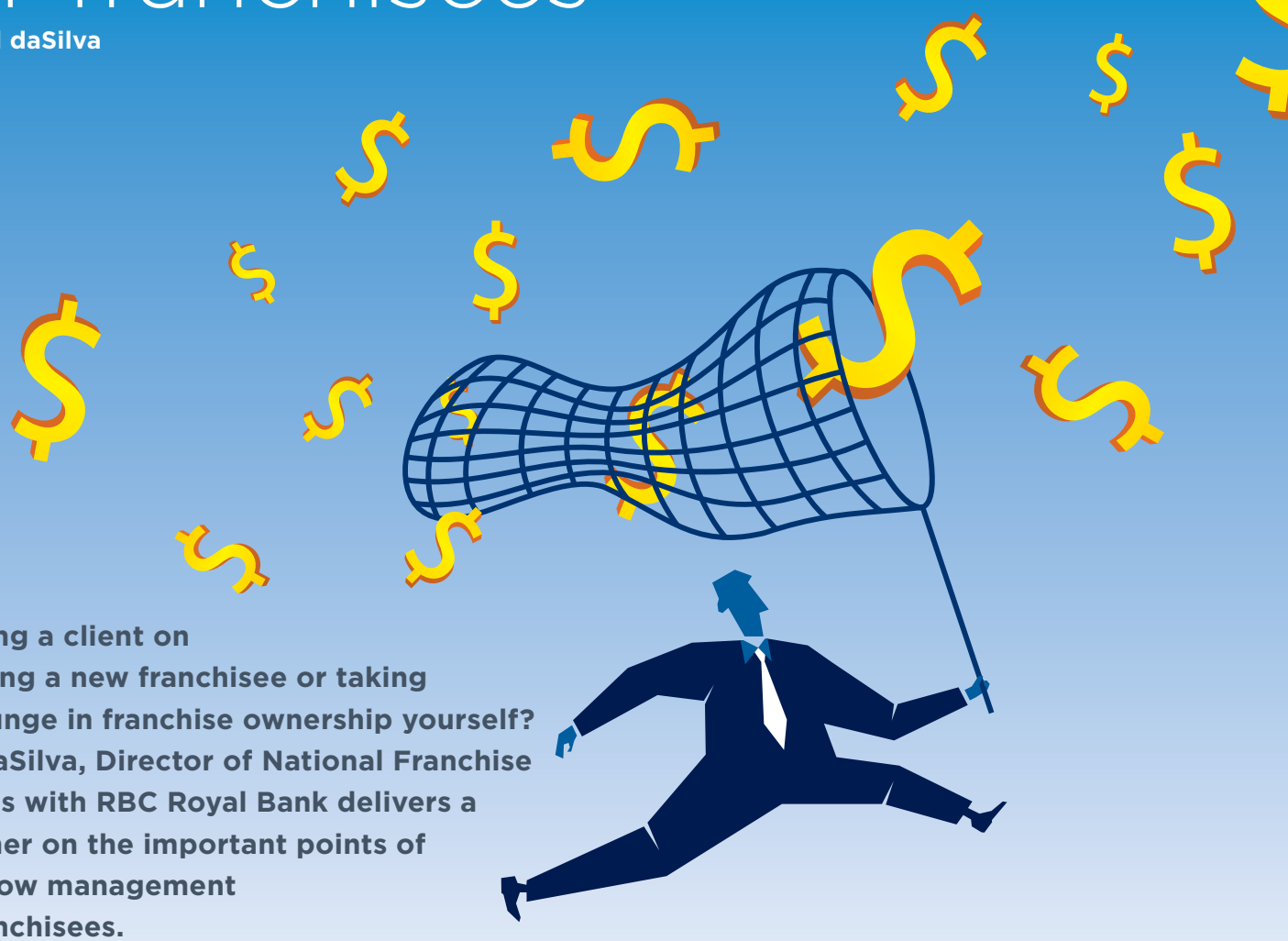
June 24, 2014,
Westin Bear Mountain, Victoria

Members in Business and Industry Professional Development Day

June 26, 2014,
Vancouver Convention Centre (West), Vancouver

Cash flow management for franchisees

By Paul daSilva



Advising a client on financing a new franchisee or taking the plunge in franchise ownership yourself? Paul daSilva, Director of National Franchise Markets with RBC Royal Bank delivers a refresher on the important points of cash flow management for franchisees.

Why is cash flow management so important and how can it help reduce my risk as a franchisee?

Sell. Sell. Sell. Work hard. Get results. Right? Yes. However, as critical as sales and profitability are to running a successful franchise, they are only half of the success formula. You'll also have to mind your cash flow, by effectively managing cash coming in and cash going out, to your maximum advantage. In today's volatile economic environment, the need for franchisees to manage and plan their cash flow is even more crucial. In fact, according to the RBC 2012 Small Business survey, maintaining sufficient cash flow/financing growth was cited as one of the top challenges for business owners.

The Basics

The importance of detailed financial planning for your franchise can't be stressed enough, which means you should always be revisiting your plan. You will need to have enough available cash to see your business through any downturn. If you've overestimated your sales projections, you'll be paying for excess inventory that may have to be written-off or sold at a discount. Unexpected growth or demand can leave you unprepared and cash-starved very quickly.

Cash: get it fast...

For most franchises, cash comes in quickly, especially in the foodservice industry. Customers place their orders and pay on the spot, so the most important thing you can do

is to make sure the cash flows quickly from the till to your bank account. The key to fast cash inflow is to make it as easy as possible for your customers to pay you.

As we slowly become a cashless society, it's important for retailers to provide customers with other options such as mobile, online, Flash or Near Field technologies, or credit/debit cards. They're faster, can lower your processing costs, and reduce your risk to theft, fraud and counterfeit currency. But most importantly, your customers are demanding it!

If your franchise has accounts receivable, it can be a little more complicated. Remember, if you're doing your best to manage your cash flow, so are your customers, which means that they'll try to pay you when it's advantageous for their business. If payment is overdue, be firm. Provide options and follow up with your customers. To motivate your customers, you may want to consider offering terms or discounts for early payment. Typical discounts range from 1.5-3% if paid within a specified term. A very common term is 2% 10 Net 30, which means a 2% discount if paid within 10 days or full payment due within 30 days.

Taking advantage of 2% 10 is equal to approximately a 73% annual interest rate. You can also consider charging interest on overdue payments. Although these strategies can be effective, any increase in cash flow should be weighed against the cost of discounts or loss of customers as a result of credit policies.

...spend it with care.

Considering the expenses most franchises have from week to week, monitoring spending may be easier said than done. However, managing your expenses – both discretionary and non-discretionary – can be made easy with an online banking application, various tablet applications and/or accounting software.

You'll know exactly what's been paid and what's still due, in real time. Online banking is not just access to your business account to see what has cleared or which deposits have been made. Many of the banks have improved their online presence with tools that can monitor your expenses, can schedule future utility payments, process payroll directly to employee accounts or debit customer accounts, basically increasing your ability to manage the timing of your cash inflows and outflows.

When it comes to expenses like supplies, you may qualify for discounts for early payment. But it's important to calculate if the discount is worth taking. Early payment may have repercussions on your cash flow, your credit line and in lost opportunities that may arise.

Managing inventory is another cash flow challenge, especially in the food industry given the nature of the inventory. A good approach is to tie your inventory levels to your predicted sales levels and then monitor your inventory levels regularly. Know the margin, sales and profitability of each product and stock accordingly. Be mindful of inventory storage, especially with high rent locations. Some other factors to consider: what are your suppliers' delivery schedules and can they deliver off hours with access to your premises? If they can deliver more often, you could employ 'just-in-time delivery strategies.' Wage expenses, along with lease and cost of goods, are typically the biggest costs on your business.

Before hiring any new employees, you should ensure that you're maximizing your current employees' productivity. If you're considering hiring contractors or part-time employees, hire wisely and for the long-term. After all, it's expensive to train an employee.

What to do if your cash flow changes

What do you do if you miss a payment to your supplier? It can happen to the best-managed businesses, but it's not the end of the world unless it becomes a pattern. Recurring late payment may force your supplier to put you on a cash-only basis, which can further impact your business.

In many ways, your success is their success. So keep your suppliers informed if you're going to be late so that you can make other arrangements, such as extending your payment terms or making partial payments. Then revisit your cash flow statement, your sales forecast and your financing arrangements. The key is to communicate and keep everyone informed of any changes in your plan.

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Paul daSilva is the Director of National Franchise Markets with RBC Royal Bank.

Is it time to change your corporate culture?

5 questions to determine the levers for change

By Natalie Michael

As an executive coach and leadership consultant, I've noticed a theme to my recent coaching sessions: CEOs want to change their corporate culture.

In one recent coaching session, the CEO of a $40 million company here in British Columbia told me, "I believe our culture is too 'country club.'" Another client, the CEO of a $120-million manufacturing firm, commented: "I believe our culture is too fun. We are missing the business agenda."

It is refreshing to see CEOs tending to their culture, especially in a world where culture is touted as a primary source of competitive advantage, and as an asset for attracting and retaining key talent. Yet, there is a reason that culture is a prime executive coaching concern. Corporate culture can be elusive to define and hard to change; it's challenging to pinpoint what elements need to shift.

If you believe your culture needs adjusting, here are five questions to help you determine the levers for change.

1 To what extent does your culture drive the business agenda?

A company's culture is a combination of patterns of behaving, feeling, thinking, and believing—in short, the patterns that determine "the way we do things around here." At its best, an organization's culture is an immense source of competitive advantage, energizing people to get the right things done.

At its worst, a culture drags on productivity and emotional commitment, undermining success. Typically, a culture can do a bit of both, meaning that in some ways it enables success and in other ways it impedes it. Yet, on the whole, it is important to ask yourself if the culture is in sync with the strategy, and whether it leads to consistent and attractive growth and profitability. By making the link between culture and the business strategy, executives are able to answer the questions: "What is this all for? Why is the cultural conversation so important?" Ultimately, if your culture is on track, the business results will be there.

2 Is the CEO effective at reinforcing the desired culture?

The CEO is the most prominent leader in the company and, ultimately, therefore the chief cultural executive. There is, however, a difference between understanding the importance of culture and being effective at leading a cultural vision. As mentioned, the first step in leading a cultural vision involves understanding how a healthy and productive culture drives the business strategy. But to lead a cultural vision, the CEO needs to be aware of change management principles such as the stages of change and resistance to change, and how to use multiple communication channels to skillfully deliver and reinforce messages.

For example, the CEO of a manufacturing company in Richmond, BC, conceived the image of a winning team to communicate the desired culture. He posted images of winning teams around the company, and went on a tour of its international operations, where he took pictures of images which did not seem to align with his winning team concept. The images he captured included messy desks and cigarette butts littered outside the office entrance. Then, the CEO spent time reflecting on which of the executives seemed aligned with the culture he aspired to, and which did not. He met with each executive, asking them how they could best contribute to a winning team, and tailored his approach depending on the level of resistance he anticipated.

3 Does your culture honor diversity?

To unleash the full promise of a company's culture, make better decisions, and drive innovation, diversity is a must. Inclusiveness, whether of those with different opinions, nationalities, or genders, empowers individuals and strengthens organizations, but it can also be challenging to uphold,

especially when differences in style lead to frustration or communication "noise" between teams and individuals. The reality is that research shows that when a culture values the strength of ideas from those who are in some way different, the organization profits.

It is important for an organization to learn whether there is a conscious and subconscious commitment to inclusion, how the diversity mindset shapes the culture, and where biases, processes, and interactions restrict diversity. In my coaching sessions, executives often comment on how frustrating it is to work with people who are "cut from a different cloth" because it is so much faster to deal with people who think and act like them, yet my executive clients recognize that what may feel like speed today could lead to failure tomorrow.

4 Is there healthy tension between subcultures?

Although the organization's values ideally are a common thread across the business, the reality is that every team and department has a mini subculture. The nature of that subculture depends on who is leading it, the type of work performed, and the internal dynamics. In addition, there can even be subcultures across age groups and generations.

For example, a global technology company headquartered in BC has subcultures within its technology and creative groups. The technology culture could be described as a well oiled machine with staff preferring order, plans, and predictable interactions. In contrast, the creative culture is like a rainbow. This subculture appreciates wonder, awe, metaphor, big ideas, and creative brainstorming on possibilities.

One of the biggest challenges with any organizational culture is having a sense of unity across teams while also allowing for productive tension. Does your organization recognize competing tensions in the business, and are they viewed as normal and healthy? Is there any value or belief that trumps tensions as an absolute standard? For example, "the customer is always right" or "we must be profitable" as a baseline standard. Are these macro cultural forces productive or are they outdated beliefs that do not take into account the full complexity of a situation and the competing tensions that often arise? Or, even worse, are they simply examples of individuals exercising power and dominance in a way that is not grounded in the higher principles of how the organization wants to function?

5 Is there a counterculture rising?

A counterculture is different from a subculture in that it is considered to deviate from at least one aspect of the dominant culture. Examples include the hippies who protested the Vietnam War, workers in Chinese manufacturing plants protesting work conditions and standards, the organic food movement's opposition to conventional farming, or the workers forming a union. When a counterculture arises it stems from a desire for change, and it is often interpreted by the establishment as "misbehaviour." Over time, however, the same behaviours may be re-framed as bold, progressive, transformative, or innovative.

If a counterculture is rising in your organization, it is important to be mindful of the tendency to label it as deviant and to ignore the protests and key messages. Rather than dismiss its aims and messages, examine the counterculture through the lens of progress and innovation.

What could be gained from this contrarian counterculture down the road? If we incorporated this viewpoint into our culture today, how might it set us apart from our competitors? How might we need to shift our practices to include this counterculture, and would those shifts be worth it? What business results would it lead to? What resources would we require to incorporate the counterculture's goals into those of the greater organization?

Diagnosing and changing culture can be challenging, but it is also one of the most rewarding parts of being a leader. Creating a culture that supports people to work well together and that creates a winning feeling on the team is ultimately what leads to fulfillment at work, and extraordinary business results.

Natalie Michael, MA, CPCC, is an executive coach and leadership development consultant. Her firm, The Karmichael Group, specializes in executive coaching, leadership assessments, and succession management consulting.

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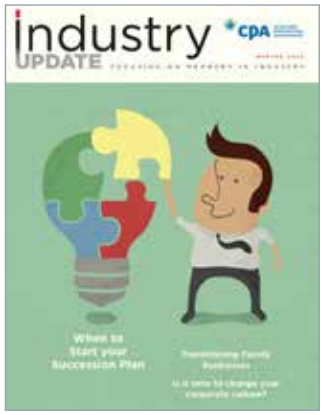

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