Tips to attract the best employees

Small businesses often face heavy competition to hire quality talent. There are several strategies you can use, however, to out-maneuver larger companies to attract the best employees.

- **Promote company culture.** Your business can create a strong sense of purpose and community. So highlight the values, mission, and vision of your company to attract employees who align with your goals. Also promote other ways your culture may be different from larger businesses, such as having a close-knit, collaborative environment where employees can feel like they make a difference.
- **Offer flexible work arrangements.** Providing flexible work arrangements or flexible hours can be a huge draw, especially post-pandemic, as many employees prioritize work-life balance over salary alone. Also consider giving employees autonomy in their roles. This can help attract self-starters and entrepreneurial-minded talent who seek more control over their work.
- **Provide personalized benefits.** If you are not able to offer expensive benefits, focus instead on personalized and creative perks like gym memberships, wellness programs, or mental health days. Emphasize professional development through mentoring, skill training, or cross-department exposure as another personalized benefit. Talented professionals often value opportunities for learning and advancement.
- **Highlight career growth potential.** Let your candidates know that there are real opportunities for growth and leadership within your company. Explain that employees may get to wear many hats, if appropriate. This can be appealing to candidates who want to get experience in a diverse set of skills.
- **Use your network and referrals.** Employees hired through referrals often have a better understanding of a company's culture and as a result, fit in more quickly. So encourage current employees to refer candidates in return for referral bonuses. Also consider engaging in the community to help raise awareness about your company to prospective employees.
- **Streamline your hiring process.** Since small businesses typically have fewer layers of management, the hiring process can be more personalized and efficient. Candidates will better appreciate your streamlined, human-centered recruitment process.
- **Use social media and branding.** Showcase your company's culture, projects, and employee stories on social media platforms. Candidates are often attracted to brands that share authentic insights into the day-to-day work life at your business. Also encourage current employees to share their positive experiences on platforms to help build a personal connection with potential talent. ♦

NOTE: This newsletter is issued quarterly to provide you with an informative summary of current business, financial and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

Inside this issue

Tax & Business letter
SPRING 2025

Boost your bottom line by key customer analysis

Analyzing key customers is a great way to identify high value customers that significantly add to your bottom line. Here's a guide to help boost your bottom line by focusing on these key customers.

STEP 1: Identify revenue generated by each customer. Start by calculating the total revenue each customer generates over a given period (e.g., monthly, quarterly, annually). Next, segment your customers by size or product purchases to compare similar groups. Then determine the average order value for each customer by dividing the total revenue generated by the number of transactions. It is important to use net sales to ensure you are using the true revenue received.

STEP 2: Calculate the costs to serve each customer. Include the direct costs of goods sold (COGS) or the costs of delivering services for each customer, such as material and manufacturing costs, labor, and shipping. Next, identify the indirect costs associated with serving each customer. These typically include customer support and service costs, marketing and sales efforts, along with administrative and operational costs. Also consider the cost of acquiring each customer, as well as the cost of retaining customers such as loyalty programs and discounts.

STEP 3: Calculate the Customer Lifetime Value. This represents the total revenue a customer is expected to generate over the duration of their relationship with your business. The formula is:

> ***Customer Lifetime Value =***
> *Average Purchase Value x Average Purchase Frequency x Customer Lifespan*

STEP 4: Analyze profit margins for each customer. Calculate the estimated gross margin for each customer by subtracting the total costs of product from the total revenue they generate, then dividing by total revenue. For a more comprehensive view, calculate the net profit margin for each customer by including all overhead and indirect costs:

> ***Net Profit Margin =***
> *Revenue - (COGS + Overhead Costs + Acquisition Costs) \ Revenue*

STEP 5: Put customers into buckets based on profitability. After calculating each customer's profitability, group them into tiers with action items for each bucket:

- **High-value customers.** Invest more resources in retaining and growing relationships with your most profitable customers.
- **High-cost customers.** Explore ways to reduce costs, such as automating, when serving customers who buy from you but are expensive to serve.
- **Less profitable customers.** Raise prices or offer fewer discounts.
- **Unprofitable customers.** Consider discontinuing relationships with customers who are consistently unprofitable by diplomatically phasing out these customers by adjusting pricing, terms, or reducing the services offered.

By analyzing customer profitability, you can allocate resources more efficiently, optimize pricing, adjust service strategies, and focus on retaining your most valuable customers. ♦

IRS TAX NOTES

Be prepared for higher business taxes

Many tax rules contained in the Tax Cuts and Jobs Act (TCJA) are scheduled to sunset at the end of 2025. Consider the following as you plan for the potential impacts of any possible changes:

- **Review your business tax rates.** With potential changes to individual tax rates applied to flow through earnings, it may be worth reassessing whether your current business structure (C-Corp, S-Corp, LLC, Partnership or Sole Proprietor) is optimal.
- **Review your Qualified Business Income (QBI) deduction.** Pass-through entities like LLCs, partnerships, and S Corporations should evaluate their options if individual tax rates increase and the 20% QBI deduction expires.
- **Consider the expiration of individual tax provisions,** such as lower individual income tax rates and the elimination of the $10,000 SALT limitation, as these changes may affect owners who report business income on their individual tax return.

Explore ways to reduce costs, such as automating, when serving customers who buy from you but are expensive to serve. ♦

Tax CALENDAR

SPRING 2025

April 15, 2025

- ❑ 2024 individual income tax returns are due.
- ❑ First installment of 2025 individual estimated tax is due.

June 16, 2025

- ❑ Second installment of 2025 individual estimated tax is due.

5 numbers that will make or break your business

Regardless of the type of business you're running, actively monitoring a few key numbers is often what's needed to keep your company growing and prosperous.

A company's key indicators often fall into one or more of the following categories:

- **Order volume.** Find the key metric of orders that makes sense for your business. Measure these orders versus last month and last year. Then look at year-to-date numbers and compare them to last year. Are you selling more units over time? Tracking revenue alone may present a false picture. After all, revenue may be growing because prices are increasing. If unit sales are declining, you might be losing market share.
- **Breakeven point.** Determine how much gross margin (sales minus cost of goods sold) you need to cover your ongoing expenses. These ongoing expenses like rent, supplies, utilities, advertising, insurance and others should be totaled and divided by twelve to determine your average monthly breakeven point. You will need a gross margin that averages above this breakeven point to show a profit at the end of the year. If you're dipping into reserves to cover revenue shortfalls, adjustments may be required. So calculate and know this number for your business.
- **Liquidity.** Knowing whether there is enough to pay your bills now and into the future is key. So create and maintain a 12 month financial forecast. This includes both your income statement and balance sheet. Then translate it into a statement of cash flows. If done correctly, you can calculate the number of months of cash reserves to have. Then plan accordingly to ensure the proper liquidity is available.
- **Inventory Turnover.** This number shows how many times your company sells and replaces inventory during a given period. The higher the number, the better. Assume your company's cost of goods sold for 2025 was $100,000, beginning inventory on January 1, 2025 was $10,000, and ending inventory on December 31, 2025 was $15,000 (for an average of $12,500). Your cost of goods sold of $100,000 divided by $12,500 equals a turnover ratio of 8.0. Banks and investors love to look at this number as the higher the turnover, the less likely you cannot change the inventory back into cash by selling it.
- **Payroll (and Contractor) Percentage.** Take your total payroll costs (including benefits) add contractor costs and divide it by net sales. This percent of sales is then compared to budget and prior years. Try to maintain or shrink this percent. Don't forget to add part-time and contract workers to this total, as many businesses are relying more on this source of workers in this tight labor market.

Over time your business's vital numbers may change. The key is to know your company, identify changing conditions and adapt. ♦

Move over, big box retailer!

In today's Amazon-dominated marketplace and big box retailers, one would think there's no longer a place for small businesses. Yet, many small businesses not only survive, but thrive! Here are some ideas to help you compete amongst the giants.

Know your point of difference

Why do your customers come to you? Is it convenience? Is it your friendly staff? Is it your added services and help? If you aren't sure, start watching and asking customers. Be curious. The answers are there, so look for them and then focus on what makes your business tick.

Don't compete directly

If it was all about price, no small retailer or service provider would exist. While consumers like a lower price, they also want to buy from someone they can talk to and who can actively solve their problem. This is something big box retailers can't do. And have you ever tried to talk to an actual person at Amazon? Good luck. So don't go head-to-head on price with a larger rival, focus instead on providing value at competitive prices.

Capitalize on small business strengths

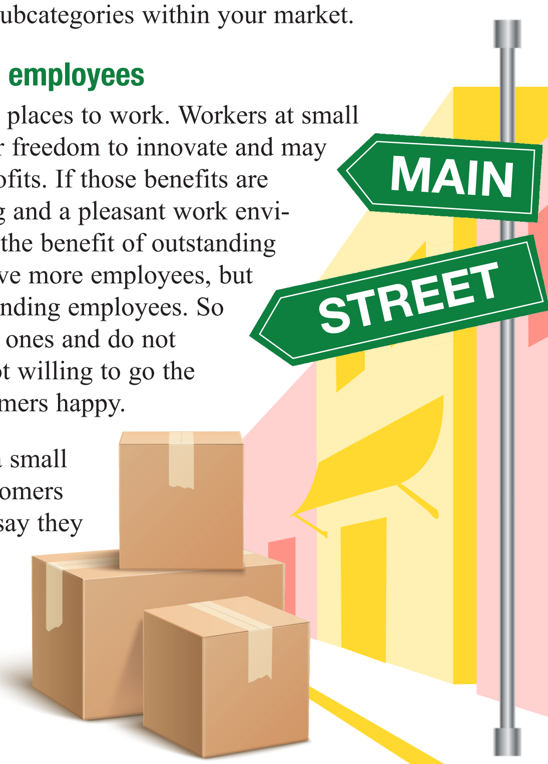
Small businesses have advantages, too. They're generally more agile and can adapt quickly to changing trends and market developments. With fewer employees and less bureaucracy, a small company can streamline processes and respond quickly to the needs of its clientele. Unlike the CEO of a Blue Chip company, a small business owner can generate loyalty by interacting directly with customers in person, through personalized emails, or via handwritten thank you notes.

Tap into niche markets

Big companies tend to focus on broad demographics. They make purchases and investments based on national or regional sales trends. As a small company, you have the opportunity to reach specific markets more effectively. Dig deeper to find untapped subcategories within your market.

Hire (and retain) the best employees

Small businesses can be great places to work. Workers at small companies often enjoy greater freedom to innovate and may directly share in the firm's profits. If those benefits are coupled with in-depth training and a pleasant work environment, customers will reap the benefit of outstanding service. A big retailer may have more employees, but your business can have outstanding employees. So be willing to reward the good ones and do not tolerate employees that are not willing to go the extra step to make your customers happy.



Remember, there's room for a small business that responds to customers immediately, does what they say they will do plus a little more, and always leaves their customers with a smile on their face. ♦

CASH FLOW CORNER

3 strategies to strengthen your cash position

Here are three practical strategies to enhance your business's cash position.

- **Speed up customer payments.** The longer your customers go without paying you, the longer you go without the cash you need to pay your bills and grow your business. Actively manage your accounts receivable by encouraging timely payments from your customers.

  Action Steps: *Stay on top of your accounts receivable activity by creating an aging report of your invoices at least once a month. Consider offering incentives for early payment and closely monitor slow payers. Identify problematic accounts and take proactive measures to prevent future issues.*

- **Quickly turn your inventory.** Inventory that sits on your balance sheet isn't making you any money. Try to sell your inventory as quickly as you can and deploy that money back into your business. Also review other assets on your balance sheet, such as equipment and other fixed assets, to identify items you aren't using anymore. Consider selling these items as another way to increase your cash position.

  Action Steps: *Calculate average inventory turnover (cost of goods sold divided by average inventory) for your business once a month. Then develop a plan to try and improve this key performance indicator over the next 12 months. One idea to consider is improving your forecast of what your customers want to buy and when. Then use this forecast to make inventory purchases just-in-time to sell to your customers.*

- **Improve profit margins.** Boost your business's cash position by building better profit margins. With higher margins, more revenue can be reinvested back into the business or set aside to build an emergency fund.

  Action Steps: *Conduct customer research to determine how much you can raise your prices. Also consider if there are new higher-margin products and services you can start promoting. Also regularly review your expenses to identify unnecessary expenses that can be cut. Take a look at areas of your business that can be automated so you can optimize labor and other overhead costs.* ♦