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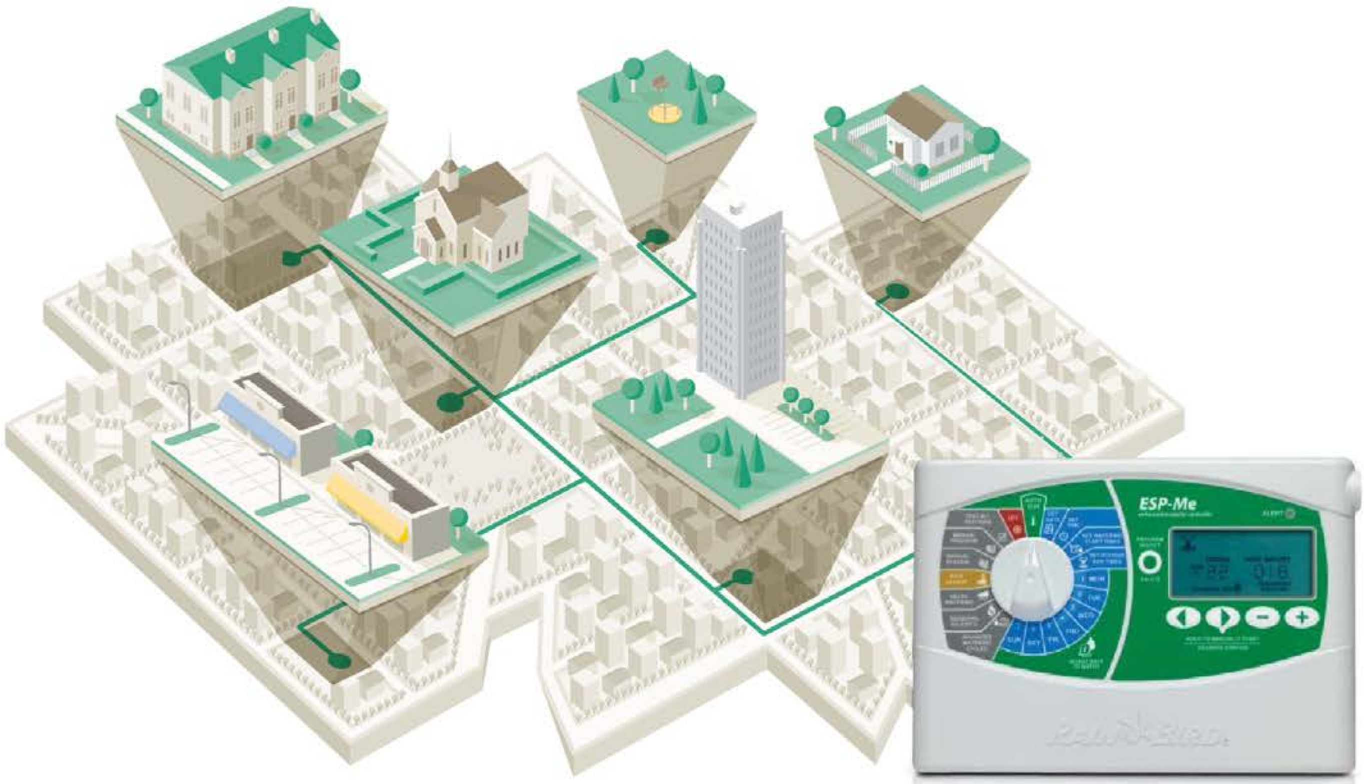

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intermediary has too many restrictions placed on marketing the business or doesn't have the right connections or resources to market the business effectively.

Market conditions are negative. The market is cyclical. There are times when few transactions take place because credit markets tighten. When interest rates are higher, the available financing usually decreases because lenders require a certain level of debt service coverage.

LOWERING THE BUYER'S PERCEPTION OF RISK

The first three reasons a business may not sell are primarily because of the perceived riskiness of the transaction to a potential buyer. A few strategies are available to address the risk to a buyer. The best thing to do, if possible, is to address the reasons for the perception of risk by steps such as:

- Build the recurring revenue components of the business or create new ones. This is somewhat counterintuitive, but one way to do it is make an acquisition or two.
- Develop the management team and make the business less dependent on the owner.
- Diversify the customer base.

Unfortunately, those ideas take time. If you don't have the time to make significant changes in the business, alternatives are:

- Make a portion of the purchase price an earn-out payable only if the business achieves a certain level of performance after a deal is done. These are tricky. The objective is to decrease the buyer's perception of risk while not significantly increasing the seller's risk of going unpaid.
- Provide some of the financing for the transaction in the form of a seller note. This, too, is tricky because a seller note will be subordinate to the traditional financing a buyer obtains and may have limited payments for two to three years. However, lenders often prefer 20 percent in seller financing. Fortunately, sellers who are willing to take a seller note will, on average, realize a significantly higher price for their businesses than those who are unwilling to take seller paper.
- Focus on buyers who will have a lower perception of risk, such as key employees or, perhaps, competitors.

PRICING AND MARKETING

To stimulate buyer interest, it's a sound idea to have a discussion with a merger-and-acquisition adviser about an asking price that will be attractive to potential buyers without leaving money on the table. In some cases, an earn-out or similar provision can help bridge a valuation-perception gap.

One factor that diminishes the likelihood of receiving an offer is a limited marketing plan that's the result of concerns about confidentiality. Many owners are concerned their business may implode if employees or customers find out it's for sale. Thus, they limit the advertising or types of contacts their intermediary can make to avoid the risk of inadvertent disclosure. However, there's a direct relationship between the number of potential buyers who know about an opportunity and the likelihood of receiving an acceptable offer. It's often wise to have as broad a marketing program as possible.

BUYERS TEND TO FAVOR BUSINESSES WITH A **SIGNIFICANT STREAM OF RECURRING REVENUE,** SUCH AS LANDSCAPE MAINTENANCE OR LAWN CARE.

Negative market conditions are one thing you can't control. The best advice is to prepare ahead of time and be ready to sell when market conditions are right, not knowing exactly when that may be. Your only other realistic alternatives are to delay your transaction until market conditions improve or use transaction terms (seller financing, earn-outs and asking price) to make a proposed transaction attractive, even with negative market conditions.

BEING OBJECTIVE

Examine your business as a buyer would, and address the things that would make your business unattractive to you if you were considering purchasing it. Being objective is difficult when it's your business, so consider asking trusted advisers to do the same thing and be straightforward with you about what they think.

The best alternative is to avoid this situation altogether by developing an exit plan. An effective exit plan should assess the value and marketability of your business and include action steps to improve them throughout your planning timeline. A primary goal of your exit plan should be to enable you to sell your business on your terms and timetable. LM

Planning pointer

The first three reasons a business may not sell are primarily because of the perceived riskiness of the transaction to a potential buyer. The best thing to do, if possible, is to address the reasons for the perception of risk.

Edmonds is principal of The Principium Group, a Green Industry merger and acquisition firm. Reach him at redmonds@principiumgroup.com.

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... Ken Byrd – Owner R&K

Q: WHAT IF I GET AUDITED?

BY DANIEL S. GORDON

PHOTO: ISTOCK INTERNATIONAL INC.

A: All land care professionals need to maintain accurate financial records. The most obvious reasons for doing so is to assess the results of operations against past periods, analyze current budgets or to formulate future projections. Moreover, for ownership and management, this is an internal need to monitor and improve the business.

Yet there's an external partner in your business needing to be fed accurate information, too. And if that partner requests, you, as an owner/manager, must prove the accuracy of the information. If you're wrong or can't prove the information is accurate, you may be subject to fines. Who's this partner? Well, there are several. They include the Internal Revenue Service (IRS) and state and local taxing authorities.

You're responsible for providing these taxing authorities financial statements summarizing the results of your operations to report tax liabilities and provide tax payments. Depending on the type of legal entity you operate, you may be required to provide a balance sheet and a profit and loss statement. It's your responsibility to support every number on your tax return with corroborating documentation.

JUST SHOWING YOU PAID AN ITEM ISN'T SUFFICIENT. IT MUST BE **NECESSARY AND REASONABLE, SUPPORTING A BUSINESS PURPOSE** TO BE DEDUCTIBLE.

This sounds like a lot of work. It is. The problem is we get so involved with running our businesses, we put record keeping on the back burner and do a mad dash at tax time to organize our records. A landscape business has many moving parts, including prepaid customer accounts, renewals, payroll, loan/lease payments for vehicles and premiums payable or refunded, based on general liability or workers' comp insurance audits. These items, as well as other issues, make bookkeeping a tedious, important task. But, luckily, you have some leeway in how you bookkeep.

REQUIRED RECORDS

The IRS doesn't have a prescribed record-keeping system. You may choose any system suitable to your needs as long as it clearly shows your income and expenses. It should include a summary of your business transactions, primarily the ledgers a part of your accounting system. Many land care professionals use QuickBooks or Peachtree for their ledger requirements. Both provide adequate detail when drilling into subledgers. As long as the transactional information is accessible, accurate and detailed enough to trace and agree to a source document, you'll fare well in the data presentation phase of an audit.

Assuming your ledgers are correct, each transaction needs to be supported by a source document, which can be electronic. Purchases, sales, payroll and other transactions will generate supporting documents such as invoices, receipts and others, which contain the information that must be recorded in your ledgers. It's important to keep these documents because they support the entries in your books and on your tax return. Keep them in an orderly fashion and in a safe place. For example, organize them by year and type of income or expense.

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It's important to note a record needs to be verifiable and must support a transaction includible in income or deductible as an expense as allowed by the tax code and regulations promulgated there under. Just showing you paid an item isn't sufficient. It must be necessary and reasonable, supporting a business purpose, to be deductible. Here are basic records that substantiate the following items:

Gross receipts are the income you receive from your business. You should maintain supporting documents showing the amounts and sources of your gross receipts. Documents for gross receipts include:

- Signed service tickets or invoices;
- Bank deposit slips;
- Credit card charge slips; and
- Forms 1099-MISC received from customers.

Purchases are the items you buy and resell to customers or materials you apply during your service visits. Your supporting documents should show the amount paid and the amount was for purchases. Documents for purchases include:

- Vendor invoices for material, supplies and equipment;
- Cancelled checks; and
- Credit card sales slips.

Expenses are the costs you incur (other than purchases) to carry on your business. Your supporting documents should show the amount paid and the amount was for a business expense. Documents for expenses include:

- Cancelled checks;
- Legal agreements, such as leases, note payable, mortgages, etc.;
- Account statements;
- Credit card sales slips;
- Vendor invoices; and
- Petty cash slips for small cash payments.

Planning pointer

You may choose any recordkeeping system that suits your needs as long as it clearly shows your income and expenses. Your system should include a summary of your business transactions, primarily the ledgers that are part of your accounting system.

RETAINING RECORDS

The minimum amount of time to retain records for tax purposes depends on the item, when it's recorded and if it will be part of a future transaction. For example, you purchase a vehicle and sell it in five years. The transaction five years hence would be a future transaction requiring information from the original purchase. Generally, you must keep your records supporting an item of income or deductions on a tax return until the statute of limitations for that tax return runs out.

IT'S YOUR RESPONSIBILITY TO **SUPPORT EACH AND EVERY NUMBER ON YOUR TAX RETURN** WITH CORROBORATING DOCUMENTATION.

The statute of limitations is the period of time in which you can amend your tax return to claim a credit or refund, or the IRS can assess additional tax, usually three years after filing. Returns filed before the due date are treated as filed on the due date for this purpose. In the following situations you'll need to produce records past the normal statute of limitations:

- Records for as many as six years after filing if you fail to include income you should've reported, and it's more than 25 percent of the gross income reported on the original return.
- Records for as many as seven years after filing if you file a claim for a loss from worthless securities or bad debt deduction.
- All employment tax records for at least four years after the date the tax becomes due or is paid, whichever is later.
- If you file a fraudulent return or you don't file a return, your records might be examined indefinitely.

These are the rules for the supporting documentation. However, I like to keep copies of the tax returns long after they're filed. They can help when preparing future tax returns and when making computations if you file an amended return. Keep records relating to property purchases and improvements until the statute of limitations expires for the year in which you dispose of the property. These records must be kept to determine any depreciation or amortization and figure the gain or loss when you sell or dispose of the property.

Keep accurate and complete records supported by a well-maintained bookkeeping system. This allows you to perform proper planning for growth and profit and, foremost, comply with any requests for records during an IRS audit should you be called on to prove your tax return is accurate. LM

Gordon is a CPA in New Jersey who owns an accounting firm that caters to landscape professionals throughout the U.S. He can be reached at dan@turfbooks.com.

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Q: HOW DO I IMPROVE CASH FLOW?

BY **MONICA MITCHELL MUIR**

A: Almost every business monitors cash closely, and they all seem to have their own systems. The following are 10 ways to help you improve cash flow in your business.

1 **Monitor your cash on hand.** This includes money that has come in and might not have been entered in the accounting system yet, as well as payments that haven't cleared the bank yet.

2 **Reconcile your bank and credit cards monthly.** That will help make monitoring your cash on hand more accurate.

3 **Review your statement of cash flows, income and expenses. The P&L or income statement provides only partial insight into the health of your business.** Payments on loans would be an example of transactions that decrease cash on hand but wouldn't show up on your P&L. The purpose of the statement of cash flows is to explain your change in cash on hand throughout a given period of time; in other words, why it increased or decreased.

4 **Monitor accounts receivable closely.** Besides accounts receivable aging reports, you may have an average days to pay report, which will let you quickly see who pays slowly and who pays quickly. Wouldn't it be nice to have more fast-paying clients?

5 **Make it easy for customers to pay you.** Many business owners don't like to accept credit cards, but sometimes accepting a credit card will pay you much faster. Perhaps you can have your customer's card on file so you can take monthly payments or whatever you prearranged with the customer. You may even

Planning pointer

Look for patterns so you can drop the least profitable clients or jobs and do more for the most profitable.

MANY BUSINESS OWNERS DON'T LIKE TO ACCEPT CREDIT CARDS, BUT SOMETIMES ACCEPTING A CREDIT CARD WILL **PAY YOU MUCH FASTER.**

PHOTO: ISTOCK INTERNATIONAL INC.

find the customer will go with a larger project because you accept credit cards.

You also can have clients pay you online, and not only by credit card. Automated Clearing House, for instance, has lower transaction fees because it charges a flat, per-transaction fee instead of a percent-of-transaction fee. There may be a monthly fee.

6 Accept payments up front or at the time of service, then you don't have collection concerns. Set prepayments aside, and use it for the client's work instead of other bills. If you're using it for other payments, that should be a warning. You need to look closer at your financials.

> SET PREPAYMENTS ASIDE, AND USE IT FOR THE CLIENT'S WORK INSTEAD OF OTHER BILLS. IF YOU'RE USING IT FOR OTHER PAYMENTS, **THAT SHOULD BE A WARNING.**

7 Run a cash flow forecast, if your software has the capability. It can be quite helpful—this assumes customers pay you on time and you pay your vendors on time.

8 Monitor your payables closely. To do this, you must enter your bills in your accounting system and not just simply write checks when it's time to pay bills.

9 Look for most and least profitable patterns so you can drop the least profitable clients or jobs and do more for the most profitable. Consider monitoring profitability by:

- Product/service line;
- Type of customer;
- Project/job; and
- Type of project/job.

10 Monitor your debt. Loan and credit card payments may not show up in your accounts payable aging reports, so consider these. The following can help:

- The statement of cash flows (discussed in No. 3);
- Current ratio, which looks at how easily you can pay your debt (total current assets/total current liabilities); and
- Debt ratio, which calculates the percentage of your business financed by debt (total liabilities/total assets). LM

Muir specializes in helping businesses use QuickBooks so they can save time and money and increase their profitability. Reach her via muirassoc.com.

Q: WHAT'S THE ROI FOR EFFICIENCY TRAINING?

BY **DAVE HESSONG**

A: The return on investment for efficiency training obviously depends on the efficiency of your operation. As a rule, there's always room for improvement. So many times we tend to do things a certain way, but if we were asked why we do something this way, the answer would be something like, "Because we've always done it that way."

The definition of efficiency is acting or producing effectively with a minimum of waste, expense or unnecessary effort, or exhibiting a high ratio of output to input. It means doing the same work faster. The key is doing the same work and having the same results. If you sacrifice quality to gain speed, it's not being more efficient, it's only being faster.

There's certainly room for improvement in how we do a job, but what about how we prepare for and travel to and from a job? There could be the most room for improvement here. How much time do your workers spend loading up at the shop in the morning? Do you pay workers to sit in a truck for 10 minutes while the driver stops for fuel—or longer if the crew stops for materials on the way to a job? Consider these operational aspects.

Here's a hypothetical situation: A supervisor fails to consider the best place to position the trailer when arriving at a job so his guys can unload materials most efficiently. Anytime you do a repetitive task, even for a few seconds, it adds up to a significant amount of time. Don't believe me? Let's do the math.

Take three workers moving 300 pavers to the back of a house inaccessible by mechanical means for a patio job. If each carries five at a time, it's 20 trips each. Multiply that times the three workers, and you have 60 trips. If the trailer is parked on the street instead of backed in the

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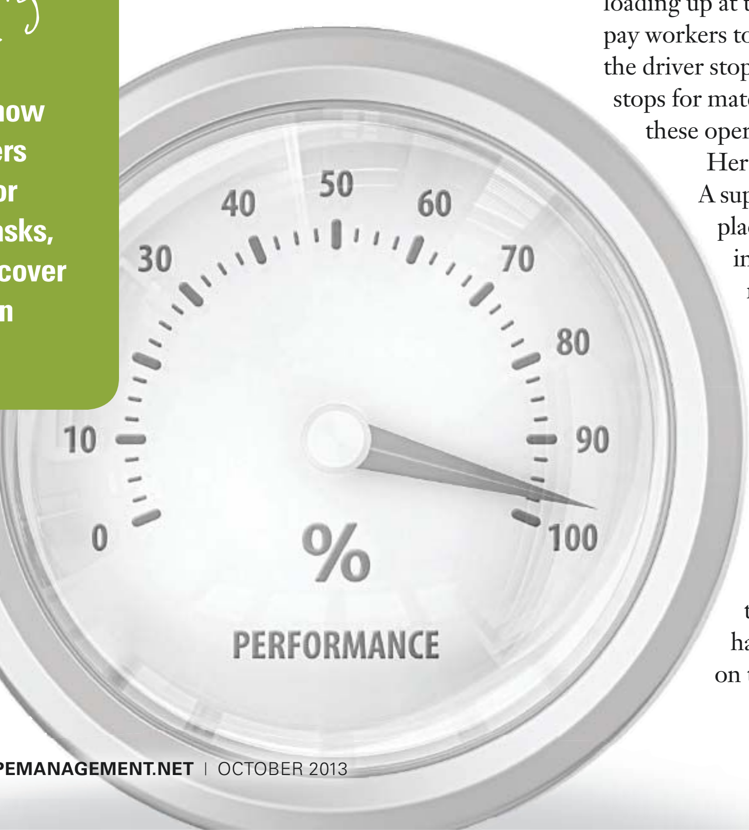
» WEB EXTRA

Visit the Web Extras section of **Landscape Management.net** to download an efficiency health assessment workbook, which allows you to enter a billing rate, number of workers, estimated amount of time wasted and how often you think it occurs.

Planning pointer

You'll want to show your crew leaders best practices for some specific tasks, but you'll never cover every situation in your operations.



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