



T. Dennis Connally Financial Consultants, Inc.



NOVEMBER 2002

TOP 10 DEADLY SINS OF SPENDING

You may not be aware of them, but they're out there waiting to wreak havoc on your business and your budget.

We all know you have to spend money to make money. However, if you want to grow your business smart, you can't afford to make too many spending mistakes. A consensus from business owners, managers and consultants gives us these "Top 10 Spending Mistakes" — in no particular order—for small and medium-sized business to avoid.

1. Expanding too quickly. "It's the 'build-it-and-they-will-come' mentality that can get you in trouble," says Bernie Meineke, director of Georgia State University's Small Business Development Center. Jim Solmson, owner of Marietta-based commercial printer the Graphic Source, says he didn't heed the signs of a recession and the drop in high-tech business when he purchased his fourth printing press two years ago. "You really need to ensure you're stretching capacity to the limit before you

make a major purchase," Solmson says. "It's easy to be seduced by the bells and whistles of new technology, but you must step back and look at the numbers." It helps to get a reality check from your accountant before moving forward.



2. Investing in technology without a long-term perspective. "Business owners often budget for computer systems and software without having a complete understanding of what it can do and how they will use it," says Ra Broaddus, a business adviser and president of CEO People. "The owner should demand more from a vendor, including implementation, training, service and upgrades."

3. Buying new equipment used, when refurbished models will do. "When it comes to heavy-duty, made-to-last equipment - such as restaurant ovens and industrial mixers—you can expect to pay about half the original price when you buy it used," says Mark Thompson, general manager of Carole Parks Catering, an off-premise caterer with a staff of 60 full-time workers. "No one really cares whether your kitchen equipment is new as long as the food tastes good." While a used equipment retailer usually give a 60 to 90 day warranty, most auctions deal with "as-is" merchandise. "You need to be a seasoned buyer to do well at auctions," he says. "It helps if you are able to repair the equipment yourself."

4. Compensation not related to performance standards. "There is no greater spending mistake companies make than keeping people on the payroll who are not doing their jobs," Broaddus says. "Companies need clear performance standards and compensation systems

in place that reward employees for the behavior needed from the position.” For example, Broaddus suggests paying salespeople commission on the gross profit of the sale and not the sale itself. “It gets them to think like a business owner by tying them to the bottom-line profitability of the company.”

5. Paying too much for telecommunications services. “Many companies don’t realize what they’re paying for,” says CPA Stewart Brooks, president of BrookVision CFO Services, a financial consulting firm for small and mid-market businesses. “Telecom bills are extremely complex, and companies often have dozens, if not hundreds, of statements to review each month. Plan designs change frequently and there is often a more competitive firm to consider.” With high turnover, telecom carriers can make mistakes and overcharge for their services. It’s common for companies to be paying for lines they don’t use and services they don’t need. Brooks hired a telecom auditing firm to review bills for a client which resulted in an annual savings of 20 percent.

6. Hiring too many people, instead of outsourcing. “Companies have so much more flexibility if they outsource certain functions,” says SBDC’s Meineke. “It might be payroll services, warehousing and distribution or even a chief financial officer.” As needs change, increasing or decreasing outsourced personnel can be done easier, faster and with less disruption than hiring or firing in-house staff.

7. Improper design of the 401(k) employer match, or profit-sharing contribution. Employers are spending money on matches when they don’t have to. “Every employer has different goals and desires when it comes to providing benefits for their employees,” says Pat Koehn, CFP, president of Keohn Financial Group. “However, they generally want to reward those employees who appreciate their jobs and their benefits and are saving by participating in the plan.” Koehn offers this tip for reducing unnecessary spending: “A non-standardized plan document allows an employer more design flexibility, including the ability to utilize the Last Day Work Rule. That allows you to make a 401(k) match or profit-sharing contribution for only those employees who are employed on the last day of your plan year.”

8. Paying unnecessary taxes. “I see companies paying personal property tax on assets once used for business that are no longer revenue-producing,” says Billy Burkhalter, an accountant, engineer and president of Burkhalter Tax Services. “As soon as you determine certain furniture, computers and other office equipment are no longer being used, you need to remove it from the books.”

9. Sporadic Advertising. The rule of thumb when it comes to advertising is to determine who you want to reach and then advertise in the outlets—print, radio, TV, Internet, direct mail—that connect with your target au-

dience. Consistency counts since it may take a while for your message to get through and your prospects to respond. A company that jumps from one advertising vehicle to another or runs ads in short spurts could be wasting its marketing dollars.

10. Paying for cheap advisers, instead of paying more for qualified, experienced ones. You get what you pay for and sometimes it’s not enough. Jeanne Sellers grew her medical transcription outsourcing service from 16 to 700 employees over more than two decades and sold it several years ago. Now she is a volunteer consultant with SCORE (Service Corps of Retired Executives), a resource partner with the U.S. Small Business Administration. Sellers says business owners sometimes spend a little or nothing on professional advisers. “They think they can do it themselves,” she says. “So they incorporate over the Internet to save money on an attorney and then they lose their company because it’s not structured properly. Or they work with an accountant who doesn’t know what a company like theirs needs to be profitable or isn’t aware of all the best tax-reducing strategies. Poor advice can cost you dearly.

Molloy, Tricia. “Top 10 Deadly Sins of Spending.” Catalyst, May 2002: 22-25

In observance of Thanksgiving our office will closed on November 28th & 29th, our office will reopen on Monday, December 2, 2002.

THE TOTAL SOLUTION



For All Your Individual & Business' Challenges & Opportunities

Real Estate

Real Estate Sales:
Commercial, Residential, Land
Real Estate Management
Find Real Estate for Buyers

Business Brokerage

List Businesses for Sale
Find Businesses for Buyers
Business Liquidations
Acquisitions & Mergers
New Business Start-Ups
Business Plans, Projections,
Proformas

Loan Request Application

SBA
Conventional

Accounting

Tax Return Preparations
General Bookkeeping
QuickBooks Training & Consulting

Financial Review

With your bank or other
Financial Institution
Bonding and/or Insurance Company

Computer Services

IT Consulting
Computer Network Integration
Software Installation & Configuration
Hardware Installation & Upgrades

Financial Management

Budget Analysis
Cost Analysis
Product Pricing
Market Analysis
Financial Statement Analysis
Life Insurance Policy Sale &
Cash Conversion
Management & Collection of
Accounts Receivable, Notes, &
Open Accounts

**All of the above Services & More are through the Association of
Network Realty Group, Inc.—The Network Group and
T. Dennis Connally Financial Consultants, Inc.—Acuate Computer Consultants, Inc.**

Please call Larry Grady at 770-920-2890 ext. 10 or email at networkgroup@tdconnally.com

Please call Dennis at 770-920-2890 ext 12 or email at tdconnally@tdconnally.com

Please call Scott Griggs for your computer needs at 678-386-1813 or email at scott@tdconnally.com