



CHECKLIST FOR BUSINESS OBJECTIVES

Keeping Ahead in the Business Game by Planning Your Business Objectives

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Summary: A successful business must have objectives that outline the financial goals of the business. This article details a checklist of objectives that a business must renew each year. These objectives include the business's income and capital goals, along with its personnel and real estate planning. A business must know how much it can grow in the upcoming year and plan accordingly.

At an annual business meeting held before the beginning of its next tax year, every corporation, limited liability company, partnership, and sole proprietorship should set written objectives for the following tax year of the business.

The following exercise provides a precise destination to the principals of a business, enabling them to move in the same direction at a similar speed. It provides the comptroller and accountant with the data necessary for establishing meaningful budget and management reports. The exercise itself will increase the percentage probability for success of the business.

Listed below are specific areas where objectives must be established for a *holistic* approach to the business. For each objective, the principals of the business must write in precise detail what is to be achieved, when it is to be achieved, and how the achievement is to be evidenced (e.g., "By the next tax year-end, we will achieve gross sales of \$1 million as evidenced by the year-end financial statement."). Where applicable, the objective should include the amount of time and the allocation of money needed to achieve each objective. Setting an objective without allocating time and money is merely wishful thinking!



GROSS INCOME

The total gross income you wish to achieve within the designated time period can be evidenced by, and monitored with, the income and expense statement or the income tax

return (e.g., “By the next tax year-end, we will achieve gross sales of \$1 million as evidenced by the year-end financial statement.”).

COMPENSATION TO PRINCIPALS

One of the major purposes of running a business is to provide compensation and money to the shareholders, members, partners, and owners. We recommend recognizing this purpose by setting an objective as to the amount of money or the percentage of gross income which the business wants to distribute to the owners as salaries, bonuses, draws, or dividends. To track the distributions, the financial statement should contain an account for each principal so as to monitor the “gravy” going to each principal.

NET INCOME

Net income is the income before taxes and is the amount left over after all expenses have been paid and after the principals have been reasonably compensated for their labor. The average net income for a business in the United States is 5% of the gross income, which is a fair return. Even when principals have received high salaries and fringe benefits, it is a good idea to end the year with before-tax net income of at least 5% of gross income to build up the retained earnings and strength in the business.

WORKING CAPITAL

The working capital of a business is a measure of the blood circulating in its veins and arteries. Working capital is the difference between the current assets and the current liabilities. It can be expressed both in an amount and as a ratio (e.g., \$100,000 or a “2-to-1 ratio”). You must exercise great care to include as current assets and current liabilities only those assets and liabilities that are traditionally recognized by conservative bankers. Generally, current assets include cash, accounts receivable, inventories, and other assets that will generate income while current liabilities include all those liabilities payable within one year.

LINES OF CREDIT

We recommend that each year every business request its banker and major suppliers to furnish a written statement as to the line of credit the bank or supplier will extend the business for the next year. Having sufficient borrowing power guaranteed in advance often means the difference between success and failure when the economic climate gets tough.

INVENTORY CONTROL

The more sales the business makes with the least amount of inventory, the more efficiently it operates. Usually, this objective is set forth as the number of inventory turnovers per year or as a percentage that the inventory of the business has to the average monthly sales. A good rule of thumb is that the total inventory should be no more than 1½ times the average monthly sales.

RECEIVABLES CONTROL

The objective for receivables control is expressed in the relationship between the total trade receivables and the average monthly sales. It also could be expressed in the number of times the receivables turn over each year. A good rule of thumb is that the total receivables should be no more than 1½ times the average monthly sales.

ACCOUNTING IMPROVEMENTS

By improving its accounting system, a business can accelerate its growth and efficiency. Improvements in accounting could include changes in the annual budget, various computer applications, design or management reports to see if the budget is being followed on a monthly basis, formal financial statements for the banker, audits, reviews, compilations, and various other types of helpful analysis.

PERSONNEL

Each year, the principals of a business should indicate whether they are going to operate the business for the next tax year without engaging any new employees or, if not, how many employees in each job category are going to be added to the payroll. This planning is important for budgeting purposes.

TRAINING OF PERSONNEL

The value of a business is very much due to the quality of its officers and employees. Setting up and maintaining an employee training and education program each year, therefore, is important. At this time of *future shock*, if you are not absorbing new education and training, you are moving backwards.

FRINGE BENEFITS

Fringe benefits are helpful to the officers and employees and save taxes for the corporation and the individuals. As soon as the business can economically afford fringe benefits, it should prescribe them as objectives. Each year, as cash flow permits, the fringe benefits should be expanded for the loyal officers and employees.

KEY PERSON CARE

To survive for any length of time, a business must weld steel girders between it and its key employees, insuring that the key people are well provided for and happy so that they will stay with and take care of the business for a long time.

Key person care usually involves setting objectives for buy and sell agreements, stock options, long-term employment contracts, special privileges, and other tailor-made programs for each key person, based upon the key person's needs and desires and relative contributions to the business.

FINANCIAL PLANNING OF PRINCIPALS

Often, the financial planning of the principals is overlooked. If one of the principals or a key person dies and leaves a messed up estate – with spouse and children improperly provided for — a financial and/or moral burden falls on the business to clean up the mess and help the survivors adjust.

Consequently, it becomes important for the business to insist that every principal and key employee prepare the necessary legal documents, purchase the necessary insurance, and keep the necessary accounting records required to keep his or her personal estate and financial affairs in order.

REAL ESTATE

Every business requires real estate on which to conduct its operations, whether it is owned or leased by the business. Each year, the principals should decide whether they need more, less, new, or different space. Sometimes, the business' objective will be merely to get by with the space being used at the present time.

EQUIPMENT

Each year, most businesses have to purchase additional automobiles, equipment, or office furniture. It is essential to decide in advance what major purchases will be made during the next year so that the necessary funds can be budgeted.

AESTHETIC AND ENVIRONMENTAL BENEFITS

The attractiveness of the business premises affects the morale of the staff. Consequently, the principals should focus on how to make the business premises more comfortable and beautiful with fewer distractions. We should all recognize that more waking hours are usually spent at the business than are spent at home.

SALES PROGRAMS

Rather than approach sales on a catch-as-catch-can basis, it is better for the principals to write out specific sales programs in advance. Most of these sales programs will affect the income and expenses of the business. Clear decisions in the sales area are necessary for budgeting purposes.

ADVERTISING AND PUBLIC RELATIONS

The principals should set a monetary amount that they are going to spend in advertising and public relations and then identify the various projects. The objective should specify whether the work is to be done by outside consultants or by in-house personnel.

LEGAL IMPROVEMENTS

Many legal improvements exist which will increase income, decrease expenses, or decrease aggravation and problems. Some legal improvements are new contracts, new blank forms, pension or profit sharing plans, and closer coordination with attorneys in certain areas.

FINANCIAL PLANNING TEAM

We have found that the more successful businesses have long-term relationships with "financial planning teams." These businesses have selected and learned to work with attorneys, accountants, advertising agents, public relations consultants, life insurance underwriters, property insurance underwriters, bankers, and management consultants.

Objectives should be set for finding and motivating these advisors and for implementing procedures to improve cooperation and coordination with them.

BUSINESS CONTINUITY

Each year, it is essential to focus on what systems are in place to ensure that the business continues in the event of the death or disability of a principal or other key person, changes in market conditions, and other possible catastrophes. Contingent plans must be established as objectives each year to prevent these catastrophes from wiping out the business.

MEETINGS AND COMMUNICATIONS

The oil and grease of a business machine are regular meetings and the dissemination of information. Therefore, it is desirable to set objectives as to what meetings will be held, how often and when, who will participate, and how the efficiency and quality of those meetings will be improved.

RESEARCH AND DEVELOPMENT

For the next tax year, list the research and development time and money that you will spend to improve the *services* or *products* of your business. To what extent will the quality of these specific services or products be improved?

RETURN ON INVESTMENT

The return on investment is a bottom line indicator. Unless a target is set, it's hard to hit. The return on investment can be expressed in three ways: (1) the return that the owners receive on the book value net worth, (2) the return that the owners receive on the fair market value net worth, and (3) the return that the owners receive on the total book value or fair market value of the assets used in the business.

TOPPING OUT OBJECTIVE

Every business has an optimum size. In nature, animals achieve the size which allows them the greatest chance of survival in a hostile, changing world. The same is true with businesses. When you exceed a certain size, the efficiency and percentage of profit are reduced. Each year a business must decide the optimum number of employees, size of space, amount of equipment, number of divisions or departments, and number of locations at which it operates most efficiently.

PSYCHOLOGICAL AND ENVIRONMENTAL OBJECTIVE

This business objective is a "catch all" area. It is frequently helpful to bring in psychologists and environmental specialists into a business to assist and train the principals and employees in achieving better human relations and in changing the arrangement of the environment to reduce stress. Business persons will think and plan more in these areas as time passes and as understanding increases.



After you have decided on your business objectives in each of these areas and written them down, copies of the objectives should be sent to all principals, key persons, and financial planning team advisors prior to the next annual business meeting.

At the annual business meeting, the objectives will be reviewed to see if they are realistic; to anticipate any legal, financial, cash flow, or other problems that might result from the objectives; and to develop solutions to any identified problem.

CHECKLIST FOR BUSINESS OBJECTIVES

- Gross Income
- Compensation to Principals
- Net Income
- Working Capital
- Lines of Credit (Banks and Suppliers)
- Inventory Control (Ratio to Sales)
- Receivables Control (Ratio to Sales)
- Accounting Improvements and Budget
- Personnel
- Training of Personnel
- Fringe Benefits
- Key Person Care
- Financial Planning of Principals
- Real Estate
- Equipment
- Aesthetics and Environmental Quality
- Sales Program
- Advertising and Public Relations
- Legal Improvements
- Financial Planning Team
- Business Continuity
- Meetings and Communications
- Research and Development
- Return on Investment (Book Value or Fair Market Value Net Worth)
- Topping Out Objective
- Psychological and Environmental Objective

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