

*We have included your email address with our distribution list so you can receive our bi-monthly newsletter. We believe it will add some value to your business.
If you do not wish to receive this newsletter kindly notify us so we will remove your name from our list.*



WE MIND YOUR
BUSINESS

December 2018

VOLUME 4 | ISSUE 6

TECHNICAL

The Path to Automation



Automating an owner-managed business entails more than purchasing a new piece of equipment. The most successful transition requires a careful analysis of existing production process, an understanding of where and when change is required, staged rather than wholesale transition, targeting repetitive employee tasks that can be automated, integration of production changes with business systems, involvement of employees and outside experts and owner metamorphosis from micromanager to business manager.

Ready to Take the Path to Automation?

Small businesses need to increase their operational efficiencies if they are to compete with goods imported from countries with lower labour and manufacturing costs. The road to competitive manufacturing may just rests with those who are automating their existing businesses.

Automating any business is not as simple as buying the latest widget maker; rather, it's a process that will guarantee return on that money spent on automating and provide those efficiencies throughout the process rather than just in one area.

Analyze Your Current Process

As an owner-manager, you should implement a time and motion study to determine areas that are needed to improve work methods. The process review should examine each stage of the manual production process and highlight those areas and processes that are burdened with high labour and resource use.

It is best to document your process utilizing flow charts and written

descriptions, as this will allow for management, workers and outside suppliers to evaluate how to improve on it. Consider among other items:

- the stages of production
- number of times a product is moved or inserted
- time each stage of your process takes

You'll also need to build in time in your review for interaction with other departments, inventory retrieval and discussions with outside suppliers - all of which will help you gather more information as you analyze your processes.

Change Gradually

When studies arrive at recommendations, there is often a rush to implement the entire process simultaneously. Taking on implementation in small, planned steps is a more favourable approach to avoid larger capital expenditure, employee trepidation, or longer training, meaning a break in cycles and thus the possibility of missing customer expectations.

Upgrading to automated equipment in an area currently saddled with excessive manual requirements provides a focal point for employees, to help them see advantages and gain insight about additional changes that can be incorporated into your vision.

Integrate Production With Business Requirements

You can augment the production efficiencies implemented on the floor by looking at their online tools to create efficiencies for equipment software updates, ordering requirements, production costing and numbers to meet sales. Combining physical production with management and financing requirements allows for economies of scale and a better bottom line.

Eliminate Repetitiveness

The ability to relieve workers of repetitive tasks creates a positive environment for both managers and employees. Machines can carry out repetitive tasks without risking the issues that surface when people do them. Consider medical conditions (such as carpal-tunnel syndrome), poor-quality production, tired workers who can't work to 100% capacity and are injured when concentration decreases. All these areas affect production costs and your bottom line.

Involve Employees

While managers may see automation as a positive for the business, employees may see it as one step closer to the exit door and unemployment. You may be able to assuage employees' concerns with the likelihood of less overtime, better product production or enhanced customer service, but it is still up to you to determine how these changes will affect your employees.

To reduce attrition through modernization, management should -in conjunction with the path to automation -establish a plan for increasing market share, diversifying products or eliminating products or services that are suffering a loss. In the final analysis, if it is not possible to keep all employees, you must lay out a plan to reduce the wage burden.

Hire Experts

In all walks of life, we implement ideas without knowing how they will work. When they malfunction, we call an expert. The same process should apply when automating and integrating support systems. Call in the experts to set up the systems, train your employees and work with them until they are sufficiently accomplished to work on their own.

Naturally, you keep the experts on-call once the system is up and running, to ensure not only that they can help coach you along but also that any available updates are installed promptly.

Work With Your Team

Transition takes time. Be understanding of employees adapting to new processes, be patient with experts that can't meet deadlines or if a supplier may not understand your needs, while seizing the opportunity to provide information to customers about the positive changes that are on the horizon. Use this opportunity to determine if changes resulting from the upgrade may affect their operation and how you can alleviate their concerns.

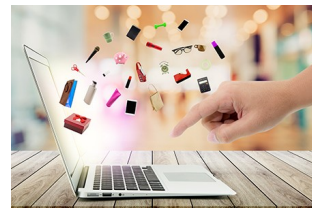
Adjust Your Management Style

Automating the manufacturing process and its support systems should encourage managers to micromanage processes less than before. Firstly, employees have been trained on the new systems; secondly, experts are available to handle glitches within the process.

When automation reduces managers' need to be as directly involved, it should grant them the ability to work towards building the business and strengthening their relationships with new or potential customers through visits to existing clients or improved networking. Further, less need to micromanage allows more time to review the interrelationship between productivity and profitability by product line, and to gain insight into how to further improve corporate performance.

TAXATION

Bartering, the Internet and Taxation



The normal procedure for business transactions follows the tried-and-true method of selling a product or service and recording the income. The income earned is taxable as earned income. Rather than use the traditional approach, many individuals and businesses may decide to barter their products or services.

Did you know that good business practice would suggest that you treat all

barter and internet transactions as you would normal business transactions? If you ever face a CRA audit, it will help spare your corporation, proprietorship or partnership the inconvenience of a long, laborious tax audit and potential penalties and interest - or even being convicted for tax evasion.

Bartering occurs when individuals conduct a transaction for goods or services without using a recognized medium of exchange such as money. Undoubtedly, most sellers who involve themselves in barter transactions are unaware that they are required to report the value of the transaction. And, there may be some who use bartering to circumvent corporate or individual income tax and HST.

When bartering transactions occur in the normal course of business, there are effectively two transactions that must be considered:

- The first transaction is the **value of the service or product that is provided** to the customer. For example, if your business sells bricks, the value of those bricks should be included in the seller's business income. Further, the HST/GST and PST (if applicable) must be added to the value assigned to those bricks, then it should be reported and submitted.

Note that this assumes that the individual providing the product or service has already reached or surpassed the small supplier threshold of \$30,000 with sufficient "conditions." You can review these requirements on the CRA website.

- The second transaction to record is the **assigned cost to the goods or services received in exchange for the product** you have provided. Assuming that the person or business with whom you are bartering is an HST/GST registrant, it may be possible to record and claim the Input Tax Credit (ITC). If that provider does not provide their HST number, you will have to record the assigned cost as an expense and cannot claim the ITC.

There may be situations when the barter transaction may be considered the sale of a capital property. In this case, the transaction may give rise to a capital gain. Your CPA will be able to provide guidance on these transactions.

Internet Sales

Bartering has been around since before the advent of currency, but the ability to barter has been enhanced and overshadowed with the advent of the internet, providing access to millions of opportunities to not only barter but also to sell goods or services.

For those who have used the internet to conduct what may be construed as business transactions - whether innocently or intentionally - the CRA believes that there are enough transactions not being reported that are negatively affecting its treasury.

Consider that the CRA court-ordered eBay Canada to release the following account information and sales data of Canadian residents who conducted transactions on its online selling site:

- sales of more than \$20,000 and at least 24 sales transactions in any of the calendar years 2006, 2007 or 2008, (irrespective of membership in eBay's PowerSeller program), or

- sales of more than \$100,000 in any of the calendar years 2006, 2007 or 2008, regardless of the number of sales transactions.

Given this court order, any Canadian-resident eBay seller who meets these sales thresholds will have the following information released to CRA: full name, user ID, mailing address, billing address, telephone number, fax number, email address, and the selling prices (high bids) of the items.

If your transactions meet the above criteria, a wise business decision would include contacting your local CPA and determining the need for voluntary disclosure to prevent penalties and interest, should the CRA carry out an audit. The following information is required for voluntary disclosure:

- name, social insurance number (SIN) and date of birth of each member of the family
- if a business, the names of the principals of the partnership or the shareholders of the corporation, along with their SIN.
- the last personal tax returns that were filed for the individual and family members
- the date that the eBay business started
- if the business is a sole proprietorship, partnership or corporation: the business number
- for a corporation, the articles of incorporation and the provincial corporate tax number
- Financial statements, whether for incorporated companies or for sole proprietorships or partnerships, should be available to establish whether eBay income was reported when filing returns.
- Tax returns should be available to support the financial data that indicates whether eBay income was reported.
- For corporations or sole proprietors that are registered for GST/HST, all returns filed with the CRA from the date eBay transactions began should be made available. (If the taxpayer exceeded the threshold for registering, the CRA may retroactively register the corporation or individual.)
- bank accounts showing all transactions through platforms such as PayPal
- Sales income and expenses that may offset recorded income and therefore affect HST/GST/ITC should be made available. Expenses that may be allowable are those that are necessary to earn income. (It is advisable to review your expenses with your CPA.)

The court order issued to eBay defined the time frame for the information that the CRA was seeking to audit. Canadian taxpayers should not conclude that they have avoided an audit because they have not received a notice of audit.

If your eBay account meets the criteria discussed above, contact your CPA and discuss the possibility of submitting information to the CRA under the Voluntary Disclosures Program (VDP).

The High Cost of Equipment and Vehicles

The high cost of equipment demands that owner-managers have an in-depth understanding of the cost of owning and maintaining specific types of equipment, to ensure that it contributes to a positive return on investment. Factoring the significant costs of equipment ownership into a pricing formula could increase your sales figures and at the same help your business' management understand where you can reduce present and future costs - and improve your bottom line.



Businesses spend a great deal of time reviewing salary and wages, both to control cost and to determine billing rates when providing estimates or billing clients.

Next to wages, vehicle and equipment ownership and operations are among the higher-expense items within a profit-and-loss statement. Yet, very few businesses monitor the cost of owning and operating vehicles or equipment. Instead, they may simply fold it into the price of doing business without analyzing it further.

Whether your business needs a front-end loader costing just south of \$500,000, or a working truck in the \$90M to \$100M range, analyzing the cost and contributions that these assets make to the business may contribute to a more satisfying bottom line.

To better understand the benefits of job costing each piece of equipment, consider this advice:

- The **original cost of the equipment should be prorated** over its estimated useful life. For instance, if a \$24,000 piece of equipment has a lifespan of five years or 1,000 operating hours, a business could determine a monthly or weekly cost of \$400 or \$92 respectively, or \$24 per hour.
- You should also **expect additional costs when assets are purchased outside your province or country**, such as shipping, duty and excise tax and any installation cost. Naturally, these costs will increase the cost base of the asset in the business' calculations. With this data, you as an owner-manager will be in a better position to consider these costs when using or hiring out your business equipment.
- Ensure that you **document any maintenance of the equipment**. Recording the cost of an in-house or sub-contracted service, whether for repair or scheduled maintenance, will not only satisfy safety or warranty provisions; it will also help establish the overall cost of operating a machine.

This information in turn provides a basis for quoting jobs, as well as documentation you can use if you're considering future equipment purchases.

- Consider recording the **cost of powering the equipment**. Whether the source of power is fossil fuel or electricity, knowing the operation costs is a major consideration in an energy-expensive world.
- **Downtime of all equipment** should also be recorded. Knowing how many hours equipment is out-of-commission due to mechanical failure is essential to:
 1. Understand the cost of repairing the equipment.
 2. Determine the lost opportunity cost because equipment cannot be used.
 3. Establish whether that brand of equipment meets job requirements.
 4. Compare the downtime to that of similar equipment, so you can analyze based on hard numbers which is the most reliable or usable piece of equipment.
- Purchasing equipment usually requires **financing**. **Interest is a cost of ownership** and, as such, should be recorded for each specific piece of equipment. Factoring interest costs into the operational cost of the equipment forces management to consider whether charge-out rates need to increase, or whether leasing or renting is a better alternative to the cost of ownership.
- Consider **extended warranty** cost as part of the cost of operating equipment. If extended warranty is included, you as an owner-manager may wish to consider extending the useful life of the equipment to align with the extended warranty period, which will help you cost jobs or hire out equipment.
- Finally, be sure to record **revenue earned using the equipment** based upon the predetermined hourly charge-out rate. Knowing whether the equipment is paying for itself helps determine whether your business should purchase additional equipment, sell the existing equipment or rent similar equipment in the future.

Job Costing

Establishing an asset-specific costing process is not as difficult as you might think. Most quality bookkeeping systems will have a job-costing module that already allows posting of expenses and/or revenues for reference purposes. If your software does not have this kind of module, you could also build a spreadsheet to record the cost and revenue attributed to specific assets.

The hard part is to ensure that all employees are trained to record the additional required information. For instance, when an in-house mechanic repairs a specific piece of equipment, the time spent on the repair should be documented to allow posting to the job cost for that equipment.

Bookkeepers must also be able to identify the invoice associated with the cost of parts for that specific equipment repair, for their job-cost posting. Each business will need to adapt their procedures to accommodate their software.

Naturally, all the recordkeeping in the world will not benefit the bottom line if management does not review, on a regular basis, the results of their decision to rent or lease an asset.

Reviewing this data allows management to:

- Determine whether usage of equipment dictates that the business will

- need a replacement earlier than suggested.
- Consider whether the asset is bringing an advantage to the business.
- Compare similar equipment to determine which brand is less costly to maintain in future.
- Determine whether your employees have a possible bias towards a specific piece of equipment that may sway future purchase decisions.

Using a fact-filled approach will help you arrive at decisions about acquiring future equipment to be purchased and related cash-flow requirements. It will also help your business take action to ensure that financial data, corporate records, and lines of credit are up-to-date, so you'll be able to secure financing for any future replacement assets.

MANAGEMENT

Eight Reasons Clients Leave - and How to Retain Them



Creating a loyal customer base is about more than providing products and services. Business needs to consider all the issues that may impact customer loyalty, while ensuring that they understand customer expectations and proactively address them to avoid bigger problems down the road.

Owner-managers work hard to build a client base. So losing a client, especially in situations where they've established a rapport, is especially hard. Examining why customers leave may shed light on areas that your business needs to improve on.

Overpriced

Clients that go elsewhere often cite cost as a reason for no longer wanting to conduct business with a company.

Consider that clients are cost sensitive and will search the internet to determine whether your pricing is competitive. Certainly, internet comparison does not always consider the additional service, product quality or add-ons that your firm provides. That said, good business practice would suggest that reviewing what the competition is doing would be helpful in being prepared, should cost become an issue with clients.

Complacency

Maybe the competition provides more up-to-date products, services or ideas. Perhaps your business became complacent with product or services provided and you failed to see that the client was moving in a different direction and needed to be helped to understand the value of what you offer.

Even if your company provides different levels of competence and product, if

sales representatives or marketing material do not provide insight on what you have to offer, they may not see a future with your business.

Customer Service

There are times when everyone acts out-of-character, or accidentally offends someone. If it is brought to your attention that a company representative may have a bad customer attitude, ensure that the client is able to explain the issue, the employee and the circumstance, and deal with it immediately.

Delivery Service

Same-day delivery, next-day delivery, delivery to their location, on-time delivery ... everyone wants what they want now - or even yesterday. Slow response to client needs is a sure way to guarantee that the client will seek different suppliers. If a product is not available, or delivery time will be delayed, it is important to contact the client immediately, outline the issues, the steps taken to resolve the issue, and the expected results.

Clients have expectations of goods or services that fit their needs; when they fail to materialize, unexpected rescheduling of equipment and personnel means additional cost to the client. However, clients can accept changes to products or timetables if they understand the underlying reasons, but they will find unexpected and unexplained delays intolerable. And remember, making promises that cannot be kept is a no-no.

Return Policies

Sometimes consumers purchase a product, only to determine that it's not what they wanted.

Naturally, this may create issues as to whether the product can be returned. To avoid any misunderstanding, ensure that the client is well-informed about the product or service, especially its limitations. Make sure they know whether the product or service is suitable for their purposes and provide an unequivocal statement about the return policy.

Certainly, customers may be unhappy if they order something that doesn't meet their expectations even after a comprehensive explanation. But, if you've informed them as outlined here, they must then accept responsibility for their decision.

Bad Product

Aim to never provide a product that is defective in its design. Certainly, warranties and arrangements to repair defective products reassure the consumer, but in the final analysis, the costs of downtime and delays caused by defective products far outweigh the price of the equipment or the warranty.

Fixing an occasional problem or providing a temporary workaround when a defect occurs is an expectation that clients will accept - but they will not tolerate regular breakdowns.

Transition

People are averse to change, whether that change be hardware, software or personnel. Thus, if you are planning on revamping the production line, engaging software programmers, or refreshing customer contacts, ensure that the transition is seamless. For instance:

- If bringing on a new product line or breaking your connection with longtime suppliers, ensure your clients know that you will still support their needs.
- If changing the operating software platform, ensure testing and all glitches are resolved before updating the software, provide training sessions for the client, minimize the downtime for the client system, by installing when the client's need for the system is at its lowest.
- Your employees who make customer contact should become familiar with your client contacts, order history for the last number of years, equipment or material at the client's site, and the personnel they will be working with. Whenever possible, arrange for replacement personnel to shadow with the regular contact person.

Online Critiques

Product or service reviews from online sites can be a make-or-break for business products or services. It is rewarding to see a good review, but one negative review published online can place a product in the trash or destroy a business overnight. Today, social media can destroy years of research, development and marketing with negative comments not only on the product or service but also on the personnel within or owners of the organization.

Most readers of corporate online critiques are skeptical about the authenticity of good reviews. Thus, owner-managers should not be complacent and assume that all consumers are pleased with the product or service provided. It is important to develop, monitor, and improve the business acumen within an organization.

You and your employees must fully understand that every action that you take while on the job - and in many cases, off the clock - will reflect how consumers react to the company they represent. Presenting a negative image not only impacts the employee; it also has the potential to negatively impact the well-being of the company and its other employees.

Disclaimer:

WE MIND YOUR BUSINESS deals with a number of complex issues in a concise manner; it is recommended that accounting, legal or other appropriate professional advice should be sought before acting upon any of the information contained therein.

Although every reasonable effort has been made to ensure the accuracy of the information contained in this letter, no individual or organization involved in either the preparation or distribution of this letter accepts any contractual, tortious, or any other form of liability for its contents or for any consequences arising from its use.

With the Canadian winter in full force, we hope you stay warm and enjoy while you can.



Jerry J. Copuroglu
CPA, CGA, TEP
Licensed Public
Accountant

VISIT OUR WEBSITE



Copyright © 20XX. All Rights Reserved.