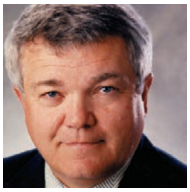
KEEPING YOUR TEAM INTACT

Skill shortage a reality for years to come

by DENNIS GRIMM



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Very few would dispute the fact that Canada has a serious skill shortage and that this shortage is intensifying. In a recent survey by Manpower Inc., only Mexico had a higher skill shortage than Canada. While globally 40% of employees surveyed reported difficulty in filling positions due to a lack of suitable talent, in Canada the percentage was 66%. Governments, corporations, universities and colleges are trying to address this growing shortage with training. The hope is at least to stop the gap from growing because it is acknowledged that in the foreseeable future it cannot be reduced or eliminated. This shortage will remain a fact of life for many years to come.

What then is an employer to do? More and more employers are focusing on retaining the people they have, if for no other reason than it is so difficult to replace them once they have left. If a company wants to succeed today a program to engage, motivate, and retain its key employees is a must. In the 70's companies focused on quality and business processes. In the 80's and 90's marketing, sales and customer service took front and center. Today it is work force management and employee retention.

To retain an employee you need to engage them. To engage employees a corporation large or small needs to focus on three areas:

Business process and structure

Employees today want to contribute to the success of the companies they work for. They need to know what the companies are all about and how they fit in. The key here is communication. Mission statements and well articulated strategies are a prerequisite to engaging employees. Processes need to be put in place to assure that individuals set goals congruent with the corporate strategy and coaching and accountability measures are needed to measure performance relative to the individual, team and corporate goals set. Engaging employees is hard work and needs the proper supportive infrastructure in place.

People development, rewards and recognition

Our parents worked because they had to work. Today's employees view their jobs and careers differently. They view work as a life learning experience with a good work life balance. They demand to be challenged and to be kept in the know. More and more today's employees work to live as opposed to what the generation before them did, which was to live to work.

Today's employee needs to be constantly rewarded and recognized. Gone are the days of deferred gratification. Employee retention is highest where a "Thank You" culture exists. One tool that has worked for me is "Thumbs Up" Cards. When an employee does something worthy of recognition, another employee gives them a "Thumbs Up" card which entitles the recipient to a CD, book, movie, etc. The key here is to award the card publicly.

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Work environment

If you want to retain your employees you need to provide them with a work environment that makes them want to stay. Foosball tables, cappuccinos, pizzas and free massages use to be the funky perks of high tech companies. Today they are becoming the norm.

If you want to retain an employee you should start at the hiring process. While an orientation day is normal it is not enough and usually it is ineffective. The best practice is to assign each new employee a mentor or buddy for the first year of employment. Frequent feedback sessions and dialogue will lay the foundation for retaining the employee you worked so hard to recruit.

I found over the years several other best practices that help in the difficult retention game:

Tone at the top: Leadership that is engaged, transparent and able to listen to employees and follow through benefits from higher retention rates, more so than leaders who focus only on customers, the company and the bottom line.

Eliminate any expectation gap: Employees who understand the company's strategy, have their jobs aligned with that strategy, and receive regular feedback on their performance relative to the strategy are engaged and therefore tend to stay.

Reward performers and deal with under performers quickly: Performers want to be recognized and they also do not want to carry poor performers on their teams. The key here is regular, honest, and fair feedback on performance. Surveying staff is also a very effective tool provided one is committed at addressing the issues raised in the surveys.

> Whether you are a big company or a small business your future is tied to your ability to retain your key employees.

Transparent pay programs: Today employees are bright, mature and demand a fair and transparent pay review program. They will not tolerate favouritism, side deals or under-the-table remuneration arrangements. Also remember, equal is not fair and employees fully understand this. They want to be paid based on merit.

Effective programs allow employees to grow and keep them challenged: While it may appear counter intuitive, an employee who is growing and is challenged is more marketable but in fact is more inclined to stay in the environment that made him or her more marketable in the first place.

Hold managers and supervisors accountable for retention: First you need the right managers and they need to be constantly trained and coached in their people skills. Remember people leave bad managers not bad companies.

Transparent succession plans: Even loyal employees will leave if they do not see succession plans being put in place that includes them.

Whether you are a big company or a small business your future is tied to your ability to retain your key employees and more and more your ability to attract and retain even average ones.

THE MARKET-DRIVEN EXIT STRATEGY

Developing your company for the ideal buyer

by LOU DIETRICH

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Every great exit strategy starts by looking at the market. What does the ideal buyer for my company look like? Once the profile of the ideal buyer is identified, you can then develop and shape your company into an entity that this type of buyer will find most attractive and valuable.

The first question ask yourself in formulating a market-driven exit strategy is whether the ideal buyer for your company is Strategic or Financial. Strategic buyers (aka Synergistic buyers) are other companies that would gain synergies as a result of integrating your company into their operation. Financial buyers, by contrast, are individuals or institutions that would acquire your company based solely on its ability to deliver earnings into the future as a stand-alone operation. You always stand to realize a higher price from a Strategic buyer if your company is large enough to be of interest to that buyer and the value of the synergies are of sufficient significance.

In order to assess whether the ideal buyer is Strategic, you must first have an idea of what the possible Strategic buyers for your company might look like. Look beyond just your own industry. Start by identifying your company's strengths, with particular attention to your company's unique capabilities – then think about what type of companies could benefit by adding those capabilities to its existing operation. For instance, let's say ABC Company produces and sells products to three different vertical markets and it has a dominant market share and great reputation with one of the three vertical markets that it serves (let's say the medical market). A good Strategic buyer for ABC Company might be a competitor that has a strong market share in at least one of the other vertical markets but is weak (or non-existent) with the medical market. Another option might be a company that sells different (but complementary) products into the medical market. Buyers with either of these profiles have the potential to be good fit Strategic buyers because each of their existing operations can benefit by adding the capabilities of ABC Company. Not to mention that ABC Company's operation would also benefit from the capabilities that the acquiring company would bring to the party.

Once a number of possible Strategic buyer profiles have been identified, you need to identify the one(s) that are the best fit. The best fit Strategic buyers will be those that stand to gain the greatest synergistic value through the acquisition and are interested in acquiring companies in your size range. Since the most favourable Strategic buyers tend to be interested in larger acquisitions, you should consider the possibility of growing your company to a level that will appeal to such buyers prior to sale.

You always stand to realize a higher price from a Strategic buyer.

In spite of the fact that the Strategic buyer has the potential to pay the highest price for a company, there are many circumstances where the Financial buyer is the better option – sometimes, the only option. Many companies are simply too small to attract the type of Strategic buyer that will pay a premium price. And of the companies that are big enough to interest this type of Strategic buyer, the perceived synergistic value of the acquisition will not always justify them paying more than a Financial buyer, particularly if that Financial buyer is a Private Equity group. This was the case with Cerberus' acquisition of Chrysler. The Financial buyer might also be the preferred choice for non-economic reasons. This type of buyer is more likely to continue the company's legacy into the future, and cause the least disruption for employees and other stakeholders post-acquisition.

There are two distinct groups of Financial buyers – Private Equity buyers and Private Individual buyers. The Private Equity buyer is an institution that has access to large pools of money and is organized to acquire companies that can be grown or transformed into entities of much higher value. Private Equity buyers are potentially more attractive than Private Individuals in that they will tend to pay a higher price (in fact, depending on the acquisition they might actually pay more than the Strategic Buyer) and they are a lower credit risk than the Individual buyer.

However, the kind of Private Equity buyers that do pay an attractive price (those looking to grow healthy companies) are selective about the companies that they acquire. Most of them are only interested in companies with sales above $25 million, though a limited number will consider companies with sales in the $10 million range. They also have stringent profitability requirements, often only considering companies with Normalized EBITDA exceeding 10% of sales. These buyers are looking for strong, profitable companies that, when combined with substantial funding and an aggressive growth strategy, can be taken to the next level. Private Equity buyers look for companies that have strong management teams, as this type of buyer is not interested in getting involved in the operations of the business.

The other type of Financial buyer is the Private Individual. This buyer is most concerned about the expected future earnings of the company, and will pay close attention to how those earnings might be impacted when the previous owner exits the business. He will also take into consideration the enjoyment and pride he will derive from running the acquired company.

An effective market-driven exit strategy begins by identifying what the ideal buyers for your company will look like. Once you've created your ideal buyer profile(s), you can develop and shape your company to optimize the value of your company in the eyes of the eventual buyer.

TAX CHANGES WILL IMPACT CANDIAN BUSINESSES

The new Michigan Business Tax comes into effect January 1, 2008

by NOREEN MARCHAND

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Most Canadian businesses operating south of the border are only too familiar with the Michigan Single Business Tax (SBT). The SBT has historically been problematic for Canadian businesses. It can apply when very minimal activities are performed in the state; the tax is not creditable against Canadian income tax; and the Canada-US Treaty does not provide any relief. For these reasons, Canadian businesses lobbied heavily against the application of the SBT to them, and were quite pleased when the Michigan legislature repealed the troublesome tax as of December 31, 2007.

On July 12, 2007, the new Michigan Business Tax (MBT) legislation was enacted. Effective January 1, 2008, the MBT will replace the SBT with four new tax regimes, two of which will likely apply to many Canadian businesses operating in the state.

Business Income Tax

The first new tax regime is the Michigan Business Income Tax (BIT). The BIT is imposed on the apportioned business income tax base of a taxpayer at a rate of 4.95%. The business income tax base for BIT is very similar to the net income tax base used by many other states – federal taxable income subject to certain modifications for the state's own rules. Michigan's main modifications include non-taxability/deductibility of certain interest, dividend and royalty income/expense, and the disallowance of deductions for income based taxes.

Modified Gross Receipts Tax

The second new tax regime is the Michigan Modified Gross Receipts Tax (GRT). The GRT is imposed on a taxpayer's apportioned modified gross receipts tax base at a rate of 0.80%. The modified gross receipts tax base is a taxpayer's gross receipts less its purchases from other firms. "Purchases from other firms" generally includes purchases of inventory, assets that are or will be eligible for federal depreciation or amortization, and materials and supplies.

How Do These Taxes Compare to the SBT?

Although the BIT and SBT are both computed based on federal taxable income with state modifications, their similarities pretty much end there. When the tax applies, and even to whom it applies, has changed significantly; as have the deductions Michigan allows and the way in which it apportions tax base to the state. Add the brand new concept of the GRT and you are dealing with something completely different from what you have been used to in the past. Below is a summary of key points of difference between the old and new regimes:

> The fact that Canadian businesses have significant property and payroll outside Michigan will no longer operate to reduce Michigan tax liabilities.

The SBT historically applied to all single businesses that had physical presence in the state for two days or more in the year. The new BIT and GRT still apply if a taxpayer has physical presence in the state for a period of more than one day; however, it now also applies if a taxpayer solicits sales from outside the state and has gross receipts of $350,000 or more from the state. This could catch businesses that do not physically travel to Michigan but who have significant economic connection to the state.

The taxpayer for SBT purposes is limited to the single business entity that engaged in the activity subjecting it to the tax. Under the BIT and GRT, the "taxpayer" takes on a unitary concept, under which more than one entity can be grouped together as a single person for purposes of computing the tax, provided there is sufficient ownership connection and their business operations are sufficiently integrated. This grouping of entities can result in a higher tax base to be apportioned to the state, depending on the operations of the members of the unitary group. Given that entities must be US domestic entities to fall under these rules, Canadian businesses should not be impacted directly by these provisions.

The SBT tax base includes amounts incurred in respect of depreciable or amortizable assets, as well as compensation, as neither depreciation/amortization nor compensation were deductible expenses. For BIT depreciation, amortization and compensation will be deductible. Expense disallowance will, however, extend to specific related party payments, such as interest and royalty payments, that are not based on arm's length principles.

For SBT purposes, tax base was apportioned to Michigan based on a combination of sales, payroll and property factors. For the BIT and GRT, only sales will be used to apportion tax base. The fact that Canadian businesses have significant property and payroll outside Michigan will no longer operate to reduce Michigan tax liabilities. Moreover, whether a sale is considered a Michigan sale or not will no longer be dependent on where title to the goods transferred passed. Rather, merely shipping goods to Michigan will create Michigan sales, possibly increasing Canadian businesses' apportioned tax bases even more.

From a Canadian tax perspective, SBT is not an income based tax and therefore is not creditable against Canadian income tax. The BIT is an income based tax; therefore, Canadian businesses subject to this tax may be entitled to a foreign tax credit on their Canadian tax returns. The GRT is not an income based tax, so it will only be available as a deduction in computing Canadian taxable income.

Transitional Points

Whenever a new tax regime replaces an old one, consideration must be given to how the two interact or overlap with one another.

Several taxpayers may have accumulated loss carryforwards under the SBT regime. These losses will not be available to carryforward and reduce future BIT base. Rather, a portion of the loss carryforward may be available to offset the 2008 GRT base.

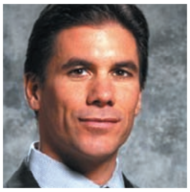
Finally, the MBT is effective January 1, 2008, regardless of whether or not your business follows the calendar year. This means fiscal year taxpayers will be required to split their year up and pay tax under both the old and new regimes. There are different methods for calculating these taxes in a transition year and each can result in a different amount of tax owing. Canadian businesses should consider which method yields a lower tax cost.

This article has been a high-level summary of the new Michigan tax rules. All Canadian businesses subject to these taxes should speak to their US and Cross Border Tax advisors to discuss in more detail how these new taxes will apply to them as well as to assess how to file their returns to ensure the lowest combined tax liability.

"ON FAIRY TALES AND MATH"

"Pulling back the veil on permanent life insurance"

by DANIEL E. GIRARD



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Fairy tales are fanciful, entertaining stories that allow us to escape to another world, a place where the rules of this world don't strictly apply. Mathematics, on the other hand, is the opposite. It's cold, calculating – the epitome of logic and the antithesis of fantasy. So it's no wonder that many of us prefer a good fairy tale to a mathematical equation. However, when it comes to creating wealth, I'd suggest that algebra rather than the Brothers Grimm may provide the better outcome.

So why all this talk of fairly tales? Well, colloquially a fairy tale refers to some sort of improbable fiction, and I don't know any better way to describe many of the illustrations that I see for whole-life and universal-life insurance strategies. I'm not suggesting that the insurance agents and financial advisors who are presenting these fantastical illustrations are being deceitful or unethical. What I am suggesting is that, although there are many highly professional, highly educated advisors in the insurance industry, there are also many who simply do not understand the math behind the strategies that they're recommending and therefore do not understand the wealth "dehancing" effects that these strategies often have on their clients. Because of this lack of understanding, fiction is passed for fact and bad decisions are made.

The "improbable fiction" arises from the fact that the assumptions used within insurance illustrations are often simply that – improbable. This almost exclusively stems from the extremely high costs associated with the investment options available within permanent life insurance. You see, unlike term insurance, which simply provides a death benefit to offset the financial risk of you passing away unexpectedly, permanent insurance contains an invested "cash reserve". Therefore, a proper analysis needs to address not whether you will build wealth by utilizing the insurance strategy; it needs to determine whether you would build greater

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wealth by utilizing the insurance strategy over alternative strategies. The alternatives would include buying term insurance and investing the premium savings in a separate investment account, or simply foregoing insurance altogether. The illustrations that I typically review, however, are complete fantasy as they relate to the alternative strategies, making the illustration all but useless (and always in favour of the insurance concept…imagine that!).

Due to space constraints, I can't review the specific math needed to fully analyze a permanent-life insurance proposal. However, I would suggest that you ensure the following are addressed in any whole-life or universal-life illustration that is presented to you: a realistic tax rate based on a representative portfolio for your risk profile (i.e. a tax rate blended for interest, dividends and capital gains), a rate of return approximately two percent higher for the alternative investment strategy to address the higher fees associated with the insurance strategy, and realistic capital market and interest rate projections (i.e. not solely based on historical returns). I also suggest that you only consider permanent life insurance if you are in a high tax bracket and know that the assets that will be committed to the strategy are for your beneficiaries (after your death) and will not be needed during your lifetime.

Although a whole-life or universal-life insurance strategy can be a worthwhile component of an overall wealth management plan, more often than not, they don't hold up to the math. So before getting caught up in marketing hype about tax sheltering and "beating the taxman", apply the math and let the unemotional results point you in the right direction.

Apply the math and let the unemotional results point you in the right direction.

Einstein once said, "Pure mathematics is, in its way, the poetry of logical ideas". Although fairy tales are fun, logic is preferable for making money.