

# The Rea report



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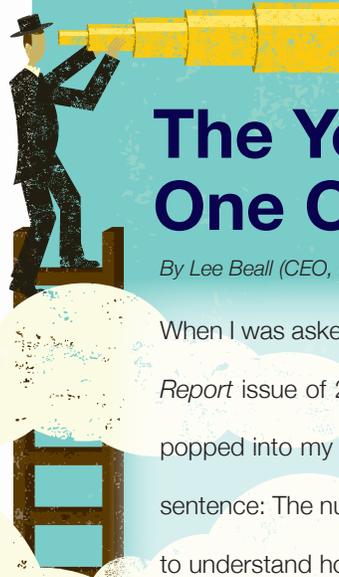
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**The number one thing I would tell business owners is that you need to understand how health care reform will affect your business by the second quarter of this year.**

LEE BEALL



## The Year Ahead...from One Owner to Another

By Lee Beall (CEO, Dublin office)

When I was asked to write an article about the year ahead for the first *The Rea Report* issue of 2013, that dirty word – Obamacare – was the first thing that popped into my mind. Actually, I could've written the whole article in just one sentence: The number one thing I would tell business owners is that you need to understand how health care reform will affect your business by the second quarter of this year. But, the editors of this fine publication wouldn't let me get away with that, so I'll elaborate...and suggest a few more areas of focus for the year, too.

**Get your arms around health care reform.** Listen. Health care reform is going to be a serious challenge for many businesses. You'll face difficult decisions. You really need to spend the first six months of 2013 figuring out how it will affect you so you can spend the rest of the year planning.

**Don't just sit there...do something.** The media wants to convince us that uncertainty – about the economy, about tax law, about health care reform, about the budget deficit – is an impediment to running your business. To that, I say: "Nonsense."

Running a business is always uncertain. The tax code is always changing. Instead of treading water until all uncertainty is gone

(which will never happen), get a good advisor and figure out where your advantage is – and, well, take advantage of it.

Don't use uncertainty as an excuse to not run your business the way you know you should. **Always** try to obtain a competitive advantage. **Always** meet your customers' needs. **Always** operate as efficiently and as cost-effectively as you can. Map out your own strategy. Stay close to your customers and understand what they need, want and expect.

If you're listening to the media and other owners droning on about the "what ifs," you're not running your business – someone else is.

**Manage your balance sheet.** I can't stress enough the importance of a well-managed balance sheet. Pay attention to it. Pay attention to your cash. Pay attention to your receivables and whether you're

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# OBAMACARE FOR DUMMIES

## CRACKING THE HEALTH CARE REFORM CODE

As a business owner, do you ever feel like a lion tamer at feeding time – with everyone and everything biting for your attention? Well, there's a new mouth to feed, and its name is Obamacare.

It's expensive to provide insurance – and now it's expensive not to. Health care reform can seem like danger at every turn.

Joseph Popp, tax supervisor, Dublin office, and Scott Pipes, owner, Pipes Insurance, explain what you need to know about health care reform – and how you can protect your business.

### Minimum Essential Coverage

Employers have to pay a fine if they don't give employees minimum essential coverage.

"First, determine if your coverage meets the new requirements," Pipes said. "Figure out where you stand and if you'll be subject to any fines. Then you can focus on limiting your exposure."

"For most of you, potential issues will stick out like a sore thumb – part-timers, staff with lower health care costs and relatively high deductibles, and low-income employees with larger family sizes," said Popp. "Before acting, determine where your issues are – and roughly how much they'll cost."

### The Full-Time Equivalent Test

You know that, if you have 50 or more employees, you either have to offer insurance or pay a penalty. But it's not that simple. The coverage requirement applies to businesses, organizations or government entities with 50 or more full-time equivalents (FTEs).

"An FTE is the combination of employees whose hours add up to those of a full-time employee (now defined as someone working at least 30 hours per week)," said Popp. "So, one employee who works 50 hours per week counts as an FTE, but

so do two employees who each work 15 hours per week."

### Pay or Play

"If you have 50 or more FTEs, you either have to 'pay' or 'play,'" said Popp. "Under the law, you're required to offer health care to all full-time employees. If you don't, expect a fine."

If you're hovering on or near the 50 FTE mark, you have some tough choices to make. "You need to decide if it's better for your business to be over or under," said Pipes. "If you think that the cost of providing health care – or the fine for not – would be too much for your business to bear, you might consider reducing your number of employees to fall below that threshold. Could you outsource certain functions? Are contract workers a possibility?"

### Time is Money

If falling below 50 seems like a viable option, you must act fast. The 2014 pay or play requirement is based on your 2013 staffing levels, determined by any consecutive six month period of your choosing.

"If you're dropping below 50, do it before July so that you'll have a full six months at your new FTE levels," said Pipes.

### The Coverage Test

All coverage is not created equal. If you have 50 or more FTEs, your insurance must cover at least 60 percent of employees' health care costs, at a reasonable price to employees.

Determined by family size and percentage of poverty level, each employee's maximum contribution is capped at a certain percentage of his or her gross income. "There are

complicated sets of rules governing these provisions, and the tests need to be calculated for each employee individually. Your CPA can help with calculations to see where you stand," said Popp.

"There's a fine if your coverage isn't adequate or is too expensive and your employees look to a public insurance exchange to provide their minimum essential coverage," said Pipes. "You'll owe \$3,000 for each employee who claims a subsidy toward purchasing coverage in an exchange."

### Counting the Beans

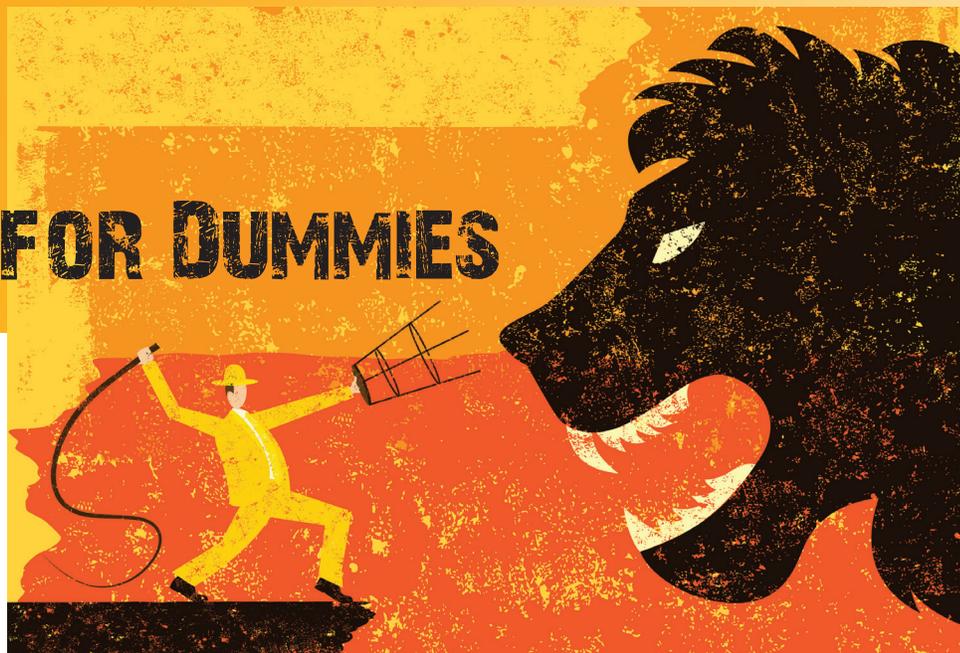
If your plan doesn't meet the new requirements, it's decision time.

"What's best for your business? Keeping your current plan, fines and all; upgrading your plan to avoid fines; or dropping your plan entirely and coughing up an even larger fine?" said Popp.

There are also a few hidden costs that may not have an exact dollar value. "You also need to consider administrative costs and intangibles like your tolerance for risk and the impact on your employee morale," said Pipes.

Even if you follow the formulas and talk to your CPA, health care reform is complex. The roots of health care reform's impact on your business run deep. "Once you know where you stand, choose a path and ask your advisors to help you get there," said Pipes.

Before you know it, 2014 will be here and the enforcement of these regulations will begin. ☺



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## The Year Ahead... from One Owner to Another

collecting them. Pay attention to your inventory level and whether you're turning it. Pay attention to your bank debt. You will continue to survive downturns if you understand and **manage** these things.

**Raise up leaders.** Did you know that you can become a better organization – a stronger business – with the team you have? Have you given your employees every opportunity to excel – not only to help them improve, but to retain them as well? Your high-performing employees are important, of course, but for me, attitude is everything. I will accept less skill if it comes with an owner's mentality.

**Reward your team.** Communicate with them and give them the technology they need to succeed and feel satisfied – and they'll keep coming back every Monday morning ready to work.



As a business owner, I'm optimistic about 2013 and even more so about Ohio. Our political leadership has dealt with the difficult financial issues and continues to advance solutions to address those issues. The economy is growing, even if it's happening slowly.

Things are moving. We should all be planning on measured growth.

**Much success to you  
in the coming year.** ☺



## What's Happening in Industry

### ▼ MANUFACTURING

Manufacturers across Ohio are still struggling to find motivated and skilled labor, a problem that is only exacerbated by the state's many newly created oil & gas industry jobs. Although hiring is a challenge, sales are back to pre-crash levels and profitability is even greater than before. Working to meet customer demand for products in a tight labor market, many manufacturers are implementing Lean principles.

### ▼ CONSTRUCTION

According to the *2013 Construction Hiring & Business Outlook Report* by the Associated General Contractors of America, the number of construction firms planning to add staff is greater than the number planning to cut. Even though the public sector's demand for construction is declining, the survey found many reasons for contractors to be optimistic.

### ▼ DENTAL

Dental spending is on the rise, with more patients opting for elective procedures. Cosmetic procedures are driving industry growth, with more than 80 percent of dentists offering such procedures. The American Dental Association estimates that patients spend more than \$1 billion on professional teeth whitening each year.

### ▼ OIL & GAS

New technologies have unlocked access to previously unreachable oil & gas deposits in Ohio, putting the state on a map as an oil & gas producer. New wells are popping up across Eastern Ohio thanks to hydraulic fracturing and horizontal drilling technologies. Ohio's oil & gas development is having spillover effects on other industries, including construction and manufacturing.

### ▼ NOT-FOR-PROFIT

Increasingly, not-for-profit organizations are investing in private companies that share their mission. Called "impact investing," nonprofits are seeking to grow their funds by investing in socially responsible companies that work for the public good. These investments help organizations stretch their limited resources for maximum results.

Industry profiles from First Research, Inc. were used to compile this information. ☺



**Monitor Your Business Credit Score.** Just like your personal credit score, you should review your business's credit file quarterly. Companies in good standing can get lower financing on loans and credit cards, lower insurance premiums and better credit terms from suppliers. If you uncover inaccurate information, call the credit agency and provide the correct information.

**Utilize a Perpetual Inventory System.** Keep tabs on your inventory. Your system should provide timely and accurate information on inventory costing, activity/turnover, quantity levels and obsolescence. That way you'll be able to monitor inventory levels to establish reorder quantities and garner valuable information like turnover rate and details of slow-moving or overstocked items. Inaccurate inventory will directly affect your business profit.

**Use QuickBooks to Understand Cash Flow.** There are a few simple reports in QuickBooks that can help you understand your past cash flow and predict what it could be like in the future. Use the "Statement of Cash Flows" feature to look back at your cash to see where it went. The "Cash Flow Forecast" report considers when bills are coming due so you can make sure your account always has a positive balance. You can find both of these options in the "Reports" menu.

# Series: **GROWING** **YOUR BUSINESS** *from the* *Inside Out*

## **PART FOUR:**

### **Manage Your Revenue to Plan for Growth**

*By Gary Wygal (Focus CFO)*

THIS IS THE FINAL PART OF A SERIES LOOKING AT THE FOUR CORE BUSINESS SYSTEMS YOU NEED TO HAVE IN PLACE TO OPERATE AT AN OPTIMAL LEVEL AND MANAGE YOUR INTERNAL CASH FLOW FROM OPERATIONS.

You're sitting in your office reviewing a proposal to expand your business. For \$1 million, you can build a facility to house a new machining tool and hire people to manufacture one part needed for the equipment you sell. Do you write the check?

This is a real situation one business owner encountered. He had an aggressive plan to grow 300 percent in five years, but he struggled with the fact that the new part didn't really add value to the product. That's when he got creative.

He picked up the phone and called the engineering team. Was there another way? Ultimately, there was, and he engineered his way into a solution that avoided the additions, improved the product and reduced the cost to manufacture. By working with his employees, the owner came up with an efficient and innovative solution.

To achieve exponential growth, you need to have exponential creativity. Don't always assume that you need to add assets. That's sloppy growth. Sloppy growth isn't profitable.

#### **Grow Revenue Through Marketing and Sales**

Many salespeople will sell anything to anyone at any price. But to have sustainable growth from healthy sales, you need

to sell the right products to the right people at the right price...over time.

How do you grow healthy sales? You need both an organized sales program and an expansive marketing strategy.

Take stock of your competitive advantages and the degree to which these differentiators warrant increased sales. Do unique features warrant increased sales levels? Can you enhance offerings to improve your competitive position? What new offerings are possible within the current market segment and skill set of the business? Ultimately, your business is limited to the breadth and accuracy of your vision.

With a strategic marketing plan and a competitive offering, selling must be planned and managed. Structuring the sales team is one of a business's most important undertakings. If you do it poorly, well-intended efforts will be wasted. But if you do it well, your sales team will work in harmony with other departments – which is vital to healthy growth.

Sales skills are often confused with people management skills. Your best salesperson might not be the best candidate to be your sales manager. Sales management requires planning, organization and coordination skills that are not gained through selling alone. The most successful, growth-oriented sales teams are consis-

tently managed using clear definitions and measurements with expectations and rewards in line with company goals.

### Forecast Future Sales

Your sales forecast must cover all aspects of the marketing and sales process. Long-term forecasting considers global market size and the strategic position of the business. Without a long-term perspective on the marketplace and the position of your business within it, shorter term planning cannot be effective.

Annual sales forecasting must be consistent with long-term planning, and your sales team needs to be actively involved. Consider customer needs when determining how much you will sell at what price to whom. This exercise sets the tone for the year...so predicting annual sales must be thorough and accurate. Setting the bar too high or too low is counterproductive.

You must also organize and manage day-to-day sales efforts. To manage the pipeline, you need a clear assessment of active leads. Establish criteria for various closing scenarios. Determine what opportunities you have a 95 percent chance of closing in 30, 60 and 90 days. Then repeat for the opportunities you have a 70 and 50 percent chance of winning using well-defined criteria for each level of certainty. Use this information to forecast sales and predict staffing needs.

### Deciding When to Expand

Assuming your crystal ball is accurate, when do increased sales necessitate an investment in buildings, equipment and staff? Always follow these guidelines:

- **Minimize the increase of fixed costs.** Wherever possible, cost increases should be variable.
- **Eliminate waste, increase productivity.** You should be out of options to improve processes and facilities before considering fixed cost increases.
- **Create a reward system.** To grow profitably, empower your team to help limit increases in fixed facilities and staffing costs.

Plan for the worst case. Create a viable operations plan that accommodates your worst-case sales plan. Then determine how anticipated and best-case scenarios can also be accommodated this year and in the long term, absent undue increases in facilities and fixed operating costs.

Growing fixed costs is easier than shrinking them. Healthy growth, when effectively planned and well-organized and executed, will bring sustained profitability to your company. If revenue forecasts indicate a need for expansion, investigate all possible alternatives for capacity increases through improved operations first. These are your least expensive means of expansion – and the most rewarding to you and your staff.

You may not be able to engineer yourself to a better solution, but if you can be innovative, maximize efficiency and eliminate waste, then you have many more options for healthy growth and future success. 🌀



*bright idea*

Identify how you're different from your competitors. If you don't, you're forced to compete on price. Sustained sales growth then becomes difficult, as compressed margins ultimately restrict your ability to grow.



# BRIGHT CLIENTS

## WATERFORD TANK & FABRICATION



### Keeping Up with the Times

Brook believes in making changes when change needs to happen. “My customers face strict regulations and they can’t afford risk,” he said. “We need to show our customers that Waterford is a safe choice.”

To that end, Waterford recently got an American Society of Mechanical Engineers’ Boiler & Pressure Vessel Code license and will soon obtain the American Petroleum Institute’s Spec 12F license. “That will open all kinds of doors for us. The big guys won’t buy a tank from you unless you have the API stamp.”

It also changed its product to keep up with the times. “Before the boom, we had a steady business building 100- and 210-barrel tanks. But, they need larger capacity on their well sites so we adapted our product and now push out 400-barrel tanks,” said Brook.

### Being Ready for What’s Next

“Honestly, I don’t see the oil & gas activity winding down anytime soon – I think I’ll be long-retired before that happens,” said Brook. “We have a good 10- to 20-year play coming up between the Marcellus and

## The Right Place at the Right Time

### Waterford Tank & Fabrication Booms

Matt Brook, co-owner of Waterford Tank & Fabrication – a manufacturer of oil field tanks supplying big oil & gas industry players – is a lucky member of an elite tribe of business owners. Waterford’s success comes from a lot of hard work, certainly, but Brook says it was really just a case of being in the right place at the right time.

If only we could all be so lucky, right?

Brook spent 25 years in the steel fabrication business before that magic moment: starting Waterford Tank & Fabrication in Beverly, Ohio, with long-time friend and business partner Larry Lang.

“We started Waterford before all of the Marcellus and Utica Shale activity,” he said. “We saw a need for oil field tanks so we decided to build them. I always say that it was Larry’s idea, and Larry says it was mine. Neither of us really remember how it started...it just happened.”

So this moment of serendipity definitely got the ball rolling...but what kept Waterford going full-steam ahead?

### Growing with Demand

When the Marcellus and Utica Shale activity began to pick up, Brook knew he was sitting on a gold mine. It was his game to lose, as they say. “Keeping up with

demand is the number one challenge,” he said. “You have to keep growing with it or someone else will take your business.”

Brook kept a close eye on demand so Waterford could respond – and it did.



The frac trailer operation eventually became so big that it required a separate facility. “We do all of the sandblasting and painting in the new building,” said Brook. “We’re also adding 90 feet to the back of another building where we’ll store steel. And we’re building a 400-barrel tank shop.”

Brook is growing his team, too. “We started with 15 to 20 employees. Now we have 80 and expect to grow to 120 with the new shop,” he said. “Until about a year ago, I did all of our secretarial work – on top of running the business. Once we hit a certain point, it was time to hire some office help, which has freed me up to focus on the things I need to.”



“We saw a need for oil field tanks so we decided to build them.”

Utica Shale. But, it’s always good to have a Plan B in case there’s a lull. We want to do more pressure vessel work. We’re also looking at doing more tank manufacturing and expanding our customer base to power plants. Diversifying our customer base will definitely be a smart move.”

### Making a Promise to Yourself

“I know that I owe it to myself, my business partner, my employees and my customers to work hard. Just work hard and keep your nose to the grindstone. It isn’t always fun, and you can’t always see the benefit, but you have to keep going.”



## LIFE INSURANCE: It's Not Just One-and-Done Anymore

### WHY DO YOU HAVE LIFE INSURANCE?

For most, they want to provide for their loved ones when they're gone. That's an admirable goal, but are you confident that you have the correct coverage? Can you make an informed decision about how to incorporate the best solution?

A policy review may stop you or your loved ones from having a horrific insurance experience. It may help you avoid a policy lapse. Or you could discover that your premiums, at their current levels, won't continue to support your policy's face value in the future. Maybe you'll get relief from a policy loan. More importantly, it may help you ensure that your loved ones are taken care of or that your business has the funding to provide for smooth continuity in the event of a partner's untimely demise.

Mortality tables were recently adjusted, and the insurance industry constantly evolves its products and adjusts its prices to stay competitive. So a review may very well result in saved money, reduced risk or even affirmation that you have the best policy for you.

"We're all subject to the industry's changes," said Chris Hensel, an investment advisor representative with Investment Partners LTD, "so we should all periodically review our policies."

If your circumstances have changed – like getting married, having a child, expanding a business interest or acquiring debt, consider a review. Immediately.

"Since circumstances change over time, you should review your policy at least every three years. And your financial planning professional should monitor it annually on your behalf," Hensel said.

The process is usually pretty painless. Just provide a recent statement that outlines policy details like face value, premium, cash value, ownership and beneficiary designations, or help the reviewer get this information from your current carrier.

"The real key is starting the process with a conversation," said Hensel. "Make sure your reviewer understands your objectives so he or she can determine whether your current coverage meets your current needs."

If your policy doesn't meet your goals, your reviewer will give you some options. Discuss potential solutions with your trusted financial advisors and make the decision that's right for you.

When considering a review, you can always reach out to your current agent. However, by definition, an agent is required to act on behalf of the company.

"This might be the time you want to consider independence. If you select an insurance professional who's not tied to any one insurance carrier, you'll receive an independent analysis absent of any influence," said Lee Beall, CEO, Rea & Associates. "That will ensure you're truly getting the best coverage at the best rate to meet your goals."

Individuals often simply have the wrong kind of policy. "Your needs may be better suited using a different type of policy," said Hensel. "Making an adjustment to your policy can save a lot of money."

It's very possible that a policy review will not suggest any change, but simply reaffirm that you're protected. "You can't beat the benefit and peace of mind you'll get from a no cost life insurance review," said Beall.

The insurance industry has changed. Your life has changed. Review your policy to make sure you're protected. 🌀



*bright people*

### HEALTH CARE REFORM

**Chris Axene** (Dublin) presented "What a Difference a Day Makes" – an update on the new tax law and health care reform – to the Mentor Chamber, Akron Bar Association and the Cambridge Chamber.

**Kent Beachy** and **Joe Popp** (Dublin) gave the same presentation to the American Subcontractors Association. **Brian Kempf** (Millersburg) and **Meredith Mullet** (Wooster) presented tax changes from the new health care law, along with new tax law updates, to the Holmes County Chamber.

**Alan Hill** (Mentor) attended a meeting of six carefully selected healthcare CPAs to discuss the Affordable Care Act as it impacts Ohio and Ohioans. They provided feedback on key issues of concern to Lt. Gov. Mary Taylor and the state.

**Mark Fearon** (New Phila.) co-presented to the Small Business Development Center forum at Kent State Tuscarawas about health care reform.

### OTHER THOUGHT LEADERSHIP

**Mark Van Benschoten** (Dublin) presented "The Business of Being an Artist" from a tax perspective to the Greater Columbus Arts Council.

**Chad Bice** (Zanesville) and Chris Axene (Dublin) presented a tax update as part of a series of workshops with FocusCFO.

**Tim McDaniel** (Dublin) is a published author. His first book, *Know & Grow the Value of Your Business: An Owner's Guide to Retiring Rich*, is hot off the presses.

**Gary Moll** (Dublin) presented "Business Valuations: From Fundamentals to Facebook" to attorneys in Zanesville and Columbus.

**Greta Rzymek** (Dublin) gave a Form 990 update presentation at the Ohio Fair Manager's convention.



## FROM THE TEAM

*Remembering Marcia Stutzman*

By Darlene Finzer  
(New Philadelphia office)

*Early this year, we lost a member of our Rea family. Marcia Stutzman, a principal in our Millersburg office, lost her battle with Leiomyosarcoma, a rare and aggressive cancer.*

I spent a lot of time pondering exactly what to write, searching for the right words – the perfect message – to honor such a beautiful soul. Upon several attempts, I have concluded that I could never express in words the kind of person Marcia was.

Those who knew Marcia were witness to her positive impact on everyone she encountered. Her qualities are too numerous to mention, but I'll always remember Marcia for her deliberate, caring actions. Marcia was attentive and perceptive to the feelings and needs of those around her. She had an infectious smile – a special aura about her that was pure, calming and invigorating. She was an ideal role model to her co-workers, her clients and her children.

Throughout everything, Marcia always had a positive attitude. She believed in making the most out of each day – making memories with her family, watching her boys grow into young men, admiring nature, cuddling with her dog, praising God, loving her friends and cherishing every moment. As a tribute to Marcia and her positive impact on our firm and those whose lives she touched, please take a moment to consider the things for which you are thankful and, as is stated in The Rea Way, “choose to be positive, every day.”

Thank you, Marcia. 

**To honor Marcia, Rea & Associates has established a scholarship fund in her name at the Holmes County Education Foundation.**

