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5 strategies to improve your bottom line

To grow, manufacturers often focus on the top line of their income statement (revenue). But boosting *profits* is the key to long-term sustainable growth. In today's competitive marketplace, owners must review their operations every year and ask: What can we do to make more money from each direct labor hour or dollar invested in machinery? Here are five strategies to help you enhance profits and maximize the value of your business.

1. Cut overhead costs

Boosting profits doesn't always mean plant layoffs. Often cuts can be made in overhead without affecting employee morale.

Examples of overhead costs include utilities, rent, marketing and customer service. For example, it might be more cost effective to outsource customer service or shift marketing efforts from direct mail to online or social media campaigns.

Not sure where inefficiencies exist? Ask people inside your organization. They know how your business operates and see inefficiencies on a daily basis. Plus, employees who help devise cost cutting measures tend to be more vested in seeing them through.

2. Renegotiate contracts

Manufacturers typically have many contracts with suppliers, lenders, lessors and insurance providers. But they may underestimate their negotiating power in these contractual relationships. Often, you needn't wait until contracts expire to revise the terms to be more favorable to your business.

Take insurance policies as an example. There are many insurance carriers and types of coverage. An insurance broker can help "shop" different insurance companies and evaluate the options so you're not paying for nonessential coverage or leaving gaps in your coverage. Look beyond business property and liability products and evaluate cybersecurity and employee health care policies. Today, insurance providers may offer more cost-effective alternatives and bundling options compared to a decade ago.

Employees who help devise cost cutting measures tend to be more vested in seeing them through.

Likewise, evaluate your loan agreements and research what competitors offer. You may be able to negotiate more favorable terms with your lender(s) and eliminate onerous loan covenants that may be holding back your expansion plans.

3. Upgrade equipment

Every machine in your plant has a useful life that may expire while the asset is still in production. That is, old equipment may be slow, break down frequently and use excessive amounts of electricity and labor.

Evaluate each fixed asset, especially those that are fully depreciated, and assess how next-generation technology might affect productivity. In some cases, labor-intensive equipment can be retired and replaced

with machines equipped with artificial intelligence (AI). In other cases, energy-efficient "green" machines may be able to lower electricity bills and reduce materials waste.

4. "Upgrade" employees

Are the skills of your workers sufficient? Some employees may benefit from additional training courses to improve their technology skills and teach them how to use new equipment or production techniques. Improvements in skills and job satisfaction can, in turn, lead to higher productivity.

In other cases, you might consider new hires to infuse your organization with fresh ideas. For example, a new plant manager might have novel ideas for how to reorganize the production line or organize the warehouse to reduce queue time and improve productivity. Or a new controller might recommend accounting or inventory tracking software that reduces overhead costs and administrative headaches.

5. Revise business structures

Review your business structures to determine whether all the entities have a purpose. In some cases, you may decide to eliminate a business structure to reduce administrative costs and complexity.

On the flip side, some companies are too simple. Assess whether any business lines or assets expose the rest of the organization to unnecessary risks. You may decide to add a business structure to safeguard your core operations from risk. For example, if your business owns real estate, you might want to carve that out into a separate business entity in case a legal claim is made against the property — or to facilitate estate planning.

Eye on taxes

The Tax Cuts and Jobs Act (TCJA) introduced several tax-saving opportunities for businesses. In particular, privately held manufacturers may benefit from the following provisions:

- Flat 21% tax rate for C corporations,
- 20% qualified business income deduction for S corporations, partnerships and other so-called "pass-through" entities,
- Expanded Section 179 and bonus depreciation deductions,
- Expanded eligibility for simplified tax accounting methods, such as cash-basis accounting and simplified inventory accounting methods, and
- Approximately doubled lifetime gift and estate tax exemption and generation-skipping transfer (GST) tax exemption.

For 2019, the lifetime and GST tax exemptions are $11.4 million (effectively $22.8 million for married couples). This amount will be adjusted annually for inflation through 2025. But these high exemptions will expire in 2026, unless Congress extends them. They provide a limited-time opportunity for private business owners to transfer business interests and wealth across generations tax-free. Contact your tax advisor for more information.

Continual improvement

When it comes to profits, manufacturers can't afford to rest on their laurels. Owners and management must always look for ways to operate more efficiently. Contact your financial advisors for best practices to help boost profits in 2019 and beyond. ■

Keys to effective BYOD policies

Manufacturers may implement bring-your-own-device (BYOD) policies for salespeople who travel, customer service reps who work from home, and managers who use mobile devices to perform business tasks. But allowing access to the company's systems on an unsecured device presents risks. How can you protect your company's data without violating employees' privacy rights?

Evaluating the pros and cons

Rather than buying dedicated work phones, laptops and tablets for each employee, many businesses are tapping into workers' personal devices. BYOD programs enable employees to work anytime, anywhere, which promotes greater flexibility and productivity. Plus, employees appreciate the option to choose their preferred devices, leading to enhanced job satisfaction.

Because most employees already own these devices and tend to update them often, employers may be able to eliminate the cost of purchasing and updating devices. When calculating cost savings from a BYOD initiative, offset the equipment cost savings with the added costs of supporting multiple operating systems and devices.

Ask your IT department to provide a list of devices that it can easily support and that have acceptable levels of security. The more devices IT supports, the more time-consuming and costly your BYOD program will become.

BYOD programs also come with less obvious costs. *Employers* generally have less control over technology equipment and the confidential data stored on employees' devices. And *employees* have less separation between their personal and business lives.

Drafting a formal BYOD policy

Employers that allow their employees to use their own devices for work purposes need to implement a formal BYOD policy to minimize security and liability risks. A comprehensive policy anticipates what happens with the device in various situations, such as if there is a voluntary or involuntary termination; if the device is lost, shared or recycled; if unprotected public wireless networks are used; if the device is attacked by a virus or malware; or if it's synced on an employee's home cloud.

Other questions to address include:

Who pays the bill? Payment policies vary widely. For example, an employer might pay for a predetermined number of voice minutes and an unlimited data plan for employees. Any charges above that amount are the employee's responsibility.

Who owns an employee's cell phone number? This is a big deal for salespeople and service representatives, especially if they leave to work for a competitor. Customers may continue to call a rep's cell phone, leading to lost sales for the enterprise.

Can employers require the use of passwords? In general, mobile devices should lock if idle for five minutes and require a password or personal identification number to

unlock. After a limited number of failed password attempts, the device should require assistance from the company's IT department to regain access.

Employees who participate in BYOD programs should be required to periodically submit their personal devices to IT personnel for configuration, updates and security checks. And employers should reserve the right to revoke the BYOD privilege if users don't abide by the rules.

Navigating privacy issues

Employees must understand that participation in a BYOD program gives the company access to personal information, such as text messages and photos. However, the BYOD policy should state that the company will never view protected information, such as privileged communications with attorneys, protected health information or complaints against the employer that are permitted under the National Labor Relations Act.

In case your company becomes involved in a lawsuit, its data retention policies should address how data is stored on mobile devices and gathered during litigation. Keep in mind that Rule 34 of the Federal Rules of Civil Procedure covers all devices, including personal devices that access the company's network.

Got questions?

No two companies have the same BYOD policy, but there is one must-have: Your policy should be spelled out in a formal user's agreement that's signed by all employees who participate in your program. Contact your attorney and an IT security expert to ensure that your BYOD policy covers all the bases, addresses all relevant security and liability risks, and is legally enforceable. ■

FASB expands VIE exception for private companies

Private manufacturers often set up separate legal entities to hold real estate or operate new business ventures. Under current accounting rules, these entities are typically considered variable interest entities (VIEs) that must be consolidated on the controlling entity's balance sheet. Fortunately, an updated accounting standard will soon allow private companies to opt out of the complicated consolidation rules. Here's what you should know.

Purpose of the VIE guidance

In 2003, the Financial Accounting Standards Board (FASB) issued the VIE guidance in Accounting Standards Codification Topic 810, *Consolidation*, on the heels of the Enron scandal.

Under the guidance, a business has a controlling financial interest when it has:

- The power to direct the activities that most significantly affect an entity's economic performance,
- The right to receive significant benefits from the entity, and
- The obligation to absorb its losses.

"Enron figured out a way within the standard [that applied at the time] to create off-balance-sheet structures with financing that was completely guaranteed by the host company but yet was off the balance sheet — and the VIE guidance was written to fix that," said Billy Atkinson, former chair of the FASB's Private Company Council.

Private businesses vs. public companies

Private companies found the consolidation rules difficult to follow. They told the FASB that their business relationships aren't structured to trick investors. Rather, their choices are made primarily for tax and estate planning purposes and to limit legal liability.

> The new exception applies to *all* private company common control transactions that meet certain criteria.

Private companies also said that combining subsidiary businesses onto a parent company's balance sheet was frustrating to lenders, who often reversed the effects of consolidation when reviewing the performance of private companies. In addition, in companies where family members share ownership, determining who holds the power isn't always clear.

More than leases

In response to those concerns, in March 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-07, *Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements*. The update lets private companies ignore the VIE guidance for certain *leasing* transactions. But private companies told the FASB that problems persisted with the consolidation guidance for transactions that didn't involve leases.

So, in October 2018, the FASB issued ASU No. 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*. The updated standard supersedes the amendments in ASU No. 2014-07. The new exception applies to *all* private company common control transactions that meet certain criteria.

FASB chairman Russell G. Golden said that the update "provides private companies the choice to not apply VIE guidance to their common control arrangements — thereby reducing costs without compromising the relevance of the financial reporting information to financial statement users."

A private company that takes advantage of this simplified alternative still must provide footnote disclosures about its involvement with, and exposure to, the legal entity under common control.

Early adoption option

The updated standard goes into effect for fiscal years beginning after December 15, 2020, and interim periods beginning after December 15, 2021. Early adoption is permitted, and many companies plan to opt out of the consolidation rules before the effective date. Contact an accounting professional to discuss whether this financial reporting alternative is right for your manufacturing business. ■

Family and medical leave

Will your program qualify for a federal tax break?

The Tax Cuts and Jobs Act (TCJA) introduces a tax credit for certain employers that provide family and medical leave programs. Here are the rules.

Plan requirements

For wages paid in 2018 and 2019, you may be able to claim a business tax credit for amounts paid to "qualifying employees" who take family and medical leave. The credit expires after December 31, 2019.

The following requirements must be met:

- You must have a written policy in place that provides at least two weeks of paid family and medical leave annually.
- Paid leave must be offered to all qualifying full-time employees. It may be prorated for part-time employees.
- Paid leave can't be less than 50% of the wages normally paid to the employee.

Leave paid by a state or local government or required by state or local law doesn't qualify for this credit.

Calculating the credit

The credit equals a percentage of wages paid to a qualifying employee while he or she is on leave for up to 12 weeks per tax year. The minimum percentage is 12.5%. It increases by 0.25% for each percentage point by which the amount paid to an employee exceeds 50% of his or her wages.

The maximum credit is 25% of wages paid to an employee on leave. An additional limit may apply in certain cases.

It's important to note that your deduction for wages must be reduced by the amount of the credit. Also, any wages used to determine other business tax credits can't be used to determine the family and medical leave credit.

Who and what qualifies

A qualifying employee is someone your company has employed for at least a year and whose compensation for the preceding year didn't exceed a certain amount. For the employer to claim a credit for 2018, the employee can't have earned more than $72,000 in 2017.

For the purposes of the credit, family and medical leave includes leave taken 1) for the birth of a child and to care for the child, 2) to place a child with the employee for adoption or foster care, 3) to care for a spouse, child or parent who has a serious health condition, or 4) due to a serious health condition that makes the employee unable to perform his or her job.

It also covers certain needs that arise due to an employee's spouse, child or parent being on active military duty or the need to care for a family member who is a qualifying service member.

Qualifying and quantifying

Contact your tax advisor to determine whether your program qualifies for this credit. He or she can help quantify any tax savings for 2018 and 2019. ■

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We Know Manufacturing

With increasing regulations, technological changes and heightened competition, manufacturing companies are faced with a myriad of challenges in getting their products to clients in a fast and cost-effective manner. Staying abreast of the constantly changing rules in the industry makes it difficult to remain profitable. The Hoffman Group is experienced in helping manufacturers develop profit enhancing solutions to improve the bottom line and anticipate marketplace changes. We become a part of your management team to help develop and implement strategic decisions.

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