



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.



# Rea REPORT

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## PRESIDENT'S REPORT

In our client spotlight, you meet David Pilcher who initially saw Freeport Press as a business with good bones. He recognized a diamond in the rough and worked to make it shine.

Economic reasons forced many companies with good bones to cut back – on production, expenditures, staff and innovation. As a result, the business may have backed away from its core values and identity, changing the company's culture and purpose forever.

There's a fine line between recognizing core competencies and bringing creativity and change to your business. Pushing the envelope, while remembering who you are, will lead to greater success.

When someone turns a business around, people analyze their actions. Success is often found in smaller adjustments like increased efficiency, realistic risk evaluation and proper strategic direction. Sometimes, it isn't what they did, but their enthusiasm that made the difference.

Anyone, not just new leaders, can look at their business with a fresh, realistic eye. When you look at the bigger picture, you can rekindle the enthusiasm you have for what you do – and find new ways to do it more effectively.

Get excited about what you do. And have fun doing it.

*Levan B. Beall*

- WHAT'S HAPPENING IN INDUSTRY | 2
- CLIENT FOCUS: Freeport Press | 3
- EMPLOYEE HIGHLIGHTS | 4
- SERIES 2011: THE CHANGING ROLE OF GOVERNMENT | 4
- GReaT IDEAS | 6
- WHAT YOU DON'T KNOW CAN HURT YOU | 7
- BIG LITTLE IDEAS | 8

# SAFE & SECURE

## How Well Does Your Business Protect Its Data?



Laptops. Smartphones. PDAs. iPads. We conduct business in a staggering number of ways, and it's more crucial – and, unfortunately more difficult – than ever to keep electronic information secure. We asked Bob Davis, Rea's IT director, and Mike Moran, owner of Affiliated Resources in Dublin, for tips business owners can follow to help keep their data secure.



### Where do security issues begin?

**DAVIS:** Think about security in terms of the data that you own. There was a time where this only concerned servers and computers located on the company's premises. But, that's no longer the case.

Data can be stored anywhere from a main-frame, server, desktop computer or laptop computer down to a Personal Digital Assistant (PDA) or smartphone such as a Blackberry, iPhone or Android. You need to have policies and procedures in place to ensure your data – and your customers' data – is as secure as possible in all of these devices.

**MORAN:** Information can come in many forms from paper applications on a desk, to the list in someone's head to the perhaps confidential information an employee gives out during a random phone call.

Determine what information is valuable to your business and who has access to it. Then, develop plans to protect it. In the recent WikiLeaks case, an employee who was authorized to access information on a system willfully took it and sent it for publication. It wasn't a foreign country spying. Whether accidental or willful, we find that employees inside a business are much more likely to breach security than any outside threat.



### Let's look at a computer system in a typical business. What things can an owner do to improve data security?

**DAVIS:** First, purchase and install encryption software. If someone steals the device, they won't be able to view your files. Windows 7, for example, has encryption capabilities. There are other encryption applications available, but they must be purchased separately.

Encourage all staff members to save their files to your secure server if you have one, rather than the hard drive on their individual laptops. And if your employees work in the field and need Internet access, provide a secure access channel, typically known as a VPN.

CONTINUED ON PAGE 6



## TAKE A GLIMPSE

### WHAT'S HAPPENING IN INDUSTRY

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

Here are some interesting trends that are happening in various industries. How do these affect **your** organization?

#### ● CONSTRUCTION

Nonresidential construction growth will remain flat this year, according to Associated Builders and Contractors. A rebound isn't likely until 2012. However, while demand may be weak for a while, severe spending declines are over and commercial contractors can begin to look for a recovery. That's good news since many businesses consider flat the new up.

#### ● MANUFACTURING

Shipments and new orders on durable goods are up, especially for primary metals, which serve as an indicator of demand for other types of manufactured goods. Primary metals outperformed other manufacturing goods with a shipment increase of 37 percent and new order growth of 43 percent over 2009. Other areas of manufacturing should begin following suit.

#### ● MEDICAL

Professional staff hiring is on the rise according to the American Medical Association. Even with a weak economy causing a drop in patient visits, practices are preparing for the increased demand that is anticipated from the federal health care reform law. However, physician offices are being cautious about what openings they fill and are eliminating some noncritical positions.

#### ● DENTAL

Electric dental handpieces, including drills, are overheating and causing burns to patients, according to the American Dental Association. Because of anesthesia, patients don't even realize they are burned during the procedure and plastic surgery is necessary in some cases. The FDA suggests that you follow all manufacturers' instructions for maintenance, servicing and lubrication.

#### ● NOT-FOR-PROFITS

Women donate more than men according to the Women's Philanthropy Institute. At most income levels, women donate almost double what men do in the same income category. The only exception is women who earn between \$23,000 and \$43,000 – they give one-third less than men in this same group. If most of your revenue comes from contributions, be sure you have quality female targets to ask for support.



WITH INVESTMENTS  
IN EQUIPMENT AND  
TECHNOLOGY AND  
CUSTOMER FOCUS,  
THE COMPANY SHINES  
LIKE A DIAMOND –  
JUST LIKE PILCHER  
KNEW IT WOULD.

# TECHNOLOGY HELPS Freeport Press OWNER POLISH A DIAMOND

Real  
CLIENT  
FOCUS

**David Pilcher visited Freeport Press 12 years ago to broker the sale of a company that was in financial distress. Today, he owns that company.**

"The company bought a printing press that just didn't work out," Pilcher said. "It faced a huge loan and was in troubled shape." With more than 30 years experience in the printing industry, he saw tremendous opportunity.

Pilcher bought out one of the two partners in 1998 and became sole owner in 2005.

Today, Freeport Press has more than 150 employees and expects to generate more than \$25 million in sales in 2011 for its heat-set printing services. *Printing Impressions* ranked it among the top 200 printing companies in the nation.

So what potential did Pilcher see in a company that others might have run from?

"It had a good client base and a great employee base. But it was horribly outdated and inefficient," he said of the Freeport, Ohio, company that started as a weekly newspaper in 1880.

Equipment limited Freeport to a newsprint product, and 43 percent of its sales were with one large real estate publication group that was up for sale, he said.

"I recognized areas that could be improved," said Pilcher. "I knew that we could get into the publication area if we updated our equipment." And with experience building and operating two large printing plants and purchasing millions of dollars of equipment throughout his career, Pilcher was up to the challenge.

Over time, he invested in equipment – used and new – to gradually improve the quality and efficiency of Freeport's services and products.

Investing in technology in other areas paid off, too. "We focused on the latest pre-press technology," Pilcher said. "We bought enterprise-wide software that helps us with everything from materials entry to manufacturing to inventory to invoicing. We built a more efficient work flow and have a much better grasp of how we're doing."

Freeport continued making technological upgrades in computer-to-plate technology, online color calibrated proof availability and fiber optic communication.

In 2008, Freeport purchased a new Komori heatset web press. "Unfortunately that's also when the economy took its nose dive," Pilcher said. And Freeport saw red on its financial statements for the first time.

"But we remained cash solvent. We got out there and sold new volume. We were stronger than ever," he said. "We had a high-quality, efficient and less labor-intensive service to sell, and it became a real win for us."

Equipment upgrades continue to be a significant part of Pilcher's strategy. The company's second Komori heatset web press is being installed. Pilcher expects production to begin in March. It will be the first tandem press set-up in North America.

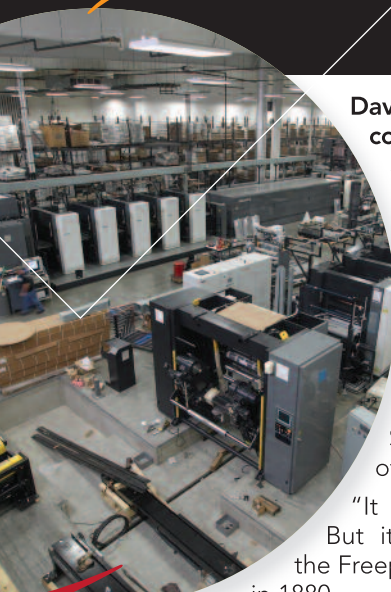
"This press will double our capacity for high-quality printed web production," he said.

As the company expanded, it took advantage of low interest loans and training grants to help employees use the new technology better.

In an industry where digital media is often viewed as the enemy, Pilcher embraced it. "We offer a digital product to accompany the print products we provide, and it's really well-received," he said.

Freeport Press achieved double-digit growth during a time when 40 printing companies in Ohio closed. With investments in equipment and technology and customer focus, the company shines like a diamond – just like Pilcher knew it would.

To learn more about the Freeport Press, visit [www.freeportpress.com](http://www.freeportpress.com).



Pictured from left:  
U.S. Congressman, Zach Space; former Ohio Governor, Ted Strickland; David G. Pilcher, President/Owner, Freeport Press; James R. Klein, Chief Executive Officer, Ohio Finance Fund; David P. Pilcher, VP Sales, Freeport Press; and James P. Pilcher, VP Manufacturing, Freeport Press.



**Michaela McGinn** joined the firm as a principal, and **Will Bauder** joined as a staff accountant, both in the Dublin office.

**Lee Beall** (Dublin) accepted an appointment to the Ohio Society of CPAs' nominating committee for 2011.

New Philadelphia has a new director of first impressions, **Tamara Kandel**, and administrative assistant, **Annette Beitzel**.

**Michelle Brooker** transitioned to a senior audit manager position, and moved from the firm's Marietta office to Dublin.

**Erich Holmes** (Medina) was elected president of the Young Professionals Association of Medina County.

**Kim Jones** and **Bobbie Hauptert** (New Philadelphia) retired from the firm.

**Anita Kotalik** (Medina), **Jordan Miller** (Millersburg), **Dave Miller** (Millersburg) and **Rachel Schott** (Marietta) passed the CPA exam.

**Tara Lengler** (administration, New Philadelphia) transitioned to the firm's operations assistant.

**Candice McMath** (human resources, New Philadelphia) was elected secretary of the local Society for Human Resource Management's board of directors.

**Joe Welker** (New Philadelphia) transitioned to IT audit manager.

CONTINUED ON PAGE 5



## THE CHANGING ROLE OF GOVERNMENT AND HOW IT IMPACTS YOUR BUSINESS

### TAX CREDITS THAT HELP YOU BUILD A BETTER BUSINESS

*By Joseph Popp, JD, LL.M.  
(tax specialist, Dublin office)*

**A lot of us were on pins and needles late last year to see how the tax law would change. Now we have the Tax Relief, Unemployment Insurance Reauthorization, and Jobs Creation Act of 2010. Let me highlight what these changes really mean for you and your business – and how you can use them to your benefit.**

#### EXPENSING NEW ASSETS QUICKLY

Being able to quickly expense an asset purchase is a big incentive for businesses. Generally, assets must be depreciated over a number of years – three to 15 for most equipment. Now, you can expense all of the asset's cost in the year purchased for new assets placed in service after September 8, 2010, through 2011. This "100 percent bonus depreciation" continues through 2011.

Section 179 expensing is also available in 2010 and 2011, but it is capped at \$500,000 per year. 179 is a sister provision to bonus depreciation, but it is targeted at small businesses and, unlike bonus, cannot generate a tax loss. In 2012, 50 percent bonus is available and 179 is capped at \$125,000.

If you are investigating major equipment acquisitions, try to conclude the deal and take delivery of the assets in 2011 so you can completely expense them. The 2012 rules are less than half as favorable when you take bonus and 179 expensing into account.

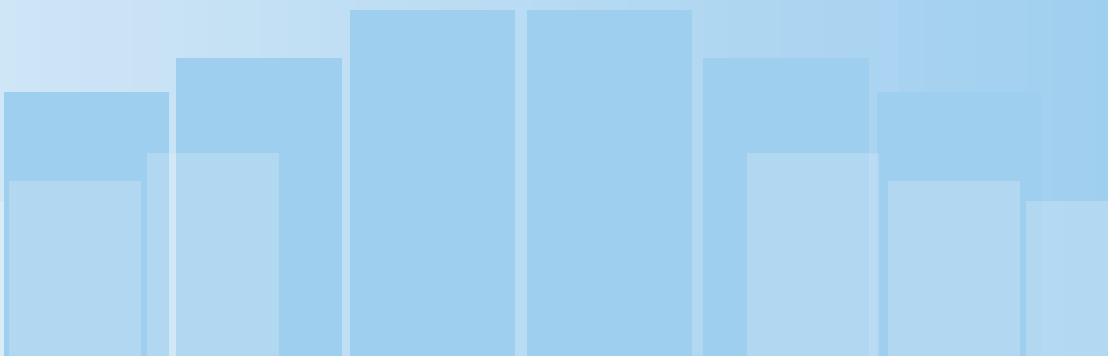
If your state doesn't permit this enhanced expensing of assets, you may see a reduced benefit.

#### INCENTIVIZING ENERGY INVESTMENTS

Congress also extended many of the energy credits – most through 2012 – including:

- grants in lieu of certain energy tax credits
- biodiesel credit
- energy efficient homes credit (for builders of those homes in 2011 only)
- energy efficient appliance credit (for manufacturers in 2011 only)

The government grant in lieu of the credit for green energy producing property (solar, wind, geothermal) is a great incentive that many business owners often overlook. It lets you get your tax credit up front in cash to help you buy the asset. It is available for projects as inexpensive as \$10,000 up to several million.



Because of local grants, state or federal incentive financing, the federal energy credit or grant, the "free" energy production, and incentives from local energy companies, solar or wind power may be more affordable than you think. This can serve as a great marketing tool to give you an edge over your competition.

### REVISITING OLD CREDITS

How do the revived credits interact with other tax law changes of 2010? Let's look at the research and development (R&D) credit that was just revived for 2010 to 2011, and the five-year general business credit carry-back that was part of the Small Business Act passed back in September as an example.

The R&D credit is an incentive for undertaking certain research activities and turns your

The 15 percent capital gains rate was also extended through 2012. Estate and gift taxes were favorably modified for 2010 through 2012. With both the estate and gift tax exemption – the amount you can pass to others tax-free – set at \$5 million, you may wish to consider gifting a part of your business to the next generation. If you are considering selling your business, it may also make sense to investigate the sale within the next two years to take advantage of the low capital rate.

Another provision that can be extremely beneficial, but that hasn't gotten as much press, is the exclusion of gain from qualified small business stock. This provision, if it applies, allows you to exclude 100 percent of the gain on the sale of this stock from federal income. It is also exempt from AMT.

## WHAT THESE CHANGES REALLY MEAN FOR YOU

### AND YOUR BUSINESS –

### AND HOW YOU CAN USE THEM TO YOUR BENEFIT.

deductions for those expenses into a credit – a \$1 tax credit saves you \$1 in tax, whereas a \$1 deduction saves you around 35 cents of tax, depending on your tax rate.

In the past, many businesses couldn't take advantage of R&D credits because of alternative minimum tax (AMT) restrictions. Now, the R&D activities in 2010 can generate a credit that will be free of AMT restrictions in 2010. The credit can be carried back up to five years and offset AMT liabilities in those years as well.

Due to the number of changes in the tax law over the past year, there may be incentives, such as the R&D credit, that you may wish to revisit with your tax professional.

### TAXING PERSONAL INCOME

The Bush tax cuts were extended, giving small business owners a bit more breathing room on the profits generated from their businesses.

To qualify, the stock must be issued:

- by a C corporation engaged in an active business
- directly from the corporation to the taxpayer (no secondary market purchases are allowed)
- must be issued after September 27, 2010, and before January 1, 2010

The taxpayer must hold onto the stock for at least five years. This benefit does have a ceiling, you are limited to excluding the greater of \$10 million or 10 times what you paid for the stock.

A lot has changed over the last few months, that's for sure. Instead of only focusing on the details, set up a meeting with your tax accountant to discuss how you can leverage the law to save you money and improve your business.

C O N T I N U E D

### SERVICE MILESTONES:

#### 15 YEARS

**Chris Ricker** (Lima)

**Don McIntosh**

(New Philadelphia)

**Dee Webb** (New Philadelphia)

#### 10 YEARS

**Mary Ann Ellis** (Dublin)

**Linda Haynes** (Dublin)

**Tara Lengler** (administration,  
New Philadelphia)

**Tamra Lewis** (Marietta)

**Bob Mapes** (Wooster)

**Heather McNichols**

(New Philadelphia)

**Sue Odenweller** (Lima)

**Pam Unkefer** (Wooster)

**Mary Williams** (Wooster)

#### 5 YEARS

**Brian Kempf** (Millersburg)

**Dustin Hostetler** (Wooster)

**Stacy Trump** (New Philadelphia)

EMPLOYEE  
HIGHLIGHTS

## SAFE & SECURE

**KNOW YOUR TAX DEADLINE.** This year April 15 is Emancipation Day, a holiday observed in Washington, D.C. So you have until Monday, April 18 to file your 2010 federal taxes. Be sure to check with your state and local municipality to see if they too are extending the deadline. Better yet, don't procrastinate and file early.

**EDUCATE YOUR WORKERS.** According to futurists David Pearce Snyder, Terry van der Werff and Edward Gordon, workplace education will be valued more than ever before. The generation that is retiring from the workforce is better educated than the generation that follows. This is a first in U.S. history.

### DOCUMENT YOUR RENTAL INCOME.

If you receive rental income from property, you'll need to start keeping additional records. New legislation requires you to issue IRS Form 1099-MISC to service providers, such as plumbers, painters and accountants, you pay \$600 or more to during the 2011 tax year. To facilitate the process, be sure to obtain their name, address and taxpayer identification number throughout the year.

**INVEST SURPLUS CASH WISELY.** Your business checking account doesn't have to be a balancing act. To get the highest rate of return, calculate a monthly cash budget and a daily cash position that forecasts the extra cash you have available. Investigate Certificates of Deposit, Money Market Accounts and Sweep Accounts. For an even greater return, negotiate discounts with vendors for prepayments or pay down your line of credit.

GREAT  
IDEAS

Also, when your business requires customers to supply electronic information, use a secure internet portal.

**MORAN:** Evaluate the types of data you store and how important it is to the company, where it's located (paper, individual computers, networks, in the clouds, etc.) and who has access to it. Once the kinds of information and its locations are identified, a program can be developed to address access and secure the data.



**E-mail seems to be the method of choice today for communication. How secure is e-mail?**

**MORAN:** E-mail is NOT secure. A typical e-mail will be routed through 30 different devices between point A and point B. I always tell people don't put anything in an e-mail that you wouldn't put on a post card. Plus, someone can easily print or forward an e-mail, and it has limited audit tracking capabilities.



**What about the stagnant data that nearly every business collects? Are there rules regarding encryption? In the event of a security breach, are there required notifications?**

**DAVIS:** Some states require encryption even on a company's stagnant data. This movement began in the healthcare arena with the HIPAA privacy requirements, and I expect it to expand to other types of industries.

We already see some of this with the Red Flags Rule, designed to detect the warning signs of identity theft for businesses that extend credit. A majority of states have laws in place that require businesses to notify customers when a security breach occurs.

You should also evaluate your procedures for archiving, storing and accessing archived information – either digital or on paper.



**Mobile devices are everywhere, especially in business. What can a business do with these devices to help keep their data secure?**

**DAVIS:** You should require anyone who uses a smartphone to access company e-mail to use a company-provided phone. You will have greater control of the phone service provider and the security level.

If an employee uses a personal smartphone, or even a laptop for that matter, and has access to a business e-mail account, make sure they password-protect that device.

**MORAN:** If a device is misplaced or lost, you should have a way to wipe it clean of all company information such as e-mails and contact lists. And be sure you stay current with risks associated with your approved mobile devices.

The risks from these devices are just beginning to be explored and exploited. When it comes to the security of your data and that of your customers, it's always better to be safe than sorry.

# WHAT YOU DON'T KNOW CAN HURT YOU

**State and local tax administrators are more sophisticated and aggressive than ever.** And with today's computer cross-referencing tools, they can identify more businesses that have filing requirements. If your business owes, they will find you.

If you owe additional taxes, it's best to find out before the government comes knocking at your door. Here are some areas you'll want to examine for exposure and overpayments.

## LOOK FOR NEXUS

Nexus is tricky to determine on your own. It's the minimum connection between you and a state that makes filing an income, franchise, sales or use tax return necessary. To complicate matters, you can have nexus in a state where you don't have physical presence.

Penalties can be huge for not determining where you have nexus. Try to minimize exposure by having a CPA approach the state anonymously to confess that you have not filed applicable returns. For coming forward voluntarily, penalties may be waived and the number of years reviewed limited.

## WITHHOLD TAX WHERE YOU WORK

When state and city income tax is withheld, the tax should be collected where you actually work, rather than your residence or business location. If your business is in Columbus and your employee works in Cincinnati one day, withholdings should be collected for the City of Cincinnati for that day.

If your employees work in five different states and 25 different cities throughout the year, withholdings may need to occur for each state and city.

## ESTABLISH A USE TAX ACCOUNT

You owe use tax for any purchase made where sales tax should have been charged but wasn't. Just because you

## LOCAL TAXES CAN COST YOU BIG

By Chad Bice, CPA (principal, Zanesville office)



weren't charged Ohio sales tax for those office supplies you bought online, doesn't mean you don't owe the tax. It's your responsibility to pay Ohio use tax instead.

The Ohio Department of Taxation has more than 400,000 sales tax accounts registered and only 30,000 use tax accounts. If you don't have both, you could face a seven-year use tax audit, and penalties of 50 percent plus interest.

## TAKE ADVANTAGE OF CREDITS AND INCENTIVES

If you invest in fixed assets, staff or training, state and local governments may provide credits or incentives that can offset those investments. Most credits are investment, job and training related. However, incentives do exist for real and

personal property tax abatements, grants and low interest loans, which are most common.

You have to qualify before starting the project, so plan for them with a three-year investment projection.

## UNDERSTAND EXEMPTIONS

You may overpay if you don't fully understand Ohio's sales tax exemptions. The most common exemptions are for manufacturing, packaging, transportation for hire and warehousing. A manufacturing machine, as well as repairs and spare parts for qualifying machines, are exempt.

When a manufacturer expands, contractors often pay sales tax on their material purchases and pass the tax along to the manufacturer. It's best if you investigate and tell the contractor in advance what should be exempt, but refunds are possible.

In addition, exemptions exist for the technology, warehousing, transportation, oil and gas and mining industries.

State and local tax liabilities can sneak up on business owners. Ensure that your company pays its share of taxes without paying too much. Identifying potential liability is a great start.

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## BIG LITTLE IDEAS

YOU CAN TAKE  
LITTLE ACTIONS  
TO MAKE A  
**BIG** DIFFERENCE

Do you know what you can do to improve your business? Have you ever sat down and asked yourself that very question? You should.

Revenue growth will remain a problem for many businesses throughout 2011. Focus on efficiency. Keep your sales team trained and ready. Tighten expenses even more. But you may find that taking time to think about your business and coming up with simple ideas to implement, may make the biggest difference in your performance.

Here's how some business owners are changing their companies.

### KEEP CUSTOMERS HAPPY

A car dealership is holding a "Simply the Best" seminar for the entire organization. "The company is showing each department how it is responsible for improving customer experiences, service and satisfaction," said Mark McKinley, principal, Lima office. "New customers are hard to come by these days, so this business is working to keep the ones it has."

### TAKE CUSTOMER SATISFACTION INTO YOUR OWN HANDS

When was the last time the CEO of one of your vendors called you? "I know a CEO who personally calls a few customers each week to ask how things are going. Since the customers typically deal with sales staff, they are thoroughly surprised to find the CEO on the other end of the phone," said Mike Noretto, principal, New Philadelphia office.

### EXPLORE SOMETHING NEW

Sometimes help is available if you just look. "I'm aware of a business that pursued a state developmental grant to help fund a study on potential markets for their product," Todd Mizer, principal, New Philadelphia office said.

"Accounts receivable is an issue for many businesses," said Bob Mapes, principal, Wooster office. "One business owner was really bothered by the fact that one large client accounted for most of the A/R. By purchasing accounts receivable insurance, the company was able to insure \$1.2 million in receivables for just \$20,000 a year." This made all the difference as the owner was less stressed and could focus attention on other areas.

### FORMALIZE YOUR COLLECTION PROCESS

Not only do you need a collection process, but you need to track all communications. "The key is to touch base with the customer often," said Debi Gellenbeck, COO, Administration office, New Philadelphia. "We start our process at 70 days and make regular contact every 10 days for another 50 days until we receive a response. When we aren't successful, the account is sent to collections. You should document every step in a spreadsheet, too."

### KNOW ALL YOUR COSTS

A manufacturing company studied its product costs to better understand margins on a product-by-product basis. "This helped them properly set the price of each product. They also cut products that were not profitable so they could focus on the ones that were," said Chad Bice, principal, Zanesville office. "Without knowing the 'all in' cost of a product, it is hard to price, focus and know where to spend your efforts."

### MEET WEEKLY

"Get your team together each week. The only focus of discussion should be on goals for the year and progress toward meeting them," Dave Wolfe, principal, Dublin office, said. This is a good way to keep everyone concentrating on those things you've identified to drive your success.

If you think about your business, chances are you probably have some of the best answers. Trust in yourself. And, if you need a second opinion, bounce your ideas off the key people you rely on. The solution may not require significant dollars either. Sometimes, it is the little things you do that can have the biggest impact.