

Manufacturer

Summer 2009

Howdy, partner!

Start your business partnership off on the right foot

Is duplicate data costing you money?

Trade you

Bartering provides a welcome alternative in tight times

REBATE REVIEW

Offering incentives can mean extra income all around

Head out on the highway

Prepare for HVUT before you hit the road

Elliott Davis

Accountants and Business Advisors

www.elliottdavis.com

Howdy, partner!

Start your business partnership off on the right foot

Regardless of what industry you're in, a strategically planned business partnership can be a smart option for starting a company with greater potential and fewer expenses than going it alone. It's important to evaluate whether a partnership is the best option in your specific case — and it's vital that you take the necessary steps to ensure its success.

Tax considerations

Much of the appeal of a business partnership lies in its ease and flexibility. General partnerships are considered “pass-through” tax entities, meaning that profits or losses pass through to the partners. As a result, the partners themselves are taxed through their individual tax returns, and you will not need to file an additional federal return for the partnership. However, you'll need to fill out an IRS Form 1065 information return, which reports the income, deductions, gains and losses of the partnership.

Much of the appeal of a business partnership lies in its ease and flexibility.

A partnership's flexibility allows you and your partners to set your own guidelines, including how you'll structure the business and divide profits. In addition, your partnership is considered a discrete asset, which allows it to be transferred to successors or heirs later on.

Typically, each partner's heirs inherit his or her share of the partnership's assets. The partners should decide the details of succession and include them in a written agreement. If succession isn't addressed, a partner's death will dissolve a partnership automatically. In this case, the remaining partner or partners would pay the debts of the partnership and divide remaining assets according to the agreement.



Written agreement

After you and your partner have decided to move forward with creating the partnership, put your agreement in writing. Legally, a partnership doesn't require a written agreement, but choosing to go without one means your rights and obligations will be determined by state law.

A typical written agreement lists the partners involved and details the capital and services each person brings to the partnership. To keep the terms of your partnership flexible, make sure the agreement addresses each partner's share of profits and losses, management and control, capital contributions, methods of funding, and individual salaries.

The agreement also should detail the procedures in the event of a buyout or the entrance of a new partner. Work with an attorney who has experience with partnership agreements to make sure you address all necessary issues in your agreement.

Protect your interests

To maximize your partnership's potential and preserve its effectiveness, it's important to take some logical precautions. Of course, you should enter into

Choosing a potential business partner

You meet. You spend time getting to know each other, evaluating the other person's worthwhile qualities. And ultimately, you decide to part ways or enter into a long-term commitment. At face value, choosing a business partner is a lot like dating, only this time your business is on the line.

For every history-making business partnership, there is a pairing that isn't so successful. Whether an association lasts or tanks lies in the details, and there are certain qualities, including drive and financial responsibility, that you should look for in a potential partner before agreeing to a partnership.

First, evaluate your shared vision. Are you on the same page when it comes to where you want your partnership to go? If one partner wants to take the new business to its peak of growth and financial success, and the other is more apathetic toward its outcome, the driven partner will end up leading on his or her own. This defeats the purpose of joining forces in the first place.

That same need for balance extends to other areas as well. You and your partner should have a similar idea of how much time you will devote to the business on a day-to-day basis. And you should have a personal connection that allows for compromise, especially when drafting your written agreement. You won't always be on the same page, and sacrifice from both sides will sometimes be necessary.

A potential business partner should have skills and knowledge that mesh with your own. Even though your vision should be the same, the resources you bring to the table should be different, but complementary. Even if it requires a background check, you should be confident that your partner has a clean past, legally and financially. And it always helps to choose someone who has business connections that can be used to your new company's advantage.



a partnership only with a person or people you genuinely trust, but even then you don't want to take on any more personal financial risk than necessary.

Make sure you define whether your partnership is "general," in which each partner assumes equal liability for the business's debts, or "limited," in which one partner assumes full management responsibility and the largest share of any liability.

The remaining limited partners hold less power, but can be held liable only up to the amount of their financial contribution to the partnership. Therefore, if a lawsuit results, say from an injury inflicted by partnership-owned equipment, the injured party can seek the single general partner's personal assets as damages. On the other hand, only the amount of the limited partner's investment is at stake.

Also, be sure to establish a solid exit strategy within your agreement. It may not sound like the most pleasant task, but it's better to be prepared than be forced to scramble for proper procedure should a partner decide to leave or a buyout occurs. And if you've chosen to enter into a partnership with a friend, remember to keep personal issues separate from business interests to better ensure the success of your partnership.

Just the beginning

A business partnership could be just what it takes to launch your business and make it profitable. It all starts with finding a complementary partner, the right contributions, a solid understanding of the options and benefits available, and a written agreement to bring it all together. ■

Is duplicate data costing you money?

You've cut every extra expense you can imagine, from office supplies to overtime, and you're still having trouble getting a handle on your company's finances. Did you know a source of revenue loss could lie in a part of your business you don't see? It's the extra storage space you're paying to house redundant data. By using deduplication technology, a little IT spending now could add up to big savings later.

Deduplication technology defined

Deduplication technology eliminates redundant data in your electronic storage archives by searching your servers for new data. It stores anything it hasn't seen before, and it continuously works to eliminate duplicate information by making sure data is stored only once.

Deduplication technology can increase your overall operational efficiency, because you'll no longer need to have employees weed out duplicate data. Plus, your decreased storage space needs will cut future IT costs, boosting your ROI. And by reducing the amount of information that needs to be stored, a deduplication system can also cut your company's energy use — an appealing benefit for the cost-conscious *and* the eco-conscious.

Most companies that store data electronically can benefit from deduplication software, and as the amount of information your company stores increases, the

greater the need for streamlining. If your company has more than one data center, deduplication software can be especially beneficial by sorting data in regional locations, duplicating that data to your central site and eliminating companywide repeats.

Software-based deduplication

A software-based system typically doesn't require a significant change in your physical network, but it will require attention throughout its lifetime when it comes to updates and maintenance. The software costs between a few hundred dollars and a few thousand dollars, depending on quality and capabilities.

Make sure the software you choose will figure into your current data backup system as seamlessly as possible, with minimal disruption. For example, if you're using a virtual tape library, have an IT professional evaluate its effectiveness and compatibility with different types of deduplication software to help ensure the best purchase.

You'll also want to choose between file-level and block-level deduplication. File-level compares new and existing files, making sure only one file is saved and any copies are reduced to links back to the original file. Keep in mind that it reviews less information, but uses less processing power as a result.

Block-level deduplication breaks a file down into "blocks" of data, which are then examined for duplicate information. This detailed breakdown increases the system's odds of finding repeat information. Which option you choose — file-level vs. block-level — depends on your preference of power used vs. thoroughness.

When you have a clear understanding of what type of deduplication system you want, a vendor will be able to offer a more personalized solution. If possible, ask to test the software before buying.

Trim all the fat

Facing a tough economy head-on means trimming the fat in all areas, including your stored data. Deduplication technology can free up storage space, speed your operating system and give you the added efficiency your manufacturing company needs to stay profitable. ■



Trade you

Bartering provides a welcome alternative in tight times

It may not be easy to borrow money in today's economic climate, but you do have one thing in your favor — the products and services you sell. As banks become increasingly tight-fisted, more businesses are turning to bartering to recoup losses, reduce excess inventory and even come away with additional income.

In fact, according to the National Association of Trade Exchanges, about 400,000 U.S. companies barter each year. Manufacturers who haven't taken the time to fully understand the modern bartering system could be missing out on business-saving transactions.

Bartering basics and trade credits

When it comes to initiating the bartering process, you have two options. You can barter directly with another business if what you have to offer each other seems mutually beneficial. One caveat: This limits the variety of goods and services you can receive in a transaction, and a certain amount of trust is required because there is no third party involved to ensure the timely delivery of goods or services from either side.

Alternatively, you can turn to an exchange company that will consult with you to determine your company's needs and then do the legwork, giving you access to thousands of companies in a variety of industries and markets.

The qualifications for what constitutes bartering have broadened to include several mutually beneficial options, above and beyond simply trading goods or services. With the help of an exchange company, for example, you can turn liquid assets into trade credits by selling excess products to another market. You can use your trade credits, along with cash, to purchase business needs, such as vital replacement parts for aging machines.

By turning excess inventory into trade credits and using those credits to pay for machine parts, you

can keep your operation running at full speed without putting forth cash you can't afford to spend. Plus, with the help of the exchange company, the manufacturer whose parts you've received can put its credits toward other business expenses, such as hotel accommodations for a trade show.

With the flexibility trade credits provide, the options for what your company can acquire in exchange for its goods or services are extensive. Beyond replacement parts, manufacturers also typically barter for company health care benefits.

Don't forget to pay the tax

It's important to keep in mind that, even though bartering can save you money on various expenses, taxes are still as certain as ever. Barter deals are treated just like cash transactions, so you'll have to report whatever you trade as income and the goods or services you acquire as expenses.

With the flexibility trade credits provide, the options for what your company can acquire in exchange for its goods or services are extensive.

The IRS views barter credits as real dollars, so you won't receive any additional tax benefits or penalties if you use a barter exchange. However, you may be able to contribute unused barter credits to a charity at the end of the fiscal year, which would allow for a tax deduction.

Keep your options open

As long as you have products or services to offer, bartering can be an effective option to keep your manufacturing company up when the economy is down. Ultimately, you'll gain more control over your cash flow without having to sacrifice the necessities of running your business. ■

Offering incentives can mean extra income all around

Regardless of how your supply chain operates, there's no denying that cash back can be a motivator across the board — from distributors to retailers to consumers. That's why rebate and incentive programs have held steady as a solid way for manufacturers to boost their bottom lines. There are a variety of ways you can leverage cash-back incentives to move inventory and increase profitability.

Reaching the end user

Rebates can provide the carrot consumers need to make purchases they might be on the fence about, especially if they think the rewards will be worth the effort of the application process. In the midst of the current credit crunch, most auto manufacturers are offering customer incentives in the form of instant cash rebates, which can fuel a down payment or provide motivation to spring for a more expensive hybrid option.

Want to sweeten the deal? Throwing in extras such as free maintenance or an extended warranty could be what it takes to lock in customers and secure their loyalty.

Reward current sales

Industrial manufacturers can reward loyal customers, encourage purchases from multiple product lines, and move new or less-than-popular inventory by offering rebates to builders and contractors. For example, in exchange for using a newly introduced I-beam, a steel company could offer a builder discounts or cash-back incentives on future purchases. The more I-beams they purchase, the more substantial their rebates will be.

Move your offer up the chain

Sometimes the best way for manufacturers to move their products out the door is to offer incentives earlier in the supply chain to distributors and dealers. Stalled inventory means stalled growth — and providing the people who encourage the sales of your products with incentive to up their output can keep sales fluid. For example, if you deal directly with retailers or auto dealers, offer cash-back rewards for selling overstocked items or ordering more inventory.

Consider offering your distributors incentives in the form of discounts from list prices in exchange for

increased performance. For example, a plastics manufacturer could offer a profitable distributor 15% off a particular type of tubing. If it costs the distributor 10% to sell the tubing to a customer, they're able to retain 5% as a reward and an incentive for continuing to keep sales strong.

Ease incentive use

Despite the financial incentives rebates provide, some consumers may be hesitant to cash in because they perceive the application process as confusing, with a small window of time for submission and a vague return



process. In the past, some manufacturers came under fire for making consumers jump through hoops, only to delay payment. However, many states, including North Carolina and Texas, now require rebates to be paid within 30 to 60 days.

You can make the process even more user-friendly by opting for automated redemption, which allows the rebate holder to enter information from their receipt online, initiating the redemption process. Automation speeds the rebate redemption and gives consumers the ability to track the process from beginning to end.

When it comes to distributor, builder and dealer incentives, keep lines of communication open to stay on top of what products could use an extra push, what incentives have worked well as motivators and which distributors deserve to be rewarded.

Win-win when done right

Getting the most from a rebate or incentive offer means providing quality, worthwhile incentives and the means to see the process through to fulfillment. If offered correctly, the entire supply chain will benefit, inventory will move more quickly and your company may realize a welcome boost in sales. ■

Head out on the highway Prepare for HVUT before you hit the road

Manufacturers that transport heavy materials using vehicles that have a taxable gross weight of at least 55,000 pounds are likely familiar with the federal Heavy Vehicle Use Tax (HVUT). The next HVUT tax period starts July 1, 2009, and ends June 30, 2010.

The IRS considers a highway motor vehicle to be “a vehicle moved by its own motor and designed to transport a load over the public highways, even if it is designed to do other things.” This includes trucks, tractor-trailers and buses. Vehicles driven less than 5,000 highway miles during a tax period are exempt from HVUT.

How is taxable gross weight determined? It's the sum of the unloaded weight of the vehicle plus the weight of the maximum load it usually carries. For example, if your truck weighs 48,000 pounds and its maximum load weighs 12,500 pounds, its taxable gross weight would equal 60,500 pounds. This would result in a \$232 annual tax. A chart that details the annual tax as it correlates to taxable gross weight is provided on IRS Form 2290.

When you pay HVUT on a particular vehicle depends on when you first use it on a public highway during the tax period. The tax is due by the last day of the month following the month you first drive the vehicle.

So, for example, if the first time you drive your tractor-trailer on a public highway during the 2009-2010 tax period is July 2009, you'll have to file Form 2290 by Aug. 31, 2009. Be aware that you'll have to show proof of HVUT payment to register taxable vehicles with your state's motor vehicles department.

If you purchase a new vehicle after the tax period is under way, your HVUT will be prorated from the month you first use the truck until the end of June. The instructions for Form 2290 include a chart detailing what your prorated HVUT will be, depending on when you purchase your new vehicle.





ElliottDavis

Accountants and Business Advisors

P.O. Box 6286 • Greenville, SC 29606 - 6286

Our expertise means better performance for manufacturers and distributors.

For manufacturing and distribution companies that recognize their need to maximize the value of their products and improve production cost management, the Elliott Davis Manufacturing & Distribution Practice provides more rewarding solutions because of its depth of expertise, insightful analysis of process, and personally managed client relationships. From small start-ups to large multi-national companies, our team can assist you in assembling financial solutions to your challenges.

- Audits and financial reviews
- Tax compliance and planning
- Financial reporting and control system design
- Inventory costing studies
- Sales and use tax compliance and consulting
- Inventory control improvements
- Information technology system assessment, design and implementation
- Buy/lease analysis
- Loan proposal reviews
- Mergers and acquisitions
- Benchmarking, forecasting and trend analysis
- Management succession planning
- Economic incentives and R&D tax credit utilization



With offices located throughout the Southeast, members of the Elliott Davis Manufacturing and Distribution Practice can respond quickly to their clients' needs. Please contact us at 1-877-340-6802 to tell us your manufacturing and distribution goals and learn how we can help you achieve those goals, or visit us online at www.elliottdavis.com for more information.