

Today, their largest client base is still in television sports, but they have added features for clients who broadcast news, weather and traffic information. Most of them prefer to lease, rather than buy the telestrators. “The sports side of the TV industry used to own their own equipment, but they decided some years ago to get out of ownership since a single mobile unit can cost \$5 or \$6 million to build. Leasing also means that they can have the latest features without having to reinvest every time there’s an update. Plus, we offer 24-hour technical support.”

One of Andy’s more nerve-racking tech support experiences occurred when Outdoor Life Network took one of their units up Mt. Everest to broadcast a live ascent. One hour before going live, they called to say that they couldn’t get the unit to boot up – there was so much dust in the air that it had caused the hard drive to fail.

Fortunately, every unit comes with a backup hard drive and Andy was able to talk the crew through a boot-up on the secondary drive in time for the ascent. The success of the Everest experience led to Outdoor Life taking two more units to the Tour de France.

“It was about giving the company the tools they required to grow.”

When Scott Armstrong at WKM first met Andy, he realized that the business Andy had started to “pass time” in his “retirement” years was going to be quite successful, “I could see that the company was going to quickly outgrow some of the home-office type systems that they had implemented.”

Andy adds, “One of Scott’s first steps was to suggest that I convert to Simply Accounting and it saved me a bundle in accounting fees. Before, I had an elaborate, colour-coded Excel spreadsheet tracking my numbers – I knew what was going on, but no one else did!”

Of course, the switch to a commercial accounting package was about more than just saving on fees – it was about giving the company the tools they required to grow. As the demand for more units increased so did their financing needs, and their previous bookkeeping system could not produce the reports that they, or the banks, needed to make decisions.

For Andy, another benefit of dealing with WKM is that they can handle both his corporate and personal taxes, ensuring that they work together to his best advantage.

Scott explains, “The company is in a common situation that many private companies face – different shareholders have different income needs. By suggesting some changes to the company’s structure, we’ve helped the company design a remuneration package that addresses these differing needs and remains fair to all parties.”

What’s next for this innovative company? A high definition version of their telestrator that’s due out soon – and the Emmys! “We’ve been asked to make a submission for an Emmy. It’s the technical Emmys – the ones they announce during the commercials,” laughs Andy, “but it’ll be quite an honour anyway, if we get a nomination.”

Accountants – More Than Historians

By Doug Wootton, CA

Too often accountants operate as historians – dealing with what happened in the past. They busy themselves adding, footing, and reconciling records and receipts so they can tell you what happened in the past. Wouldn’t it be useful if your accountant could help you predict the future?

In fact, we can help to predict the financial future of your business. By preparing a detailed financial projection, we can help you understand where your business is going, what your goals should be, and whether or not you need to make changes.

You may have been involved in preparing a financial projection before – perhaps for the bank or your head office – and you may have found that the exercise was time-consuming and offered little reward. But done right, a detailed financial projection is a valuable decision-making tool.

A proper financial projection examines all aspects of your business, beginning with your operating expenses. First, your accountant breaks down your operating expenses into fixed costs and variable costs. Once the costs are classified, we can determine the volume of sales you will require each month to break even.

Then, we ask ourselves some questions. Can some of the fixed costs be turned into variable costs to reduce the required break-even volume? Are there opportunities to reduce the fixed costs? Do the operating costs make sense in relation to the volume of business – will it always be a struggle to achieve enough sales to cover costs?

Determining the amount of expected revenue is usually the most difficult part of a projection, but



history often gives us a reasonable starting point. By stripping out the previous year’s extraordinary sales, we should be left with your core business volume.

Once again, this leads to questions. Is your core business volume sufficient to achieve the earnings you desire? If not, how are you going to achieve the sales increase you need – additional advertising, improved salesperson compensation, better pricing? Does your business have seasonal cycles that require you to expand your product/service mix to level out sales?

Now that we have addressed the various operating components of your business, we are in a position to calculate the resulting cash flow and related balance sheet accounts. Remember, it isn’t only a matter of how much you will earn – your business’s cash flow is equally important, as it is what you will use to grow the business and pay the shareholders.

Once you have a detailed financial projection in your hands, you should have a good idea what the next year will look like and also how your business works. With this information you can set goals and develop a plan to achieve them. After all, you can’t get to your destination if you don’t know where you want to go or how to go about it!

If you would like more information about the benefits of financial projections, please contact your WKM accountant.

Take the Money and Run!

By Cathie Savoie, CA

Be prepared. It may be the motto for the Boy Scouts, but when it comes to your finances, it’s some of the best advice you can get.

We’ve all heard how important it is to plan ahead and most of us have done some of it. You likely have a will, for instance, and an RRSP. You may even have paid off your mortgage and made an investment in some recreational property. But if you’re a business owner, there is another issue to consider. What’s going

to happen to your business in the future?

Some day you’ll want to—or be forced to—leave your business. Death, disability or the desire to retire overtakes everyone eventually. And yet recent statistics indicate that more than half of Canadian business owners haven’t done any succession planning.

Often the assumption is that a son or daughter will take over the business. But did you know that more than 70 per cent of family businesses do not survive the transition from the founder to the second generation? In most cases, the “killer” is tax issues or family discord—both issues that could have been addressed through a good succession plan. In fact, the earlier you begin thinking about succession planning, the more options you will have to:

- Get the maximum return for yourself
- Ensure the business can carry on profitably
- Address family or shareholder disagreements before they become a threat to business continuity
- Minimize tax liabilities
- Give future leaders plenty of opportunity to gain the skills they’ll need to run the business after you’re gone
- Allow future successors plenty of opportunities to raise the money needed to execute a buyout
- Ensure an orderly transition between owners

The first step in succession planning is to evaluate your current situation.

- What is your business worth today?
- Is the value of the business increasing, decreasing or remaining stable?
- Are there agreements already in place such as shareholders’ or partners’ agreements, or even a will, that should be reviewed in relation to the current business situation?
- What skill set does a potential successor need to continue to operate the business successfully? Do the potential successors have, or can they acquire, these necessary skills?
- Who are the potential successors? (Consider all possibilities, not just family members. What about employees, customers, suppliers or competitors?)

Once you have considered these questions, you’re ready to think about specific options. Should you sell the business outright? Phase yourself out over time with your retirement income funded by the business? Finance an employee buyout?

“...more than 70 per cent of family businesses do not survive the transition from the founder to the second generation.”

There are plenty of choices; the trick is finding the one that's best for you. This is where your team of professional advisors comes in. You'll want to discuss any options under consideration with your accountant or lawyer to ensure you understand the implications of each choice and also to ensure you have considered all of the possibilities.

From an accounting perspective, there are several tax efficient strategies that can help maximize your personal net income, especially if you start planning early. For instance, in a transition to family members, a discretionary family trust could be established that would allow you to maintain control while passing future growth and the related tax liabilities on to the next generation (who may be in a lower tax bracket). Another option is an estate freeze. This solution can enable you to receive annual dividends in the future based on the value of the business at the time the freeze is completed. (Remember that dividends receive preferential tax treatment over salary or interest.) In other cases, it may be appropriate for the business to fund an individual pension plan. The company will get a tax deduction for the contributions and you'll receive future pension income.

Once you've evaluated all the possible options, it's time to prepare a written shareholder succession plan. The plan should cover:

- The objectives of all major parties including the owner(s), family members and any senior team members who may want to acquire the business
- The various options considered with the pros and cons for each
- The preferred option with details of its implementation—including how the price is to be determined; the timing of the departure; the ongoing role (if any) of the exiting owner; major tax considerations; and who will have the responsibility for implementing the plan.

Remember, many different professional skills are required to successfully transition a business from one owner to another. When the time comes, you will certainly need to talk with your accountant, your lawyer, an insurance agent and, if property is involved, a real estate advisor.

At WKM, we can assist you with many aspects of the succession planning process including valuing your business, analyzing expected future cash flows, putting a financing plan in place, tax planning, estate planning and more. We can even help you find a potential buyer. And of course, we're always available to act as a sounding board or to provide a second opinion.

The greatest advantage a business owner can bring to the succession planning process is lead time. By planning early and carefully, you'll be able to step aside someday knowing the business you've worked so hard to build

will not only survive under its new ownership, but thrive. What's more, you'll rest easier knowing that your own personal financial future is secure. ☎

Closing Entries

It gives us a great pleasure to announce that **Marek Zhanel, CGA** has been accepted as a member of the Certified General Accountants Association.



The completion of the demanding program of academic studies and exposure to senior-level accounting and tax issues have equipped Marek with a solid set of skills and knowledge, increasing his competencies to provide value added services to our clients. We congratulate Marek on this important milestone in his career and are proud to have him on our team.

Just a reminder...As we mentioned in the Fall 2003 issue of Strategies, on March 29, 2004, the Business Corporations Act came into force. If you do not already have a lawyer to assist you with your corporate needs, please contact us and we will be happy to refer you to one. ☎

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SUMMER 2004

FingerWorks Gets In On Sports Action

If you're a sports fan, then you're probably familiar with the telestrator - the drawing device sports analysts use to discuss game action on-screen. Using a telestrator, they can draw freehand or preprogrammed arrows, lines and shapes, highlight players, add words to the screen, or import other graphic objects to explain plays and strategy.

What you may not know, is that the modern telestrator used by most major sports networks in North America, and several news networks, was developed right here in the Lower Mainland. FingerWorks™ Telestrator (www.telestrator.com) is the brainchild of locals Andy Jarzebiak and Bryan McKoen.

Both business partners worked in the production and technical side of television sports for more than 20 years and when Andy retired, he naturally looked to sports and video for a second, this time self-employed, career. "Our first venture was an instant replay machine for driving ranges and golf courses that recorded player's golf swings and then played it back to them for analysis. We soon discovered, however, that the driving ranges didn't want to spend that kind of money on

extras. After selling three, we moved on."

Their next idea was to build a better telestrator. The old units had been around for more than 30 years, drew in one colour and - although they were quite the innovation at the time - very little development had been done to improve them. Using the contacts they had developed during their careers, Andy and Bryan met with sports producers and directors to find out what the ideal telestrator would look like.

They then researched the necessary hardware and found a software firm in Richmond that would take on the project. "Right from day one," says Andy, "we decided to have subcontractors rather than employees, and work from home offices. I hadn't retired only to have to start commuting again!"

FingerWorks™ 
TELESTRATOR

Six months after their initial meetings with TV personnel they had a prototype, and they invited a handful of producers from the sports world to come and take a look. "I knew we had something when their jaws dropped," remembers Andy. "That's when I knew the business would take off."

By September 1999, the duo had a Beta version that customers could test and Andy took it to Toronto, where he visited all of the major sports networks over a two-day period. "Hockey Night in Canada saw the Beta version and asked if we could have one to them in two or three weeks. Kelly Hruddy started using it that season for his analysis and business just kept building from there."

"TSN followed, then CBC picked it up for their curling broadcasts, then ESPN hockey, Madison Square Gardens and Fox Network for baseball. We burned a lot of midnight oil in the first two years keeping up with orders for product and adding new features."

In September of 2000, CNN news called. "They were our first news client," remembers Andy. "Up to that point, we had concentrated on sports applications - we had thought of approaching the news networks, but not for another six months."