

MANUFACTURING

POSSIBILITIES



inside

2 Bridging the Generational Gap

3 Why Open Innovation Can be Good for Manufacturers

4 The Steep Cost of Turnover

Two Good Reasons to Think of Taxes Now

OVERVIEW

The end of the year is fast approaching, which means it's a good time for manufacturers to take stock of their financial and tax situations. Your company's taxes aren't due for a while, but you may be able to make them less painful if you act before year-end. Read this article to find out more.

Some standard year-end strategies have withstood the test of time and remain as valid today as in years past. For example, it's generally still a good idea to defer as much income as possible to next year and to pay as many bills as possible before Jan. 1.

The big news this year is that the Economic Stimulus Act of 2008 offers some one-time-only opportunities to save on your taxes. The act offers a 50% first-year bonus depreciation for businesses of any size. And it nearly doubles the limit on Internal Revenue Code Section 179 expensing for smaller companies.

Depreciation on Steroids

If you acquire and place in service new equipment before the end of the year, you can depreciate 50% of the purchase price the first year. That's in addition to the percentage of the remaining basis that you're already able to depreciate according to regular IRS rules. So, for example, if you buy a \$100,000 forklift before Jan. 1, you can depreciate \$60,000: \$50,000 under the Economic Stimulus Act and another 20% of the remaining \$50,000 in basis.

Bear in mind that you must buy the equipment new and it must be depreciable over 20 years or less. And simply buying the equipment isn't enough. In most cases, it must be placed in service before Jan. 1, 2009.

Expense at Will

The new law also breathed significant new life into the Sec. 179 expensing election. For 2008, smaller businesses can expense, rather than depreciate, up to \$250,000 worth of business equipment and software put in service by year-end. Don't get too carried away, though. If you buy more than \$800,000 in equipment this year, your Sec. 179 deduction will start to decrease. For every dollar over \$800,000 you spend, your deduction decreases a dollar. Thus, if you buy \$900,000 worth of equipment, your Sec. 179 deduction will be \$150,000. And if your equipment costs hit \$1.050 million, you won't be able to use the Sec. 179 deduction at all.

Remember, too, that \$250,000 is the federal maximum. The state in which you operate may not have matched that increase, in which case you'll need two sets of depreciation schedules — one for the IRS and one for the state.

Find the Best Fit

There is no one-size-fits-all approach to planning tax strategies for manufacturers. Much depends on your corporate structure and accounting method, which determine not only when and how your business income is taxed but also when it must be recognized. All manufacturers can, however, benefit from year-end tax planning — particularly in 2008. ■

CONTACT

- Talk to your local Eide Bailly representative
- Call 888.510.2687 for more information



Bridging the Generational Gap

OVERVIEW

A complete succession plan should encompass not only executives, but also middle-managers. This article addresses how bridging the generation gap can be key to effective mid-level succession planning.



These younger generations of workers typically don't approach work the same way as boomers, and Gen Xers and Millennials approach work differently as well. And unless your middle managers know how to manage and mentor this intergenerational work force, you may experience a high turnover rate.

You work hard to hire quality employees and help them develop into the middle managers who keep your projects moving smoothly every day. Are you equally attentive to what will happen if they leave?

Many manufacturers' succession plans begin and end with the keys to the executive suite. It's important to know who will take over when you or other senior executives leave, but the loss of a key middle manager can be more disruptive to your day-to-day operations. If your succession plan doesn't encompass mid-level managers, it's incomplete.

Who's Going, Who's Coming?

To be most effective, your mid-level succession planning should start with understanding who's on your shop floor now — and who's going to be there five or 10 years from now. They're likely to be largely different groups of employees.

The Conference Board (which prepares the Consumer Confidence Index) estimates that 64 million skilled baby boomers will be eligible for retirement by 2010. After they retire, you'll have a workforce composed of Gen Xers (born between 1965 and 1976) and Millennials (born between 1977 and 1998).

These younger generations of workers typically don't approach work the same way as boomers, and Gen Xers and Millennials approach work differently as well. And unless your middle managers know how to manage and mentor this intergenerational work force, you may experience a high turnover rate. If managed right, though, you'll have a built-in stable of high performers who are quite likely to be ready to shoulder more responsibility when the time comes.

Gen Xers, generally, don't want someone looking over their shoulders. They view their bosses as colleagues, and they value feedback and suggestions more than detailed instructions. Millennials, on the other hand, are team-oriented and seek feedback, but they typically don't expect to stay with a job for long.

When it comes to drafting a succession plan for middle managers, you must consider the skill sets they'll need to direct a diverse, changing

workforce. Tomorrow's leaders are likely to benefit from experience in a multicultural, as well as intergenerational, environment. Look at your existing workforce to determine the types of managerial skills your middle managers will need five or 10 years from now, as well as the operational and business acumen they must acquire.

Seek Feedback From All

A top-down/bottom-up succession planning approach may work best to address each group's expectations. Ask your senior managers to share their assessments of high-potential employees with each other and with human resources personnel. At the same time, ask your possible future leaders for their thoughts on their jobs and the company as a whole.

Comparing the responses can lead to valuable insights not only about your most promising management prospects but also about the skills and personalities you should look for in new hires. It also may point you toward leadership training or managerial adjustments you may need to assure harmony among the generations.

Train for future responsibilities

Once you've identified potential managers, create plans to give them the experience and training they'll need. Whether your development plan spans one year or five, it should include concrete objectives that are linked to annual performance reviews — for both the budding managers and for senior managers charged with nurturing them. Unless succession planning has visible support from top management, it won't be a priority and will thus be less effective.

No stopping required

Succession planning for the generation gap will make it more pleasant to come to work, but it also can boost your bottom line. When you promote from within, you're more likely to retain key employees. But most of all, you're ensuring that one foreman's departure doesn't bring an entire line to a stop. ■

CONTACT

- Talk to your local Eide Bailly representative
- Call 888.510.2687 for more information

Why Open Innovation Can be Good for Manufacturers

Imagine you have a problem with the packaging of one of your products — the closure sometimes pops open on store shelves. Your research and development (R&D) department has been trying to find a solution for weeks with no success. Your product's sales are beginning to slip because of the defective packaging.

So what can you do? For a growing number of manufacturers, the answer is open innovation — consulting with outside entities to find answers to perplexing questions.

Two Ways to Win

Open innovation would have been unthinkable a decade ago because manufacturers were highly protective of their knowledge, but now it's catching on for two reasons: 1) it lets companies find faster solutions to pressing problems, and 2) it provides an outlet for R&D advances that companies can't use themselves.

Manufacturers traditionally have relied solely on their own internal R&D processes to develop the technologies and products necessary to open or expand markets. And, despite the geographical, technological and corporate limitations R&D departments often face, they have performed well. But even the most brilliant R&D team can't match the volume of ideas and solutions being generated daily in companies and academic institutions around the world. With open innovation, they don't have to.

Open-innovation companies connect manufacturers that have R&D problems to outside entities that have solutions. Acting as matchmakers, they may allow manufacturers to post problems themselves, or they may forward requests for proposals to targeted companies. Either way, manufacturers benefit from solutions they probably would never have found on their own.

Profits for All

This arrangement can be beneficial for all parties. An open-innovation company charges a fee for its services, and a manufacturer that requests solutions pays the provider for them — as well as working out any potential intellectual property issues. And if the solutions result in a shorter product development cycle, the manufacturer may get a jump on its competition, with potentially profitable results.

Open-innovation supporters are quick to point out that collaborative systems aren't the beginning of the end for the internal R&D department: Companies still need ongoing proprietary advances to remain competitive.

And open innovation represents a potential market in its own right. Every R&D department comes up with products or technologies that their company isn't positioned to pursue. A telecommunications company, for example, may determine that the digital music technology developed by its researchers won't have a large enough return to warrant full development.

Sometimes companies sell such innovations. Other times, they hold on to new ideas without knowing whether or how the ideas eventually will be used. The adhesive used in Post-It® notes, for example, was the result of a failed attempt to find a super-strong adhesive. It sat on a shelf for four years before a frustrated executive thought of using it to coat paper as a way to keep bookmarks from falling out.

Mistakes don't always turn into the huge success and profits that Post-It® notes created, but they can be profitable. Smaller manufacturers that may not have the resources for global product launches can sell the products to larger companies. Large companies may have unwanted products that will fill a product line niche for smaller firms. And companies of any size may have the solution to other companies' development woes.

Develop a Winning Edge

Perhaps the most important advantage of open innovation, though, is the advantage it gives manufacturers in a global market where rewards typically go to the lowest-cost products. Manufacturers may not always be able to compete head-to-head on costs, but they can put their knowledge to profitable and effective use. In the race for market share, innovation can give them a distinct edge. ■

OVERVIEW

Open innovation arrangements can be beneficial for many manufacturers. Read this article to learn how connecting with outside entities could lead your company to find faster solutions to problems and provide an outlet for R&D advances your company can't use itself.



Open-innovation companies connect manufacturers that have R&D problems to outside entities that have solutions. Acting as matchmakers, they may allow manufacturers to post problems themselves, or they may forward requests for proposals to targeted companies. Either way, manufacturers benefit from solutions they probably would never have found on their own.

CONTACT

- Talk to your local Eide Bailly representative
- Call 888.510.2687 for more information

POSSIBILITIES is distributed with the understanding that the information contained does not constitute legal, accounting or other professional advice. It is not intended to be responsive to any individual situation or concerns as the contents of the publication are intended for general informational purposes only. Readers are urged not to act upon the information contained in this publication without first consulting competent legal, accounting or other professional advice regarding implications of a particular factual situation. Questions and information for publication can be submitted to your Eide Bailly representative or to the editors of the newsletter. Copyright 2008

To view this and previous issues of **POSSIBILITIES**, visit www.eidebailly.com/publications

Managing Editor: Liz Stabenow
Assistant Editor: Kristen Heitkamp
Send comments to:
possibilities@eidebailly.com

An Independent Member Firm
of HLB International



4310 17th Ave. S.
P.O. Box 2545
Fargo, ND 58108-2545

FORWARDING SERVICE REQUESTED

The Steep Cost of Turnover

Succession planning does more than ensure your business operations will continue if someone leaves. It also helps you retain your most talented workers.

Manufacturers already are aware that the pool of skilled workers is shrinking. But they may not know how much turnover costs them. According to a 2005 study by the Institute for a Competitive Workforce, per-employee turnover costs — including additional hours to make-up lost time, the time and cost of finding a replacement and hiring and training expenses — range from about \$20,000 for a customer service representative to more than \$57,000 for middle managers.

Add in indirect costs, such as losses in productivity, sales, knowledge and experience, and turnover may become an expense many

manufacturers can't sustain. Flexibility may help. For example, manufacturing isn't well suited to telecommuting, but it may accommodate job sharing or flexible hours. That, in turn, may increase employees' job satisfaction and encourage them to stay.

If you look at your operations from a new perspective, you're likely to find room to bend. You also may find that it will keep you from breaking. ■

CONTACT

- Talk to your local Eide Bailly representative
- Call 888.510.2687 for more information