

THE BOTTOM LINE

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[Terminations: Focus on the Survivors, Not the Victims](#)

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KEYS TO GROWTH

ATTITUDE

Your attitude is the attitude of the Company.

COMMUNICATIONS

7% of communications is words. The other 93% is body language and tone.

PLANNING

A 5 year plan is for employees. It gives them the expectations that will guide their actions.

CAPITAL

Get it when you can; not when you must. It will be more available and cheaper.

PEOPLE

Tell people what needs to be done, not how to do it. You'll be pleasantly surprised by their creativity.

INFRASTRUCTURE

Skyscrapers don't start on the 1st floor they need a foundation. Implement policies, procedures and systems for what you will be not what you are.

EXECUTION

Action, not ideas, creates results. If you don't get the result you want take a different action.

GOVERNANCE

According to Dave . . . December 2009

December is here and so is the second edition of my newsletter. I appreciate the feedback I have gotten.

Keep the questions and issues coming.

As you read this, I will be recovering from hip replacement surgery. If I wait any longer, Washington may decide I'm not worth fixing.



I've now limped for ten years and have finally decided that the lines for quality of life, advances in medical technology and my dislike of pain have crossed.

The surgery was performed on December 1 by Dr. Anjoy Jana. I got home Thursday, December 3rd. The recovery is going great and is well ahead of the economic recovery we have been promised.

There has been a lot of discussion of late on the fact that the economy is not recovering as rapidly as promised and that unemployment will go even higher than the current 10.2%. I'm not surprised. The amount of spending that has occurred in bailing out banks and car makers topped with a \$787 Billion dollar "stimulus" plan has scared the heck out of people, myself included. The fact that we owe the money to the Chinese government, not ourselves, is even more concerning. What kind of policies can the Chinese demand with that kind of leverage?

Washington needs to decide things and stop debating them. Are taxes going to increase even beyond the lapsing of the Bush tax cuts? Will health care reform and a government option become reality? Will higher interest rates and inflation appear sooner rather than later? What does all this mean for small and medium sized businesses.

Until Congress quits debating and starts acting, businesses don't know what to do. Nothing puts a freeze on business hiring faster than uncertainty. **Action, not ideas, creates results.**

Health care reform has captured a lot of headlines in the past month. I have not read the bills- 2000+ pages each, but I have read a lot of articles and commentary on the proposals. A few things stand out that if they become law will drive the cost of health care up for businesses. We explore the primary issues in "**HEALTH CARE REFORM: BAD FOR BUSINESS WORSE FOR CONSUMERS.**"

I believe the deficits that have been incurred over the last two years will lead to more unemployment. Health Care on top of the prior spending will exacerbate the situation. Businesses will have to trim staff even further to protect their return on investment and access to capital.

Terminating people is never fun. In the article **TERMINATIONS: FOCUS ON THE SURVIVORS NOT THE VICTIMS** I offer some practical advice acquired over the years for letting people go. It's tough but don't beat yourself up. You are doing the company and the surviving employees a big favor.

Finally, have you ever met anyone in business that thinks they are overpaid? Neither have I. As I point out in **FOCUS ON PERFORMANCE, NOT PAY**, no one is overpaid they are just allowed to underperform. Directors and managers must demand performance if people are going to demand more pay. Let me know what you think.

We are in the Holiday Season. I would like to take this opportunity to wish each of you a great Holiday Season. As we move into next year, remember **action not ideas will deliver the results you are looking for.**

Listen to advisors. The point is to get it right, not who's right.

The Bottom Line

Who we are.....

Dave Guenther is the founder and President of BSM Executive Advisors.

Dave co-founded and grew the company *InaCom*, from an idea into a six billion dollar Fortune 500 company.

Dave used these same principles for developing and growing a business to help the owners of *RTG Medical* grow their business from a \$3 million dollar company to over \$30 million dollars in just four years. Helping *RTG Medical* earn national recognition three of the last four years as one of *Inc. Magazine's* fastest growing companies in the country.

As the chief contributor to *The Bottom Line*, Dave is seeking to share the same fundamental principles and sound advice that created *InaCom* and grew *RTG Medical* with other business owners seeking to gain an advantage in an increasingly competitive economic environment.

HEALTH CARE REFORM: BAD FOR BUSINESS WORSE FOR CONSUMERS©

By Dave Guenther



It's not that our friends in Washington are ignorant; It's just that so much of what they know is wrong. (Adapted from a Ronald Regan quote on liberals).

Companies don't pay taxes, fees or penalties; individual consumers do.

Economics 101 states that every business must make a return on capital sufficient to compensate owners for the risk they are taking by investing in the venture. Consequently, any increase in costs that come along that threaten a company's return on capital will result in one of three things happening.

- A. The costs, if possible, will be passed onto the consumer of the good or service.
- B. The costs will be recovered in some other area, primarily in reduced employment or frozen or reduced compensation for employees.
- C. The company will absorb the costs and reduce their return on capital. Eventually this will result in the company going bankrupt. See General Motors, AIG and Chrysler.

[\(Click to read article\)](#)

TERMINATIONS: FOCUS ON

THE SURVIVORS

By Dave Guenther



Every time I've had to terminate an employee, I vow to do a better job of hiring. After all, if I did a better job of hiring, I would have had to terminate fewer people. The unfortunate truth of hiring and growth is that sometimes you have to let people go.

I've never gotten used to terminating employees. I have, however, learned some things that make the act less painful.

I focus on the survivors, not the victims. If someone needs to be let go, it is for the good of the organization. What's good for the organization benefits the survivors or those still employed by the company. If terminating one person makes the company better for the remaining employees, I can live with it.

I do worry about the people being let go. People are terminated not because they are bad people, if they were I would have no qualms, because the company is just not a place where they have or can flourish. The culture or something is just not right for them. In effect, I have given the terminated employee the freedom to go find another company where they may wind up being more successful. There are bad situations but very few bad employees in the world.

So how do you terminate an employee in a way that is humane to the terminated and does not weigh too heavily on you?

[\(Read Article\)](#)

COMPENSATION: FOCUS ON PERFORMANCE NOT PAY©

Guenthner

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Our response was to find out what he needed to come on board. We agreed to subsidize his base for six months and we made it very clear that if he wasn't at or ahead of our expectations, his pay would be cut or he would have to look elsewhere. He took the deal.

That hire was the best hire we ever made. He exceeded our expectations within three months and has been our leading producer ever since. He is the poster child for what can happen if you are willing to focus on performance not pay. We could have paid him twice as much given his performance and still been way ahead of the game.

Most companies don't adopt performance based pay plans. Most company's adopt pay plans and hope for performance. Pay is not driven by performance. We see that today in the size of payments being made to CEO's of failed or troubled banking institutions and public companies. People are being paid for substandard performance rather than being shown the door

[\(Click Article\)](#)

About Us

Dave Guenthner and BSM Executive Advisors work with you to find innovative answers to issues in Business execution, Strategy and Management. BSM delivers results.

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Today we have a House bill on health care reform. The Senate has decided to debate a bill to reform healthcare. Both bills have a price tag somewhere between \$875 billion and \$2 trillion, depending on who you believe. Both bills look to provide benefits to people currently not covered by insurance by charging fees, penalties and taxes to businesses and individuals. Most tax increases will be on high income earners. These taxes would apply to many small and medium sized private business owners.

The cost of doing business will increase for companies if the health care bills now being debated become law. Key components that will drive the costs higher include:

- A. All plans will have to provide the benefits required by the government to be a qualified plan. A qualified plan may not match the benefits of your current plan which could drive costs higher.
- B. Both plans require that an employer pay a major portion of premium costs- 72% of a single person's premium and roughly 60% of a family. This is substantially higher than most small and medium size businesses currently pay.
- C. Failure of a business to meet A or B will result in a government fine equivalent to about 8% of all gross wages to pay for the employees insurance. Most small and medium size businesses do not subsidize insurance at a cost of 8% of gross wages.
- D. A number of tax increases are also being considered. A tax on medical device makers is in the hopper. Increasing capital gains taxes and income tax rates on the wealthy are also being considered.
- E. A number of new regulations and regulatory Boards are being considered to oversee the health care reform. More regulation and regulators means increased time and money for businesses to comply.

So what can businesses do today to prepare for the cost increases likely to come from passage of health care reform?

All your competitors will be facing the same health care cost increases. Start looking at the possibility of increasing prices to your customers. Think about adding a "health care surcharge: to each invoice. The consumer will pay more for products. It is unavoidable.

Look hard at how you do business. What can you do today to improve your productivity per employee? Automation, outsourcing or changes in process and procedures should be reviewed. The point is you need to find ways to reduce the cost of producing your products from what you are spending today.

Review wages and all the benefits you currently provide to employees and determine if any of these benefits can be curtailed to offset the cost of increased health insurance.

Higher interest rates and inflation were on the way before health care became the topic of the day. Health care reform will add fuel to an already raging fire. Your costs of doing business are going up. Do something now to protect yourself and your company.

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TERMINATIONS: FOCUS ON THE SURVIVORS©

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So how do you terminate an employee in a way that is humane to the terminated and does not weigh too heavily on you?

1. A termination should never be a surprise to an employee. Whether you do it formally or informally, continually review performance with your employees. Talk about what's going well and what's not. Tell them what must be improved and if it is not improved, what will happen. If they choose not to change, the fact they are being let go is their fault, not yours.

2. You don't owe the employee an explanation or debate about why they are being let go. They know if you did the above right. Stick with the facts that they have been given an opportunity and it has not worked out. Don't get into a justifying conversation with the employee. In their, mind your action is not justifiable. The actual termination should be over in five minutes or less.

3. While it is up to you to terminate your employees, let human resources or someone else explain the severance package or terms of departure to the employee. The firing supervisor should simply say John or Jill from Human Resources will be in to discuss your termination package. You are done at that point and should leave. There is nothing to be gained by your hanging around.

Terminations are never pleasant but if you follow the above rules and thought process, they do not have to be painful. You have a company to run and other employees to worry about. The sooner you get back to that the better off you and the company will be.

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COMPENSATION: FOCUS ON PERFORMANCE NOT PAY©

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Not that many years ago, we had a prospective hire tell us that he really wanted to go to work for us. He liked our compensation plan but did not feel that he could survive on the salary we were offering while he worked at getting his sales volume to a level that would satisfy him and thrill us.

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Performance pay plans are based on establishing individual goals that support the success of the overall company. Performance pay plans share the risk between the company and the employee. Base compensation is the company's risk. Bonuses are the employees' risk. Performance pay plans are based on a belief that exceptional performance deserves exceptional pay and poor performance deserves to be fired. Performance pay plans offer low guaranteed pay with tremendous upside for producing the performance asked for by management and the Board.

To implement a performance pay plan in your organization, the following steps need to be taken:

1. Identify what needs to happen for the company to be successful. Determine what each area and each individual has to do individually to make the company successful. Remember, people will do what you pay them to do. Make sure you establish the right goals or you could get into big trouble.
 - a. Pay people for what they control. Pay for margin or income, not sales. It's easy to lower prices to gain sales but you may generate less margin and income as a result.
 - b. Generally, volume drives cost so lower margin business may drive up the cost structure in general and lower profits.
 - c. Reward individuals for their performance and then think about rewarding a team. There is no sense rewarding team members that are not carrying their fair share of the load.
2. Target base compensation to pay people in the lower 1/3 of people doing the same job in other companies. Target your bonus plan to get them into the 90th percentile or higher of compensation for the job if they perform.
3. Don't cap compensation. If you're willing to pay 30% of the margin generated as a bonus at \$100,000 you should feel the same way at \$1,000,000 and beyond. Don't get greedy and try and cap pay just because the number is getting bigger than you think it should. 70% of a bunch is always better than 100% of nothing.
4. You're asking employees to share risk with you when you target lower base pays. Since they are taking more risks, you have to give them more freedom in how they produce results. You need to define the ballpark as Yankee Stadium, not the local ball diamond. You have told them what needs to be done, give them some latitude in how to do it. You will be surprised at how well most people do in this environment.
5. Don't accept failure. If someone is not producing they need to be let go. In performance based systems, under achievers that are allowed to hang on will eventually destroy morale and performance. Eventually your team will only be as good as the worst player.

When you find a plan that works, don't change it. You can modify elements within the plan to spur increased performance, but leave the basics of the plan intact.

Performance based pay plans work. People feel empowered when they know exactly how they get paid. If you are paying employees on performance, you will do better than you ever imagined.

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