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Upsize
Minnesota

lifeline

AWARDS & FORECAST

Expert opinion

OPTIMISM IN UPSIZE SURVEY JUSTIFIED BY LARGER ECONOMY, ROUNDTABLE SAYS

by **Sarah Brouillard**

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Upsize: What do the Upsize survey results mean for small-business owners in 2006?

Elin Raymond: I found them to be extremely optimistic. And maybe that's the nature of entrepreneurs and small-business owners.

Richard Hoyt: I don't think they're just optimistic. I think the results are very consistent with the general U.S. economy. In November, the GDP growth was up 4.3 percent, capital expenditures were up 3.4 percent over October. We've got full employment, at 5 percent [unemployment]. I think companies are saying 2005 is a good year, and 2006 is going to be an even better year. I think it's grounded in reality, and not necessarily strictly in optimism on the part of entrepreneurs.

Raymond: I'm perhaps looking at the underside [everyone laughs]. Maybe optimism itself is a self-fulfilling prophecy. Maybe what we believe and the plans we put in place because of



ABOUT THE ROUNDTABLE

Upsize discussed in late 2005 the results of the Upsize small-business survey with experts in four fields: **Loren Viere, KDV**, accounting, tax and operations; **Kirk Hoaglund, Clientek**, technology; **Elin Raymond, The Sage Group**, marketing and communications; and **Richard Hoyt, Analytics Investment Advisors**, investing and economics. Small-business owners themselves, they also represent the four sponsoring firms of the **Upsize Lifeline Awards & Forecast**, held Jan. 31, and presented versions of these comments at the event.

those beliefs help that become a reality.

Kirk Hoaglund: Most of the respondents are rather small companies — a million in revenue or less was predominant. Many have 10 or fewer employees. I think that group tends to be polarized in their thinking. The success of their company and general economic atmosphere hits them directly in their back pocket. They either have money or they don't, as a direct result of what's going on. If things are going a little bit bad, then for them things are going horribly.

On the other hand, if things are going well, usually they're going very well for that group. For them, there's no middle — it's either chicken today, feathers tomorrow. Right now, what you're seeing on the survey is owners asking, where did all this money come from? For themselves, they're saying we had a great year and we're going to use that to make another great year. As a small-business owner it's about forcing your paycheck to be bigger through force of will.

Upsize: The level of optimism is

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very interesting in relationship to the timing of the survey. In other words, we've had Hurricane Katrina, we've had Wilma, we've had all of these big, one-time events, and with rising energy prices in play.

Raymond: Plus, we have Iraq going on without an exit strategy at this point.

Loren Viere: That translates to a lot of federal spending. I do think small companies are very concerned about the tax climate, both at the state level and the national level. For publicly held companies, taxes are rarely mentioned. Small companies have more of a focus on them — there's just much more of an awareness because they're writing out the check themselves and paying the taxes. They're dealing with property taxes, sales taxes, income taxes and many of the fees local governments are now putting in place in exchange for the ability to increase taxes, all of which is passed on to the companies.

And the employment results — they're a little different than what we're hearing from our clients, who say they're struggling, that there's not a large enough pool of employees out there. They get a lot of applicants, but that's typically not the issue. It's trained workers they're looking for.

Hoyt: As the less-technical jobs are getting exported overseas, there's a transition to higher paying jobs in this country. While there's some dislocation in the process, ultimately it's favorable for America and I think ultimately for some of the developing nations.

Viere: Outsourcing is both a concern but also an opportunity because the businesses in the U.S. can look at themselves and say, "OK, what are we good at? Now can we add value?" Many of them have started growing their businesses in a different way because they look at it as an opportunity, versus something that's a challenge.

Raymond: I think as we cooperate and set up these outsourcing partnerships in the Far East or in Latin America, for example, their economies should improve, which should — because we're a global economy — help us all long term because you get more consumers for your products and services.

Viere: Free trade is free trade. Businesses tend to find the most efficient way to deliver their product or service — that's just the way it works. You just have to respond to it to stay competitive.

Hoaglund: But few companies, according to the survey, are outsourcing. Most small companies know that outsourcing is almost impossible to make work. Big companies know that but don't want to say that. In complex industries, such as information technology, where detailed knowledge is required, the transition between the problem you have to the ways you need to solve it, to the details about solving it, to the plan to get it done ...

Communication is already hard enough to engage in if everyone is in one room speaking the same language with the same experiences and the same kind of problems. But when you take it overseas, it's like the telephone

game at a party: You whisper into this ear, and it comes out completely different by the time it gets here. There's nothing wrong with people in India, but the translation can get lost. And it ends up costing more.

Upsize: What do you think of the demographics of the respondents?

Hoyt: Most were either CEOs, presidents or owners. They were the people most qualified to answer the survey and, consequently, it gives the survey a lot of credibility. Many have been in business for several years. I think that lends to the notion that you're getting an accurate response from the population.

Upsize: What is your own outlook for 2006?

Viere: Human resource availability is a problem in our industry. Trying to get qualified workers is an issue for CPA firms because it's a very competitive field. In fact, my daughter works for an HR firm down in Chicago, and they can't find any auditors. They won't even try to help a company find them because they're in such high demand. That's why we go directly to the campuses to train because you're not going to find trained people in that area. Everyone wants them, and it's very difficult.

Elsewhere, I see interest rates on the rise. The Feds are bound and determined to keep inflation under control, and they'll start raising interest rates — rather than a quarter percent, they'll go much larger than that. And that could have a very detrimental effect on the economy fairly quickly.

Hoyt: I'm not very concerned about energy prices. If you look at the economy today versus 20 to 25 years ago, 80 percent of the economy is service-oriented. So I don't think energy is a huge component for as many businesses today as it was 20 years ago.

Energy, however, should be a favorable sector to invest in, just because of supply and demand. There is an excess demand for energy. It's going to take years for alternative sources of energy to become more readily available. I also like health care — I think the demographics favor it. And consumer sectors look pretty good, just because disposable income is going up, more people are working, and consumers seem to have more confidence in spending.

Raymond: The economy looks strong going into 2006, and this should have a positive effect on marketing and advertising expenditures. But despite companies' general optimism about the economic outlook, many continue to keep a tight grip on costs and to follow a conservative, zero-based approach — a healthy approach, I might add — to budgeting for the year. This means any cost increases over 2005 levels must have supporting data showing predictable and measurable results and on-target return on investment.

Digital marketing, in particular, is burgeoning, and it's generally quite cost effective and very nimble, enabling us to respond to market swings or customer needs in a blink. We're telling our customers to think blogs, podcasts, e-newsletters, downloadable brochures, Web-based surveys, Webinars, contextual ads, ads on partner sites with links to your site, search-engine marketing, etc.

Hoaglund: IT companies are discovering they need to be more efficient — they have to get stuff done quicker and cheaper so they can hold on to their margins. With the exception of a couple years, the last decade has been a heyday for IT — the consultants could charge anything they wanted, and they didn't have to have anything real associated with it [he laughs].

We were very hard to define, and everything we did was perceived as being beyond the understanding of laypeople. There's some truth to that, but not as much as our industry would

like you to believe. And that's getting squeezed out of our industry in a huge way.

We're finally beginning to standardize our consultants. We're able to much more quickly and cheaply plug in a standardized piece, as opposed to starting from scratch. I think the big push for our industry for the next couple years is going to be growing up and accepting the fact that we have to be efficient, and care about how we're spending our money.

As far as hard technology, it's becoming more user-friendly. If you're at work and your husband or wife calls to tell you the DVD player is broken, you can swing by Best Buy and pick up a new one. They're relatively cheap. I can literally walk in, pull one off the shelf, drive home, and hook it up.

Computers, unfortunately, aren't like that — the list of options is long, one isn't always compatible with your printer, and so on. But it's starting to change. Easier-to-use, standardized technology is a huge advantage for small companies as well as consumers.

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OUTLOOKS



» Despite companies' general optimism about the economic outlook, many continue to keep a tight grip on

costs and to follow a conservative approach. Digital marketing is taking off, such as blogs, podcasts, e-newsletters, downloadable brochures, Web-based surveys, Webinars, contextual ads, ads on partner sites with links to your site, and search-engine marketing.

Elin Raymond, president, The Sage Group



» Information technology consultants are changing the way they do business. Their work in the past was considered so esoteric, and customers were willing to pay a lot for their services. That attitude has changed. As a result, IT consultants are moving away from customizing toward plugging in more standardized pieces. Technology itself is getting more standardized, and also more user-friendly.

Human resource availability is a problem in the accounting industry, and many other industries as well. Many small firms who say they plan to hire will have a harder time than they think, I believe. To help the recruitment process, firms are hitting the source — colleges and universities — to train prospects. In the greater economy, interest rates are on the rise, probably by more than a quarter percent.

Kirk Hoaglund, CEO, Clientek



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Loren Viere, managing partner, KDV



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