

Special Edition

Economic Update

Last week, I wrote an article on “Will Your Independent Contractor Put You Out Of Business Part 3”. I received overwhelming responses and concerns.

- I predicted that the problem was going to escalate in my May 14, 2009 editorial, and;
- When FedEx was fined \$14MM by the IRS, this substantiated my concerns.

I think it's important to understand that you can capitalize on chaos if you understand the market. Part of my responsibility, to my readers is to review the market and provide alternatives that may offer an economic benefit in difficult times.

Many trucking companies recognize that:

- Deflation is tolerable for bankers and investors, but;
- It brings with it, a host of ills for our industry.

Deflation causes unemployment to rise and the economy to shrink, which (in turn) damages society as a whole;

- Higher unemployment can lead to higher crime rates.
- Drug use, and;
- Homelessness and other ills.

A shrinking economy will reduce the government's tax revenues and its ability to tackle social problems. It can lead to a society that's less safe and less pleasant for everyone, and that's exactly what's happening today;

- The government is running out of money.
- Many states are cutting back on critical services, and;
- The municipalities have no choice, due to their financial conditions, so what do they do? They look for ways to generate additional revenue.

We all know that one of the ways to generate revenue is to increase taxes, but that is also a political challenge. Another way to generate additional tax revenue is to change the laws of acceptable business behavior and that's exactly what's taking place with the independent contractor issue.

For years, there was a 20 point control test;

- If trucking companies followed that 20 point control test;
- There appeared to be a clear distinction in the classification of independent contractor versus the company driver – that's all changing now.

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- The Internal Revenue announced plans to randomly audit 6,000 employers to determine if workers are properly classified.
- An additional 160 IRS agents have been hired to focus on the independent contractor issue, and;
- FedEx provides the “intent” of the Federal Government.

These are frightening times, but I believe chaos provides opportunity:

- Stay ahead of the curve!
- Put more of the controlling factors, into your business and eliminate as many potential exposures as possible; that’s what I’m recommending.

There is no Utopia in business, but there are ways to capitalize on problem issues. Don’t wait until the IRS or the Federal Government knocks on your door, it’s too late;

- Do something proactive.
- Do it now, and;
- When your competitors start falling, it strengthen your position.

There’s an old saying that goes something like this: “when your world changes unexpectedly, or when your customer is very different from you, customer obsession can be the fastest way to gain perspective”. The independent contractor exposure is a real exposure;

- The Federal Government and the IRS are going to keep doing whatever is necessary to generate additional tax revenue.
- Don’t let complacency be the architect of your downfall.

Remember, success leads to complacency. It’s easier not to take big risks, so as individuals, we tend to relax when we should be seeking break through alternatives. If you’re utilizing a law firm that advises you that you don’t have an exposure; get another law firm.

- Get opinions in writing, and;
- Get opinions in “laymen” terms.

In other words, make sure your law firm understands that they will be held responsible if your empire collapses because of their endorsement of the “20 point test”. There’s not an attorney, that I have spoken to, that doesn’t have concern about these issues.

In any business, there are certain inherent risks, but one inherent risk that you don’t want is an audit from any regulatory body due to the fact that you engage independent contractors. Remember, crisis creates opportunity.

Prior to the Great Depression, the only cereal brand that mattered was Post. As the Great Depression tightened its hold on America, Post found itself hungry for cash. Therefore, they slashed advertising budgets to weather the storm. **However, that proved to be one of their downfalls as there was a new cereal in town called Tony the Tiger, Kellogg’s.** While Post retreated, Kellogg’s doubled their ad spend and Kellogg’s became the go-to pick for breakfast cereal.

My point;

- Know what your exposures are.
- Recognize you have an exposure, if you utilize independent contractors.
- Look for ways to distance your company from the exposure.
- Recognize you may not like the process, but it will provide you with “sleep” insurance, and;
- While some companies have a false sense of security, you can be proactive and become a leader.

In closing, you can thrive in times of loss. Innovation is not about market timing, it's about creating something that fulfills an unmet need. In this particular case, reinvent yourself so that the Government can't take a "bite" out of your proverbial business.

QUOTE OF THE WEEK:

"You will never know how capable you are until you tackle a problem beyond your capabilities".