

ECONOMIC Forecast & Trends

Grow Your Business Fiscally and Physically

By TOM JONES

“How do I grow my business?” Now that’s a question that every business owner wants answered, preferably with ways that don’t cost them a small fortune. The response is simple. There are really only three ways to grow any business.

First, you go out and find new customers. Second, you increase the unit of purchase, and third, you increase the frequency of purchase. These are the only three ways I know of to grow any business. Let’s take a closer look at what each one really means.

Most people believe that in order to grow a business, you have to prospect, cold call, advertise, do direct mail, or use the Internet to find new customers. While finding new customers may be one way of growing your business, it’s also the most expensive and most risky way to go.

There is no guarantee that the thousands of dollars you just spent placing an ad in a national magazine is going to bring you new business, or that the 10,000 pieces of mail you just sent out will generate a profitable response. Yet, if you look around, most businesses spend the majority of their time and resources in this one area alone.

A better way is to focus more of your attention on the other two ways of growing your business. Although at first glance, these two might seem surprisingly similar, they are, in fact, very different.

The first one is to increase the unit of sale. What this means is that you want to make your current or even any new customers purchase more from you at each and every sale. In other words, if your typical customer buys an average of \$100 worth of goods or services from you at each purchase, your goal is to try and move that number up as much as possible without losing that customer.

You might try adding complimentary items to your product mix. An example that immediately comes to mind is a photo store I once worked with. To increase the unit of sale, instead of having the clients just come in for film or processing, I suggested he start offering photo albums, frames, and batteries. So when a customer came in to pick up their finished photos, they could also buy a nice frame or photo album, while they were thinking about it. This also saved them from having to go to another merchant for these items.

This increased the unit of purchase for the store

owner, and inevitably increased his bottom line. Think about it, he had no additional advertising expenditures, he took very little risk, and he still managed to achieve his goal of growing his business.

It’s always a good idea to talk to your customers on a regular basis. Find out what they really like about your business, but even more importantly, find out what they don’t like and change it.

The other way to grow your business is by increasing the frequency of sale. In other words, if your typical customer buys from you once a month, for example, you could offer them a reason to buy twice a month.

An example that comes to mind is a client I worked with just last year. In this case we also had them offer an extended product line in order to increase the number of times a customer would purchase from them. This was a business services company that offered a wide range of services for the small office/home office professional. We looked at what people were buying and how often they were buying.

We decided to poll their customers directly and ask them what was missing. In just a few days, we had an answer. What they needed most were simple office supplies. For just a few hundred dollars, the owner of the business was able to bring in a full range of office supplies including paper, computer ribbons, cables, staples, ink, etc. These were the types of things these people frequently ran out of and by offering them in this location, they saved a long trip down to the office super-center.

It’s always a good idea to talk to your customers on a regular basis. Find out what they really like about your business, but even more importantly,

find out what they don’t like and change it. You may find that if you were just to offer them the product(s) they needed either before or after purchasing your products, you could increase your sales exponentially.

These last two methods work for most any business because they have very little risk associated with them and can very easily have the same growth effect as finding new customers, but without the inherent risk associated with cold prospecting.

Another key advantage to using these two methods is that your customers already know you and trust you. They’ve done business with you in the past and they have some positive references about your company. In a cold prospecting situation, you are trying not only to sell a product or service, but you are trying to sell your prospect on your company’s integrity for which they have no references.

A great question I often ask of my clients is how do they get most of their new business? Inevitably they’ll tell me that most of their new customers come from referrals. So, my next logical question is, how much time and effort do you place into developing referrals? I’m always amazed to find out that although they realize that referrals are a major part of their business, they dedicate few, if any, resources to this powerful means of generating new business!

If referrals are a major part of your growth strategy, you’ve got to spend time developing programs that increase the number and frequency of referred clients to your business. An easy way to do this is to offer your existing clients a premium or discount of some sort for each new customer they bring you. What you are actually doing is turning your satisfied customers into a powerful, persuasive sales force and paying them only when they produce a result or in other words, bring you a new client.

Growing your business doesn’t have to be expensive, risky, or even time-consuming. Unless you have a time-tested way to advertise that produces reliable results, try these other ways I’ve mentioned first. You might be surprised to find that they work as good or better than cold prospecting at a fraction of the cost and with dramatically reduced risk!

Tom Jones is an independent business management consultant and freelance writer.

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High-Deductible Health Plans: Moving Toward a Consumer-Driven Health Care Market

By **SEAN CONLON**

THE healthcare market operates with a number of conflicting elements, leaving many patients uncertain about whether their individual interests are front and center in the care giving process. As the healthcare market tries to become more efficient, healthcare consumerism may be an effective mechanism for change and improvement.

Though patients are ultimately consumers, they are often left out of the decision-making process for technical reasons — the treatment of illness is complex and should not be dictated by consumer opinions based on marketing campaigns but rather left in the capable hands of physicians who are trained experts in their field. But competing pressures are at play on the provider's side: physicians are accountable to the insurance companies that pay for a patient's care and can also be employees of a profit-seeking enterprise. They are asked to take risks when making decisions regarding a patient — risks that may be viewed differently depending on the physician.

Against this complicated backdrop, the payment system for healthcare is often used to influence patient behavior. The fundamental goal is making a patient healthy again without incurring unnecessary costs. How does a system create incentives for the physician, the hospital, and other caregivers to provide the right care to the patient? Unfortunately, there is no simple answer. Solutions currently

being used or proposed include "case rates" for a procedure or episode, penalties for readmission, rewards for "value" (usually defined as good outcomes), and managed care. However, all of these options are still either physician- or provider-centric or health plan-centric, leaving the patient out of the decision-making process.



Sean Conlon

Consumer-driven healthcare — an approach that includes the patient in the decision-making process — has been discussed for many years. But in the past, the healthcare market did not establish a good way to involve patients and incentivize this approach. With insurance still paying for the bulk of care, patients had very little financial

incentive to look at other lower cost options and influence the care suggested by the physician or hospital. The technical complexity of medicine further disincentivized a patient from veering from the recommended path.

As rapidly rising health insurance premiums became a major problem, health plans created a new product — the High-Deductible Health Plan (HDHP) — that reduced premiums by putting more of the actuarial cost of insurance into the deductible. These plans raised typical deductibles from \$500 or \$1,000 to \$2,000 or even \$5,000, although the IRS definition of annual deductible is not less than \$1,300 for self-only coverage or \$2,600 for family coverage. The main goal was to reduce the amount of premium paid in monthly employer and employee payments.

At the same time, the IRS introduced

a new product, the Healthcare Savings Account (HSA), which allows people to put aside pre-tax dollars for high deductibles without the "use it or lose it" annual consequences.

Simultaneously, information availability has also become more prevalent, increasing transparency and empowering patients as consumers. Anyone with an Internet connection can source information about most illnesses or medical problems and more pricing information is now available online.

Given these developments, HDHPs and consumer-driven healthcare is attracting more attention. By making healthcare more of an individual cost, HDHPs have the potential to engage patients as bona fide consumers.

But consumer-driven healthcare also introduces new challenges. Surveys indicate that HDHPs lead to the postponement of elective surgeries, including many procedures that are ultimately unavoidable such as hip replacements. The choices made by patients as consumers may not ultimately save money or improve health.

HDHPs also create a more complex billing and collection process for providers. Providers, particularly hospitals, rely on individual patients for payments much more than in the past, resulting in slower payments, higher instances of bad debt, and a higher cost to collect.

Revenue cycle management — translating into improved billing and collection — is the new mantra in the healthcare provider world. Vendors are offering services to help providers bill and collect, with an emphasis on individuals. Commercial banks including Bank of the

West offer "smart" lockboxes that link payments to explanation of benefit coding. This enables a hospital to efficiently reconcile large volumes of patient payments, as well as traditional health plan payments. Bank of the West is currently studying banking solutions to provide point-of-service payment options, deductible data and HSA access, and patient financing for providers.

Consumer healthcare is a new frontier for patients as consumers and for providers that need to adapt to changing patient behaviors. HDHPs — currently the main motivation for consumer engagement in healthcare — have had mixed results thus far. The healthcare industry needs to use these new products and tools to refine and channel new incentives with the ultimate goal of improving healthcare outcomes.

Sean Conlon is the head of the Bank of the West Commercial Banking Group's new healthcare practice based in Los Angeles. With more than 20 years of experience in investment and commercial banking in the healthcare sector, Sean is leading a dedicated healthcare team that serves growing businesses in two primary areas: not-for-profit hospitals, including the top 500 hospitals in the US, and for-profit healthcare, including for-profit hospitals, as well as healthcare services, med-tech, and pharmaceutical companies. Sean draws on his deep knowledge of the healthcare industry to discuss the growing trend towards a consumer-driven healthcare market.

The views and opinions expressed in this article are those of the author and do not necessarily reflect the official policy or position of Bank of the West.

ON Tuesday, February 16th, the Los Angeles Business Journal hosted a roundtable style discussion on economic trends and forecasts for Los Angeles County and Southern California. Our panel of regional experts shared their insights on the biggest headlines of 2015 and where they feel the market is going this year. Moderated by the Los Angeles Business Journal's Publisher and CEO, Matt Toledo, the discussion was spirited, informative and insightful.

KEYNOTE SPEAKER

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The Big Boom in Health Care as Boomers Age

By DANONE SIMPSON

THE US government debt at the end of 2015 was \$18.9 trillion dollars. This does not include our unfunded liabilities of entitlement programs like Social Security and Medicare. The Federal debt per person is \$58,279. The total debt expected for 2016 is \$22.4 trillion. In this decade alone, our federal debt has gone from \$7T to \$18T and in the next decade the debt is expected to hit above



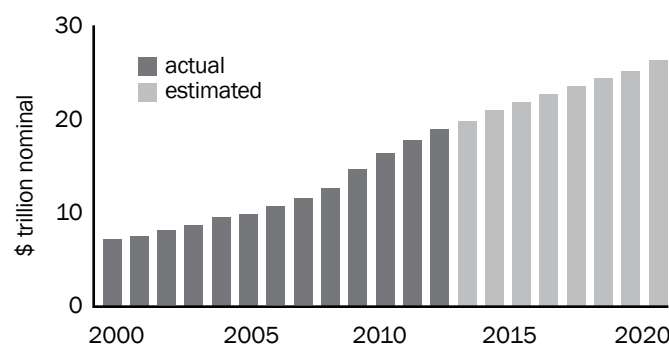
Danone Simpson

\$25T (usgovernmentdebt.us). Our goal of anticipating the effect of these responsibilities is important.

The crippling impact for ACA on the federal debt will grow possibly beyond expectations, while the federal and participating state exchanges further enroll into these government subsidized programs. Twenty year olds make up the largest population. With totals reaching 1.57M in Covered California and 1,222,320 members subsidized per Covered California and enrollment into Medi-Cal 3 times what was expected, with 1 out of 3 Californians enrolled, there has been strain on the California budget. With the state government debt in the US expected to be \$1.17T, we are headed for serious reality checks being ignored, despite the fact that this will impact us, our families and communities for generations to come.

We all have heard the messages by leading world economists stating that people are not saving enough towards their retirement. The boomer population is expected to retire much later than past generations, meaning that older workers keep working to collect more benefits – from healthcare to defined contribution

Gross Public Debt
US from FY 2000 to FY 2020 (total)



plans – despite being unable to afford catch-up contributions. Life expectancy is longer today than in years past. According to the US Census and Social Security administration, today a 65 year old male's life expectancy is 82.2 and for females it is 84.9. The number of seniors age 65 and older – Medicare eligible in the United States – is estimated to almost double in 2050, going from 40.2M (2010) to 70.0M (2030) and 88.5M (2050), according to the Administration on Aging. We are finding older workers are not yet taking Part B or supplemental plans, but instead are staying on their employer's plans, causing adverse selection.

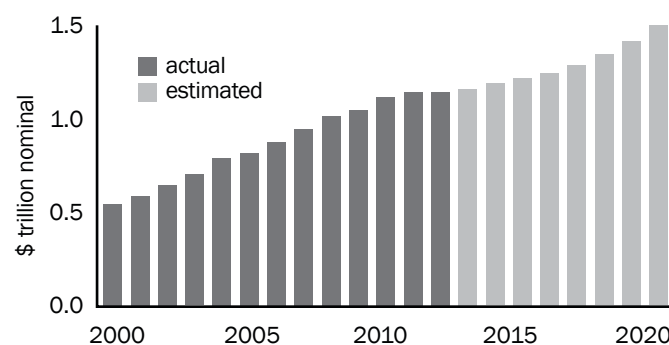
There are 53M in the US today that live with a disability. This is one out of every five, according to the Center of Disease Control and Prevention. Those living with disabilities range from blindness to lack of mobility. This impacts individuals, their families and businesses through lost time or inability to work, creating higher medical cost, while many go on to COBRA.

Our healthcare system has gone through great changes in the last few years with the Affordable Care Act and

previous regulations. State by state legislation differs in dramatic ways. In California, the companies with 50-99 employees go into small group (we are one of a few states doing this), while others are still under 50 for this segment. Carrier reps are working twelve hour days shifting employees to different departments, changing systems, rectifying massive errors, late enrollments, offshoring claims and administration. These impacts are far-reaching to our families who are trying to even gain access to the care they are now paying higher percentages of. A carrier rep said the other day that the individual enrollment is a root-cause impacting all departments. The ACA phases are jumping from fire to fire. Employer groups in Southern California are seeing higher copays and deductibles despite increases that average 3% to 10% and more for high claim loss ratios.

With older workers working later than normal retirement age, the burden of this cost in benefits is shifted to employers – while they are working hard to increase profits in this false economy. With presidential elections on the horizon, much is left to the unknown depending

Gross Public Debt
US from FY 2000 to FY 2020 (state)



on the newly elected president. Higher populations in the US are aging, working longer into retirement due to a lack of retirement preparations, going into state or federal programs with subsidy, exhibiting higher percentages of homelessness (44.3M in L.A. county), and 20% with a disability, according to HUD Housing and Urban Development. Prescription costs are also expected to increase significantly according to carrier executives. All of these factors play a role in our federal and local economy having a significant impact on state and US debt, causing the debt ceiling to continue to rise for years to come.

The only solution for this is in promoting wellness and preventive care, having a healthier workforce, promoting saving for our future, and serving our communities. It sounds simple, yet as important as it is, the health and welfare statistics are still going in the wrong direction and will continue to if we don't take action.

Danone Simpson, MBA, GBDS, is CEO of Montage Insurance Solutions. To learn more, visit www.montageinsurance.com.

The Economy Picks Up Steam

THE A. Gary Anderson Center for Economic Research at Chapman University recently released the results of its 38th annual economic forecast for the U.S., California and Orange County. The forecast was presented to about 1,500 business leaders at a conference held at the Segerstrom Center for the Arts in Costa Mesa. Following are highlights of the forecasts.

2016 U.S. Forecast

- While the short-run impact of the sharp drop in crude oil prices was negative in 2015, the Anderson Center's econometric model clearly points to positive effects emerging in 2016. Specifically, the model suggests that every one dollar decrease in the price of crude oil will increase real GDP by 0.03 percent three quarters later.

- Consumer spending, which accounts for about 70 percent of GDP,

will be the major engine of growth in 2016. The Anderson Center forecasts low gasoline prices, low debt levels and continued gains in household wealth keeping consumer spending growth near three percent.

- A moderate pickup in export growth is expected in 2016 as the European and Asian markets improve. But because of the sharp increase in the value of the U.S. dollar, exports will definitely not be the growth machine it was during the early stages of the current recovery.

- The downward drift in the ISM Manufacturing Purchasing Managers Index to a recent level of 50 points to weak growth. But stronger growth in IT will lead to a pickup in investment spending to almost five percent. The fact that inventories of unsold homes are at historically low levels also augurs well for a strong housing market. Housing starts are forecasted to continue increasing but at

a lower rate of growth. This suggests that housing will continue to be an engine of growth, but our projection calls for a slight deceleration.

- For the first time since the strong fiscal stimulus during the early stages of the current recovery, government spending is expected to be a positive force. Government purchases are forecasted to increase about \$63 billion in 2016, adding about 0.4 percent growth in real GDP.

- Overall, The Anderson Center is forecasting real GDP to grow at a 2.8 percent rate in 2016. Real GDP growth of 2.8 percent is expected to generate enough job growth and pressure on wages to push inflation above two percent by mid-2016.

- The Anderson Center believes the pickup in real GDP growth, coupled with some buildup in inflationary pressure, should lead the Fed to increase the Fed funds rate by about 100 basis points

through 2016. This will lead to a similar increase in the 90-day Treasury bill rate.

- The most recent statistics released by the Employment Development Department (EDD) show payroll employment in California at 16,199,000, about 745,000 above the peak achieved prior to the recession.

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The A. Gary Anderson Center for Economic Research (ACER) was established in 1979 to provide data, facilities and support in order to encourage the faculty and students at Chapman University to engage in economic and business research of high quality, and to disseminate the results of this research to the community.



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Nonresidential Construction Data Mixed

By **ANIRBAN BASU**

NONRESIDENTIAL construction spending fell in December 2015, mimicking a trend that began in September. This is probably not major cause for concern. Many nonresidential construction firms continue to report



Anirban Basu

hefty and expanding backlog. The recent passage of a federal highway bill implies growing business among road builders.

Nonresidential spending in December totaled \$681.2 billion, an 8.1 percent increase over the previous year.

The month-over-month dip is partly a function of depressed construction materials prices; cheaper inputs allow contractors to offer their services at somewhat lower prices, all things being equal. Perhaps the most important point is that most contractors are busier than they were one year ago.

For many years, the private sector has led the recovery. What may be a bit more surprising is the recent uptick in public sector spending. Public nonresidential construction spending has now expanded on a yearly basis for 19 consecutive

For many years, the private sector has led the recovery. What may be a bit more surprising is the recent uptick in public sector spending. Public nonresidential construction spending has now expanded on a yearly basis for 19 consecutive months.

months. Led by an increase in highway and street-related spending—the largest public sector—public spending is finally supplying a boost for contractors.

The U.S. unemployment rate shed a tenth of a percentage point in January and now sits at 4.9 percent, its lowest level since February of 2008. With so little slack in the labor market, a resurgence in energy prices could lead to inflation. This would hurt the construction industry in two ways. First, high energy prices mean smaller margins for contractors. Second, inflation could very well lead to higher interest rates, which may hamper nonresidential spending growth.

Employment gains—the one outperforming economic variable over the previous year—have slowed of late. The nation added 151,000 net new positions in January, a far cry from the 262,000 net new jobs created in December. For the

construction industry, job growth in the final month of the year was robust, with 17 of the top 20 largest U.S. Metropolitan Areas achieving gains. The Los Angeles/Long Beach/Santa Ana area was among the strongest performers at 9.1% growth, the third largest gain in the country.

While the construction industry added 18,000 net new jobs in January, only 2,900 were associated with the nonresidential sector. Nonresidential specialty trade contractors actually lost 2,400 jobs in the year's first month.

It's not all bad news, though. For one, seasonal factors tend to hamper construction data this time of year. More importantly, the construction industry's unemployment rate increased by a full percentage point in January and now stands at 8.5 percent. While this might seem paradoxical to view a higher unemployment rate as a good thing, it is likely a reflection

of large numbers of dislocated energy workers looking for jobs in occupational categories where their skills hold some relevance. Finally, the heavy and civil engineering category, which lost 5,200 jobs in January, should rebound in light of recent federal funding commitments.

While 2016 may end up being a decent year for the U.S. economy, recent financial turmoil is likely to translate into less available financial capital and higher interest rates. That implies less private nonresidential construction spending growth at some point in the future, perhaps in 2017 or 2018. Contractors would be wise to continue to carefully monitor their backlogs, manage cash with tremendous care, and continue to invest in their banking and insurance relationships.

This information is excerpted from the quarterly Marcum Commercial Construction Index (Fourth Quarter 2015), published by the national Construction Industry Practice Group of Marcum LLP. For the complete Marcum Commercial Construction Index, visit www.marcumllp.com/construction.

Anirban Basu is Chief Construction Economist with Marcum LLP, a top national accounting and advisory firm with offices throughout the U.S., Grand Cayman and China. For more information, contact Philip Wilson, partner-in-charge, California, at Philip.wilson@marcumllp.com or via (949) 236-5650.

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Cut Down on Those Pesky Transaction Costs

By STEVE MCCUEN

FOR many years, organizations have been concerned about the cost of transactions involving the purchase or sale of goods. Companies have reduced their sales forces and eliminated routine calls on customers. For example, the large steel producers no longer call on every customer of small quantities of steel. They either leave it to the distributor to make the calls or assume the buyers will make the initial contacts when they need material.

Today, companies are more concerned than ever and much of the concern is about the cost involved in the purchase of low-cost items and small-quantity requirements. This concern is in part a result of a massive advertising and marketing campaign by banks and credit card companies to sell procurement credit card systems to business.

No one can doubt that the cost of small dollar sales or purchases often exceeds the value of the items involved. But there are time-tested ways of minimizing the problem without resorting to the use of the credit card system which delegates the buying function to non-professional purchasing people.

The person in the purchasing department who is responsible for small-dollar purchases usually has the title of MRO Buyer. They may also be called Office

Today, companies are more concerned than ever and much of the concern is about the cost involved in the purchase of low-cost items and small-quantity requirements.

Supply Buyer or have various other titles such as Junior Buyer, or Assistant Buyer. It is not important what their title is. It is important that they have the proper skills and understanding of their job. They should understand that in addition to obtaining the material required, their job is to minimize the total cost of obtaining that material.

Minimizing the cost of obtaining low-dollar items does not mean reshopping or negotiating for every purchase. Controlling the cost of each item must be combined with the total cost of the transaction and minimized in other ways.

One reason why transaction costs have been so high is because low-dollar purchases are too often assigned to inexperienced or poorly trained buyers who do not understand how to properly

minimize those costs. It is just as difficult to control those costs as it is to control the costs of high-dollar or high-volume items. Purchasing managers often are only concerned with controlling the cost of the high-dollar items and neglect to implement systems and measures that will provide controls for the MRO items.

Keeping transaction costs under control is accomplished in seven ways.

1. Have a well established requisitioning system so that the user will clearly indicate what is required. Preferably, the system should be on-line so that ordering time is as quick as possible.

2. Use blanket orders and release forms, for frequently purchased items.

3. Use systems contracts for the major categories of MRO items. Typically those categories include janitorial supplies, plumbing supplies, electrical supplies, and office supplies.

4. Develop strong relationships with service providers and issue negotiated annual contracts to reliable suppliers.

5. Establish standard products, wherever possible, to minimize the number of different items purchased. Some companies issue their own catalog of common MRO items used internally.

6. Consider service parts and maintenance when purchasing capital equipment items. Try to determine where repair and service items will be obtained before the capital item is purchased.

7. Negotiate a simplified payment system to minimize paperwork. Various systems used include issuing checks with orders, monthly invoices and statements only, and electronic fund transfers.

Supposedly, giving credit cards to non-purchasing people allows purchasing personnel to spend more time on the larger transactions, but time saved by purchasing is in part transferred to users. True, the time to prepare purchase orders or other paperwork can be eliminated, but that paperwork can also be minimized by using the systems mentioned above. With the credit card system, users must spend time contacting suppliers and listening to sales presentations. Meanwhile, they are aware of their major duties.

A professional purchasing manager is just as aware of the need to minimize transaction costs as the need to keep product costs as low as possible. In order to do so, many factors must be taken into consideration. It is a continuous job requiring thought and effort.

Quick fixes or easy solutions are rarely the answer. Doing away with buyers and turning the purchasing job over to inexperienced non-professionals may turn out be a costly mistake.

Steve McCuen is an independent purchasing manager based in Encino.

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