422business.com

# route 422 Business Advisor

*Serving the Route 422, 100, 202, and Route 30 Corridors in Montgomery, Chester and Berks Counties.*

**March 1996**

Kevin Martin, President of Plastic Waterlines, Inc. of Pottstown, discusses one of the company's products with administrative assistant Susan Geary.

*Photo by Bob Shoup Photography*

## Contents

# 10 Smart Financial Moves for 1996

By Christine Messmer, CFP, ATP

1995 was a very good year, at least for a lot of investors. Then again, it wasn't such a good year for the hundreds of thousands of workers who got laid off. As we stumble into 1996 amidst difficult budget talks, an uncertain stock market, and a general uneasiness that no job is secure, it might be time to make a few smart financial moves as we break out of winter and head into spring.

1. **Set goals.** Establish or review financial goals and objectives for 1996—and beyond. It's easier to accomplish the other strategies if you know why you're implementing them.
2. **Start an emergency fund.** If you already have one, be sure it's adequate. How many of those 40,000 AT&T workers being laid off probably wish they had enough easily accessible cash to see them through at least three months bare-bones living expenses while they look for work?
3. **Track your expenses.** A lot of money can fall through the cracks when you don't track your expenses. That's money you could be putting toward specific goals, such as retirement or that emergency fund for hard times. Once you identify where your money is going, look for areas where you would like to reduce expenses, such as automobiles. Computer software programs make budgeting a lot easier than it once was.
4. **Set aside time for finances.** Try to do all your budgeting, bill paying, and other financial paperwork at a regular time each week. Let stuff pile up and you'll likely throw up your hands and forget it.
5. **Readjust your portfolio.** Many investors racked up big gains in their investment portfolios in 1995. This year may or may not prove equally profitable, but regardless, it's time to review your portfolio and make adjustments, if necessary.
6. **Invest for the long term.** You need cash or cash equivalents, such as certificate of deposit or money-markets for short-term goals, emergencies, and to diversify your portfolio. But don't invest money your planning to use years down the road, such as retirement or college funds, in low-yielding cash vehicles. Inflation and taxes will eat most if not all of your earnings. Invest in assets such as stocks, bonds and mutual funds whose returns have outperformed low-yielding vehicles.
7. **Consolidate or eliminate consumer debt.** Consumer debt is nearing a record high. Paying off debt, especially expensive credit cards, is one of the financially healthiest moves you can make. Keep your credit cards paid off each month, consolidate payments on a lower-interest credit card, or substitute your credit cards with a debt card which works like a checking account.
8. **Review insurance.** Not just life, but all types. Do you really need collision on that old clunker? Do you have personal liability insurance? And don't overlook disability coverage. You're more likely to be disabled at least 90 days than to die before age 65.
9. **Set up automatic deductions.** Pay yourself first. Have money automatically deposited in your investment accounts and emergency fund.
10. **See a qualified financial planner.** A Certified Financial Planner professional can get you started toward your goals, identify problems and provide solutions you may never have thought about, and keep you financially on track.

*Christine Messmer is an Independent Certified Financial Planner and Accredited Tax Preparer. She can be reached at 610-489-7925.*

# There is an Alternative to Mutual Funds for Long-Term Savings

By Earl A. Clairmont, Jr. CPA, CFP

Wow! What a year 1995 was for return on investment from those mutual funds. The S&P 500 Index was up 37%, and many mutual funds had returns which were close to or exceeded the index. In January, when all those 1099's were arriving in the mail we were really impressed by the amounts of dividends and capital gains that were earned. But now after visiting with our CPA we are depressed to see how much additional income taxes we owe to the tax man because of that great year. The most asked question recently has been, "Is there an alternative to mutual funds for additional retirement and long-term savings that doesn't get taxed right now?" My answer is yes and the alternative is fixed or variable annuities. What are fixed or variable annuities? How can they help you?

Let us explore the investment world of annuities. By definition, an annuity is a contract sold by an insurance company in which the company guarantees a series of payments and whose earnings are not taxed until they are distributed. There are two basic types of annuities. The first is fixed and these are the equivalent of "safe money" or CDs. Fixed annuities do not fluctuate in principal, generally speaking. Variable annuities are far more aggressive investing and are typically invested in the stock market and bond market where fluctuations in principal are common.

We'll start by looking at the attributes of fixed annuities. There are essentially five attributes of fixed annuities:

1. Safety of principal—Fixed annuities will not decline in value given changes in the market even though the underlying investments are bonds because the insurance company carries the risk. Also, the credit risk which is that the issuer can not make payments on any claims, is very low because the insurance companies are subject to very rigid regulations that require them to hold substantial reserves.
2. Yield—Fixed annuities are similar in yield to bond funds, which is typically higher than the interest rate paid on CDs.
3. Tax Deferral—Annuities are tax deferred. You only have to pay taxes on the earnings when you take the money out in the form of a distribution. This means that your money is compounding on a tax-deferred basis and your earnings will be greater than what you would get on a taxable basis.
4. Liquidity—Annuities are very liquid. However, in the initial years they have some sort of surrender charges or back end charges that do decrease and go away over time. Most have what is called a free withdrawal feature which allows up to 10% to be withdrawn annually without any charges. Many also have a waiver which allows withdrawals for medical emergency, hospitalization or nursing home stays.
5. Probate avoidance—An annuity is a contract and it is considered to be a will substitute which means that the money is paid directly to your designated beneficiary at the time of your death.

Now let's look at variable annuities.

The attributes of the variable annuities are as follows:

1. Retirement savings vehicle—This is the biggest benefit of variable annuities. The long term retirement planning aspect of the product is best served because the investments are in sub-accounts of stock and/or bond mutual funds. Historically a longer time span of investment provides greater returns on average.
2. Tax deferred growth—This is the same as previously discussed.
3. Inflation Protection—Generally the use of equity type investments gives you an inflation hedge.
4. Estate Protection—Variable annuities offer a death benefit which will typically allow for no loss of the original deposit, even if the market has declined. There are many variations of the death benefit. Some will offer some sort of annual increase where the death benefit is climbing at 3 or 5% a year, some reset lock-ins to the last highest anniversary rate of the account value and others offer some combination of these.
5. Tax avoidance on your Social Security—earnings inside a variable annuity do not count towards your provisional income for Social Security taxation purposes when doing your income taxes.

6. Probate Avoidance—This is the same as previously discussed.

***Earl A. Clairmont, Jr.*** *is a Certified Public Accountant and Certified Financial Planner. He co-founded the firm of* ***Clairmont, Paciello & Co., P.C.****, Certified Public Accountants in 1975, and* ***C/P/C Financial Planning, Inc.*** *in 1988, servicing the Delaware Valley. For further information, please contact Mr. Clairmont at* ***250 Tanglewood Lane, King of Prussia, PA 19406*** *or* ***(610) 265-4122****.*

# A Taxing Quiz

By John A. Paciello, CPA, CFP

It's bad enough you have to pay income taxes every year. Now you're being asked to take a quiz about taxes. But tax season is upon us, and what you don't know about taxes can cost you money.

1. Which is more valuable, a $500 tax deduction or a $500 tax credit?
2. Child-support payments are tax deductible. True or False?
3. The maximum amount that can be contributed tax-deductible to a nonworking spouse's individual retirement account is $250. True or False?
4. What is the lowest individual federal income tax bracket?
5. What is the highest corporate federal income tax bracket?
6. What is the highest federal rate at which capital gains from the sale of an investment held at least one year can be taxed?
   **(A)** 6.4 **(B)** 9.5 **(C)** 11.5 **(D)** 15.0
7. Personal service corporations are taxed at a flat rate. True or False?
8. Profits from the sale of tax-free municipal bonds are free of all federal taxes. True or False?
9. Social Security benefits are not subject to income tax. True or False?
10. Self-employed individuals are required to pay self-employment taxes in addition to their normal income taxes. True or False?
11. Married couples generally pay more in income taxes than the combined total they would pay if they are single. True or False?
12. How many hours does the IRS estimate it will take you to prepare your Form 1040, including record keeping?
    **(A)** 6.4 **( B)** 9.5 **(C)** 11.5 **(D)** 15.0
13. Death benefits paid from a life insurance policy are free of income tax. True or False?
14. All state refunds are taxable by the federal government. True or False?
15. To prove a charitable donation of over $250, you need to provide a
    A. Canceled Check
    B. Canceled check and acknowledgment letter from the charity
    C. Your word
    D. No proof is necessary

**Answers**

1. The tax credit, which reduces your tax dollar for dollar. A tax deduction saves you only the percentage of your tax bracket (for example, if you're in the 28% tax bracket, a $500 tax deduction would save you $140 in taxes). This applies to both corporations and individuals, however, individuals must itemize their deductions.
2. False. Alimony payments are deductible, but not child support.
3. False. A married couple with an unemployed spouse can contribute up to $2,250 tax deductible to their IRA accounts, but they can split the contribution as they choose, as long as neither spouse's contribution exceeds $2,000.
4. 15%
5. 39%
6. A. 28%
7. True. Taxable income of certain personal service corporations is taxed at a flat rate of 35% (a personal service corporation is a corporation that provides personal service such as a Medical or Legal practice).
8. False. The interest earned is generally free of federal taxes, but any gain (profit) from the sale of a muni bond is taxable.
9. False. As much as 85% of benefits may be taxed if the recipient earns above a certain level of "provisional" income during the year ($44,000 for a married couple in 1995).
10. True. Self-employed individuals pay "self-employment tax" in lieu of Social Security Taxes. An employee pays 7.65% of his/her income in Social Security taxes and their employer matches the employee's contribution for a total of 15.3%. Self-employed individuals pay the entire 15.3% since they do not have an employer matching contribution.
11. True. This is known as the "marriage penalty."

12. C. If you add Schedules A, B, D, E, and SE, it takes 27.5 hours.
13. True. They are not necessarily free of estate tax, however.
14. False. If you didn't itemize on your 1994 tax return, any state refunds received in 1995 are not taxable. Part of the refund may not be taxable even for itemizers.
15. B. A canceled check is no longer sufficient.

***John A. Paciello*** *is a Certified Public Accountant and Certified Financial Planner. He co-founded the firm of* ***Clairmont, Paciello & Co., P.C.****, Certified Public Accountants in 1975, and* ***C/P/C Financial Planning, Inc.*** *in 1988, servicing the Delaware Valley. For further information, please contact Mr. Paciello at* ***250 Tanglewood Lane, King of Prussia, PA 19406*** *or* ***(610) 265-4122.***

# Consumer Buying Habits Explored in Recently Released Summary and Analysis of 1995 POPAI Study

Strong documentation now exists in support of the anecdotal experience that in-store advertising heavily influences consumers in their purchasing decisions, according to the just released Summary and Analysis of the 14-volume 1995 *Point-of-Purchase Advertising Institute (POPAI) Consumer Habits Buying Study.*

The comprehensive study, conducted in conjunction with Meyers Research Center, Inc., had three primary objectives:

- "Understand the characteristics of consumers' shopping trips, and their perceptions of store "shopability."
- "Measure the degree to which supermarket and mass merchandise store shoppers decide on product and brand after entering the store."
- "Profile the amount of the characteristics of P-O-P materials present in-store and the extent to which those materials influence shoppers' in-store decision-making." The study involved entry and exit interviews with more than 4,200 consumers at 28 supermarkets and 14 mass merchandise store outlets from leading retail chains in each of the seven geographic regions across the United States. An effort was made to divide the interviews evenly over regions in order to provide data culled from a representative cross-section of American consumers. The final results were based on interviews with a total of 2,811 supermarket shoppers (400 per region) and 1,399 mass merchandise store shoppers (200 per region). Wal-Mart, Bradlees, KMart and Target were among those mass merchandisers participating in the 1995 POPAI Consumer Buying Habits Study. This marked the first time these leaders in the industry allowed POPAI to capture P-O-P and consumer purchase data to determine in-store decision rates in their stores. All fieldwork during the study took place during February, March and April of 1995.

The 1995 POPAI Consumer Buying Habits Study findings offer a plethora of useful information for retailers, brand marketers, advertising agencies, and P-O-P producers/suppliers. Some findings confirm common perceptions, while others offer new insights. In general, some of those findings include:

- Consumers who use non-cash methods of payment buy in larger quantities and make more unplanned purchases than those who pay by cash. Mass merchandise store shoppers are more likely to pay by cash than supermarket shoppers, but they are also more likely to pay by credit card.
- Shopping is largely a family/social experience, and for many consumers, a clean environment and good service are as important as value or excitement.
- The average supermarket shopper makes slightly more than two and a half trips to the store per week, and the average mass merchandise store shopper makes a little more than one and a half trips to the store per week.
- Nearly three fourths of all brand purchase decisions are made in-store at both supermarkets and mass merchandise stores. According to the POPAI study, "Mass merchandise shoppers do not plan specific product purchases as much as supermarket shoppers do. As but one demonstration of that fact, only 17 percent of mass merchandise store shoppers use a shopping list, compared with 47 percent of supermarket shoppers."
- Mass merchandise store shoppers tend to be younger, less affluent and more family-oriented than supermarket shoppers, and they are more likely to shop with other members of their family. Also, mass merchandise store shoppers will "take time to consider purchases in their overriding quest for value," according to the study.
- Supermarket shoppers are more loyal to a particular store than mass merchandise shoppers—but mass merchandise shoppers are likely to drive farther to shop where they perceive a good value.
- The study also confirmed that point-of-purchase displays significantly influence the decision to buy. "Shoppers pay attention to displays, signs, coupon dispensers, sampling/demos, and announcement

activity, recall them and are far more likely to make an in-store decision to purchase a product that has P-O-P support than a product that does not," the study concluded. Furthermore, the level of in-store decision making has increased significantly over the past ten years.

- The POPAI study also revealed that the average shopper spends more than intended at supermarkets and mass merchandise stores. The most common items making up unplanned purchases in mass merchandising stores include: apparel accessories, hardware, craft and hobby items, infant/toddler wear, greeting cards and related products, first aid items, toys and sporting goods, food wraps, foils, garbage bags, candy/gum and magazines and books.
- Contrary to the popular notion that the '90s shopper is always in a rush, the 1995 POPAI Consumer Buying Habits Study found that the average shopping trip lasts nearly an hour, and takes the shopper through most parts of the store.
- Finally, snack items and beverages, especially soft drinks, present "huge potential" for in-store marketing at both supermarkets and mass merchandise stores. At mass merchandise stores, nearly one third of all shoppers purchase candy, cookies, crackers, or some other snack item.

The POPAI 1995 Consumer Buying Habits Study also took a close look at branding, and the proportion of brand purchases made when point of purchase materials were present. The study concluded that, in supermarkets, a significant increase in brand purchasing occurs when one or more pieces of P-O-P are present. In mass merchandise stores, the same phenomena held true, according to the study. POPAI and Meyers Research Center developed a method called the Brand Lift Index to "gauge the average increase of in-store decision purchases when P-O-P is present versus when it is not." In other words, the index reflects the extent to which in-store merchandising affects the likelihood of a customer buying something they hadn't specifically planned to buy. Using the index, the 1995 POPAI study concluded that a number of products, particularly in mass merchandise stores, get a tremendous sales boost when accompanied by P-O-P displays. Those products which benefited the most in the study included: film/photo finishing products; socks/underwear/pantyhose; cookies and crackers; and small appliances. Sinage in mass merchandise stores was also found to give a sales boost to certain items, including: dishwashing soaps; antacids; prerecorded music and videos; and first aid products. In terms of shopper recall of specific point-of-purchase materials, displays were found by the study to be most often remembered in exit surveys, followed by signage, coupon dispensers and sampling/demos.

The 1995 Point-of-Purchase Advertising Institute (POPAI) Consumer Habits Buying Study offers a number of insights offered to retailers and merchandisers:

- Mass merchandise stores can increase sales by appealing to families in their P-O-P approaches.
- A store's "shopability" is enhanced by using "Easy to Find Product" displays.
- It's important to change P-O-P materials frequently to keep shoppers stimulated
- Since shoppers purchase fewer items in mass merchandise stores than in supermarkets over the same relative time frame, P-O-P materials should be customized to suit the different store environments and needs of shoppers.
- There are many opportunities for retailers to maximize the in-store experience. The complete Summary and Analysis of POPAI's 1995 Consumer Buying Habits Study is available by calling POPAI at (201) 816-6100 and request publication CBH51. The first copy to POPAI members is free; members can order additional copies for $125; Cost for non-members is $375.

*The Point-of-Purchase Advertising Institute is an international trade association with chapters in Europe, Japan, and Australia. The association is dedicated to the advancement of Point-of-Purchase advertising through research, education, its "Marketplace" trade show and "Outstanding Merchandising Achievement" Awards, while protecting its members interests through an active legislative affairs program.*

*For further information, contact:* ***The Point-of-Purchase Advertising Institute, 66 North Van Brunt Street, Englewood, NJ 07631; (201) 894-8899; FAX (201) 894-0622/0529.***

**Graphically SPEAKING**

# Creating An Identity

By Erika H. Cooper

*According to the American Heritage Dictionary:* a logo is "a name, symbol, or trademark designed for easy and definite recognition . . ."

As cubism is to Picasso, McDonald's is to golden arches. For when we form an association with a company or product, we think of it within the context of a pictorial or typographical format presented. Thus, we have a recognizable image of products or services.

**Identity is important.** Just look in your wallet: license, social security, credit, library, medical and video membership cards . . . without these who are we? The same applies to businesses—big or small, new or old, abstract or conventional—they need their own identity. While a random identification can be picked out of a book at most print shops, it will truly not be your own.

**A logo is something created for you and your business alone.** A good designer can capture and create your thoughts and dreams through color, texture, placement and energy and turn them into your own personal identity. You, in turn, will share this identity with the world when you incorporate it in print, advertising and promotion.

If you are planning to consult a designer for a logo, go prepared. Supplying a designer with basic image ideas (if you have any), color(s), textures, and where and on what the logo will appear, etc., will help the designer develop your image more accurately and cost effectively. Also, you will need to discuss the transfer of rights or usage of you logo with your Designer/Agency. Check on specific policies or contracts with your Designer/Agency.

***Graphically Speaking*** *is supplied by* ***Halfmoon Services****—providing design, typesetting, and printing alternatives for the '90s. For more information about our services, call:* ***(610) 327-1115****.*

# Tri County Job Market Gathers Strength

The springtime holds hope for tri county area job seekers, according to the latest Employment Outlook Survey just released by Manpower Inc.

The quarterly survey of employers in the Pottstown area reveals that 20 percent plan to add workers during the April/May/June period, while three percent expect to cut back. Another 51 percent anticipate no change, and 26 percent remain uncertain. The figures for Reading were similar with 20 percent also expecting to hire new workers, and six percent expecting to decrease their workforce, with 68 percent expecting no change and six percent uncertain. In Allentown, which borders on the northern edge of our coverage area, 26 percent of employers surveyed expect to increase hiring over the next three months, while 13 percent anticipate having to cut back. Sixty-one percent expect no change in hiring over the next three months, and none in Allentown were undecided in the survey.

"The second quarter of the year is often a time of job renewal as employers emerge from the downbeat winter period," said Mike McCarthy, Manpower spokesperson based in the company's Pottstown office. "Three months ago, employers in our area were undecided, as three percent reported hiring intentions and another three percent foresaw the need to trim."

Job opportunities are foreseen in wholesale/retail trade, finance/insurance/real estate and public administration. Durable goods manufacturers report mixed intentions.

The national outlook indicates some loss of strength from the position of one year ago. Of more than 15,000 companies contacted, 26 percent intend to increase hiring during the second quarter of 1996, eight percent will decrease, 63 expect to remain unchanged, and three percent are uncertain. Manpower's 1995 survey results indicating projections for the second quarter of '95 showed that 30 percent expected to increase hiring, while seven percent expected to decrease, 60 percent expected hiring to remain unchanged, and three percent weren't sure.

***About the Employment Outlook Survey***

*Manpower Inc. conducts the Employment Outlook Survey on a quarterly basis. It is a measurement of employers' intentions to increase or decrease the permanent workforce, and during its 19-year history, has been a significant indicator of employment trends. The survey is based on telephone interviews with more than 15,000 public and private employers in 481 U.S. cities. Manpower Inc. is the world's largest temporary help firm, annually providing employment to 1.5 million people through more than 2,000 offices in 38 countries.*

# Trader's Edge

## Strategic Planning for Retail Merchants

By Sam Loth

Mention strategic planning to some small business owners and they run screaming from the room or look at you like you're from another planet! Strategic planning isn't scary or impossible. In fact, you do it every time you go on vacation. Think about it. Where do you want to go? The mountains or the shore. Why? Because its cool or because there's lots of sun. When will you go? In July or October. How will you get there? By car or plane. How much money will you need? For the hotel, the rental car, the plane, spending money! You see, you've just done strategic planning for your vacation!

Now let's do the same thing for your business. First, where do you want to go? On other words, what would you like your business to achieve over the next one, three or five years? Think about it! Maybe you want to have several locations or to expand into the building next to you. How about your own building at the edge of town. Maybe you just want to focus on a few categories of merchandise and become a specialty retailer. Make a list of what you'd like to do. Clear thinking takes a little patience. Just keep adding to your list until suddenly, you have goals and objectives. Not so hard, is it?

Next, how do you get there? How do you achieve those goals and objectives? Break out your goals and objectives into two groups. First, what's quick and easy and second, what's longer range. For example, one objective might be to bring costs down by ten percent over two years. So, you look for different suppliers who can sell to you for less.. You check to see if changing lights would cut your electric bill or turning down the thermostat two degrees or changing trash hauling companies would cost less. Easy things that trim costs. A longer range objective might be opening a second location. That requires a business plan, a line of credit, a larger supplier, more employees and so on. Long range objectives are achieved over time using milestones (like yard lines in football) to chart your progress

Strategic Planning isn't scary or impossible when you understand that it's just common sense and some savvy. Besides, it will help you to be successful which is why you're in business for yourself, right?

For more information on strategic planning, contact your Chamber of Commerce, S.C.O.R.E., Business Authority or Association, your county economic development office or the Small Business Administration's Development Centers located all around you. Lastly, don't forget your public library, probably the best source of information on any subject anywhere! Good luck and get going!

***Sam Loth*** *is the Executive Director of the Pottstown Downtown Improvement District Authority (PDIDA). He can be reached at PDIDA, 204 High Street, Suite 200, Pottstown, PA 19464; (610) 323-5400, Fax (610) 970-1088.*