

RAWLING REPORT

FALL 2004 • BROUGHT TO YOU BY



RAWLING FINANCIAL INC.

HELPING CLIENTS MAKE WISE DECISIONS REGARDING THEIR WEALTH

Client Profile; Pat Bruder, Owner of Exhaust Direct

We don't often spend time admiring the exhaust system of a vehicle, but it represents a necessary item that is bringing money into the London economy. Since December 1999 I've had a chance to see Pat Bruder's business grow to be one of the major manufacturers of exhaust parts for cars and trucks in North America. The business started in Mississauga, grew to three employees, and then it was moved to London in November 1999. It began with Pat being one of three partners. He then bought out his partners and had his brother Pete become his only and equal partner in February 2001. They haven't looked back.

In November 2003 they built a brand new manufacturing plant of 9,500 square feet on 1.4 acres of land on Scanlan Street, just off Airport Road. They are now operating with 12 employees during the summer, with that number dropping to nine full-time. They have an interesting plan for workers to be productive in their "piece work." They currently get a base pay of \$14/hour, but with the incentives for parts made in that hour can earn much more. The current record is \$57/hour earned in a pay period. That sounds like good potential pay for industrial work.

Gross sales are \$2,000,000 and they have a five

year goal to reach \$10,000,000. Their current sales are approximately 70% Canadian and 30 % U.S. The percentages were reversed when the Canadian dollar was weaker. Pat said he offers a 10% discount to the country with the stronger currency and the sales flip back and forth with that incentive. He showed me a file of U.S. prospects that he hasn't even approached yet and won't till the Canadian dollar drops to 70 cents U.S. It makes him less dependent on one market.

I had some quick questions for Pat...

First Job?

I had a paper route in the Glen Cairn area making \$15/ week.

Biggest Challenge?

Finding good employees. With the low unemployment rate in London between 4-5% it makes it hard. He has to spend extra time to develop young employees. He has also been looking for retired millwrights and has one in Toronto that he expects will move here.

Best Advice?

Comes from successful people in business. One example is when Steve Glickman at

LEDC told him to stick with their niche in manufacturing and not get into a wholesale/ manufacturing mix.



Pete and Pat Bruder are partners in Exhaust Direct, manufacturers of exhaust parts for cars and trucks. Hugh recently talked to his clients and shares their success story with you.

continued...

...continued from front

Mentor?

Bob Jones owner of Canusa Automotive Warehousing Inc., is a very good businessman. "He always does his research".

What do you drive/like to drive?

I drive a 2001 Ford F150. I'd like to drive a new F150 for work and for personal use, a 460 hp, 2002 Viper and a '69 RT Dodge Charger.

Last Holiday?

In January 2004 my wife Kim and I went to Jamaica for our honeymoon. She wanted two weeks and we settled on eight days. It was my first holiday in five years.

What's next?

I want to keep my company around 10 employees, no bigger. It's hard to control large companies and have them stay tight-knit. So I can see Exhaust Direct could be 10 employees doing distribution and on the vacant land I could see building a new manufacturing company with 10 employees.



I want to thank Pat for sharing his candid insights into his business.

Making the decision to incorporate

Part II

Part I appeared in the Summer 2004 issue

From a legal perspective, having a corporation ensures the continuity of the business. The death of a major shareholder will not end the business's operation as would usually happen, for example, in a small partnership situation.

In terms of borrowing power, a corporation is able to provide a lender with security that is more effective for a loan. Therefore, dealings with banks and lending institutions are simplified and, at least indirectly, business opportunities are enhanced.

One of the advantages of a legal nature is that a shareholder can contract with and sue the corporation; a partner cannot sue or contract with his organization. Contrarily, individual partners can enter into a contract which will bind the entire partnership, but a shareholder alone cannot obligate the corporation with outside parties.

Some of the negative aspects of incorporation include, of course, the expense factor. Legal costs will be incurred to set up the corporate structure. A minute book, share register and Corporate Seal will

have to be purchased. Some of the on-going responsibilities include the filing of annual tax returns, the holding of annual meetings of directors and shareholders and the preparation of annual financial statements.

When taking the steps to incorporate, considerable thought should be given to the types of rights and privileges to be given to the shares that are issued. The feeling may be that the children should be given equity (common) shares but with no voting rights. This will allow the children to participate in the growth of the business but the authority to manage the company will remain with the parents who are given voting privileges.

The decision of whether or not to incorporate should be made largely based on advice received from the firm's accountant and lawyer. A rule of thumb that is often used is that if the sole proprietor or partner is spending all of their income on their lifestyle and they do not plan to change that pattern, then there is little or no tax advantage to incorporating.



**RAWLING
FINANCIAL
INC.**

Hugh Rawling, CFP, CLU, CH.F.C.
Financial Coach

Rawling Financial Inc.

Suite 420, 200 Queens Avenue, London, ON N6A 1J3

Hugh: (519) 963-4400 • Toll free 1-866-963-4400 • fax (519) 963-4402

The Customer Care Line: Candace (519) 963-4401 • Toll free 1-866-963-4401

E-mail: hugh@rawlingfinancial.com • admin@rawlingfinancial.com

website: www.rawlingfinancial.com