Forefront

ISSUE 2 | 2019

Inside:

O'Keefe

Clarity. Results. Together.

When hands-on guidance and exceptional performance are a must, organizations turn to the experience of O'Keefe. We're your partner for success. Our culture of collaboration and problem solving is unmatched. We craft solutions that produce impressive bottom-line results… even in the most complex situations.

We invite you to learn more at www.okeefellc.com

O'Keefe

Clarity. Results. Together.

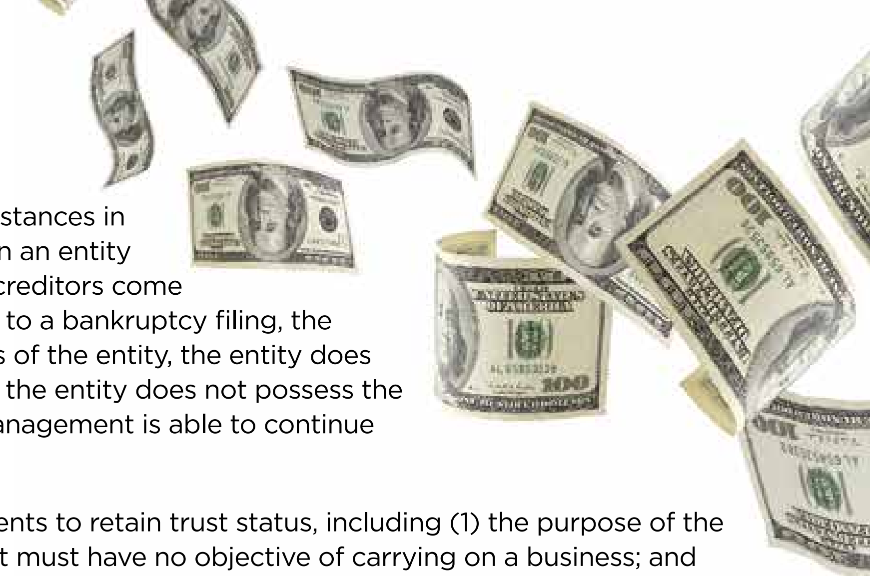
Forefront

ISSUE 2 | 2019

There are many disruptors in our lives which we witness every day. The way goods and services are delivered to consumers in addition to the value of gathering information to make decisions are a few of the phenomenons in today's market. There is nothing artificial about artificial intelligence ("AI"). AI is becoming a talking point and strategy in almost every business decision. In this issue of Forefront we expose some new trends in technology. There are also some other disruptors that we keep mentioning as issues like tariffs keep changing the landscape. Many of our clients have seen tariffs as an opportunity. The businesses that learn to pivot in such uncertainty maintain sustainable business strategies. As a firm, we are dedicated to find constructive disruptive strategies for our clients. ~ Patrick O'Keefe

Liquidating Trusts:
Providing Maximum Recovery to Creditors

By Katie Montague



Liquidating trusts are used in various circumstances in and out of bankruptcy filings, including when an entity has assets that are difficult to liquidate, the creditors come to an agreement to liquidate the entity prior to a bankruptcy filing, the creditors have a claim against specific assets of the entity, the entity does not want to file bankruptcy, management of the entity does not possess the necessary skills to liquidate the assets, or management is able to continue operations during the liquidation process.

Liquidating trusts have three main requirements to retain trust status, including (1) the purpose of the trust being solely for liquidation; (2) the trust must have no objective of carrying on a business; and (3) the agreement must contain a fixed or determined end date, which is typically less than 5 years. With the proper structuring and execution of a liquidating trust, there are significant benefits to the debtor and creditors of the subject entity because they are often the cheapest and most efficient option.

In chapter 11 bankruptcies, a liquidating trust is usually created pursuant to a confirmed plan. The trustee is often appointed by the creditors' committee and usually has a prior working history with the industry, assets, and process, in addition to possessing the trust of the committee. The advantages of conducting a liquidation pursuant to an already confirmed plan is the avoidance of costs associated with much of the judicial oversight, specifically related to the approval of professional fee applications. Rather than being hindered by the court's approval and associated administrative costs, a steering committee of creditors approves the fee applications, ultimately providing a higher return to creditors.

Should a chapter 11 reorganization prove to be infeasible and not beneficial to the creditors, the case has the possibility of converting to a chapter 7. A chapter 7 liquidation process is very formal, has substantial bankruptcy court oversight and provides the U.S. Trustee's office substantial control. In a chapter 7, the U.S. Trustee's office typically selects the trustee to perform the liquidation. In rare instances, the creditors can overrule the trustee's selection and pick a trustee they feel is better positioned to maximize their recovery. A chapter 7 trustee may be incentivized by easy-to-sell assets, for which they may not possess the skills to properly or effectively liquidate. In contrast, a liquidating trustee is an expert with specialized business skills that the creditors trust. Consequently, creditors may be willing to support a liquidating trustee with funds to properly liquidate the entity and its assets, for which they may be unwilling to do with an inexperienced chapter 7 trustee. There are few, if any, chapter 7 trustees that would seek or garner the support that may be provided to a qualified liquidating trustee.

The inefficiencies of chapter 7 liquidations are well documented. They generally take twice as long as a chapter 11 liquidation, cost more, and recover on average 95% less than a chapter 11 liquidation. The oversight and involvement of the bankruptcy court and U.S. Trustee's office may be necessary in some rare cases where there is much uncertainty and distrust with the debtor, however, they are usually not the best option.

The key to providing the quickest and highest recovery to creditors in a liquidation is to hire a skilled trustee who possesses experience and skills within the industry and/or assets of the subject entity, has the support of the creditors, and can execute a clear and concise plan for liquidation. Chapter 7 liquidations, more often than not, are time-consuming, have too much oversight, and provide minimal recovery to creditors. A liquidating trust will almost always be the best option when an entity needs to liquidate.

Katie Montague
CPA, CFE, Senior Associate, utilizes her financial expertise in many areas including, but not limited to turnaround & restructuring, bankruptcy, litigation support, business valuation, forensic accounting and shareholder disputes.

Fintech:

COMPETITION OR COOPERATION?

By Susan Koss

Seemingly overnight, Fintech has become engrained into our everyday lives without us even realizing it. When you place an order on your phone for a quick pick up at your favorite coffee shop, you are using Fintech. When you use an app on your phone to transfer money to a friend or to deposit a check into your bank account, you are using Fintech. Fintech use is growing at an astounding pace and it doesn't appear to be slowing down anytime soon.

Since inception, Fintech has completely turned the financial services industry upside down. Even though Fintech has been around for 15-20 years, only in the past five to seven years have many traditional financial services companies dramatically ramped up their Fintech initiatives.[1] Fintech startups have been ramping up, too. In 2018, Fintech startups in the U.S. raised $12.4 billion in funding, 43% more than 2017. Fintech startups need those dollars as they tend to burn approximately two to three times more cash compared to other startups.[2] This is attributed to factors such as highly competitive compensation for tech positions and regulatory hurdles that many traditional banks face.

Originally, Fintech startups and traditional banks were rivals fighting for every client. However, a new phase is taking shape in the evolution of the Fintech sector. Many traditional banks are now strategically looking to team with emerging technology companies in order to gain access to new markets and products. At the same time, many Fintech startups have pursued partnerships with large traditional banks to obtain industry and regulatory knowledge, develop into new or existing markets or simply cash out.[3]

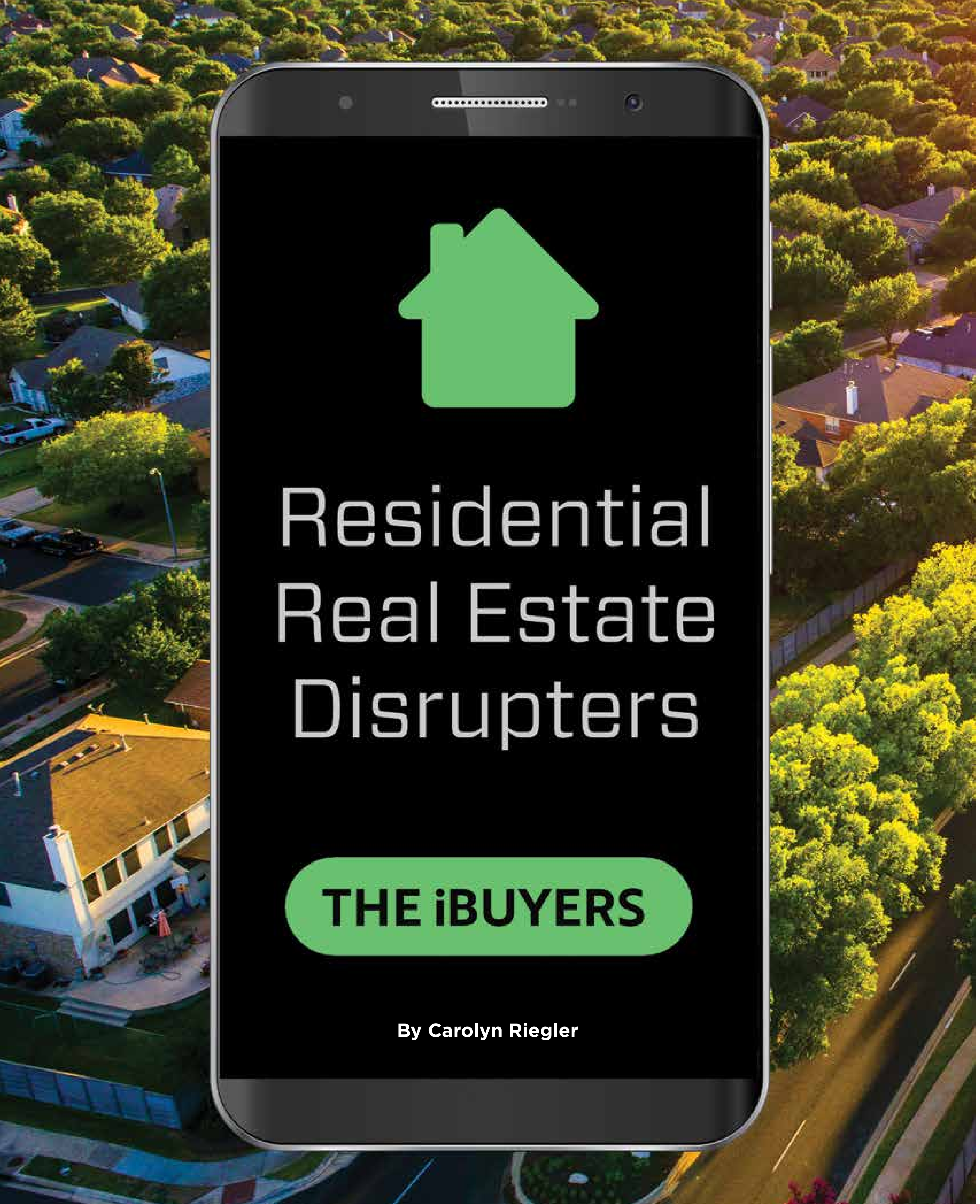
But Fintech companies are not just seeking to establish relationships with large banks, they are also partnering with smaller banks. Smaller banks struggle with keeping up in a changing industry because they often use outdated technology, lack an innovative culture and their physical branches are not as essential as customers go more mobile.[4] However, smaller banks are attractive since they are nimble and quicker to get things done compared to larger national banks.

Fintech companies can provide incredible resources to banks related to enhanced private data protection and customer experience. As Fintech companies mostly rely on mobile applications for banking and financial services, security risks increase. Customers are concerned with the threat of unauthorized access to personal financial information. Consequently, a better customer experience can be achieved by heightened cybersecurity through strengthening the infrastructure of applications and usage of firewalls. Fintech companies can help banks achieve these initiatives along with blockchain and other emerging technologies. However, both Fintech companies and banks will need to remain on alert as tech giants make further inroads into areas such as payments, credit and deposit accounts.[5]

The future for Fintech seems limitless given the various opportunities and fast paced technology advances. Yet, Fintech success will not come at the expense of traditional banks and financial service companies. The convergence of Fintech companies and traditional banks is likely to continue to grow as they form strategic partnerships and share technology and resources. As Fintech evolves it will certainly continue to impact our everyday lives in ways we can't even imagine.

[1] Deloitte - Fintech by the Numbers, 2017, pg. 1
[2] Kauflin, Jeff, Forbes, "11 Biggest Fintech Companies in America 2019," February 4, 2019
[3] Deloitte - Fintech by the Numbers, 2017, pg. 1
[4] Rooney, Kate, CNBC "Small banks you've never heard of are quietly enabling the tech takeover of the financial industry"
[5] S&P Global Market Intelligence – 2018 US Fintech Market Report

Susan Koss
CPA/ABV/CFF, CVA, Partner and Managing Director, leads the firm's Litigation Support Practice Group. She specializes in litigation support, business valuation, quality of earnings and forensic accounting.



Residential Real Estate Disrupters

THE iBUYERS

By Carolyn Riegler

The practice of making it easier to buy and sell real estate without the middle man puts fear in the minds of traditional brokers and agents. My motto is, if you can't beat them, join them. Technology is changing the way we will buy and sell homes. These changes will make it seamless to buy and sell one of the largest investments you will ever make. Imagine, no listing, no showings, no repairs. Pick your close date and move date and you're done. A new type of business is making its entrance into the real estate market, these disrupters are known as "iBuyers." They are algorithm-driven home-flipping companies like "Opendoor" and "Offerpad," working with strategic companies like Zillow. If you want to sell and buy a new home in the existing system, you will need a broker to sell it, a broker to find you a new place, and a mortgage lender to finance the purchase. Then you will need to buy title insurance and home insurance, hire a moving company and finally move to your new home. In recent years, iBuyers are emerging to streamline the process for a transaction that closes in days rather than weeks or months. The trend began in the western U.S. (Arizona, Colorado, Washington) and is moving quickly across the country to places such as Dallas, TX, Atlanta, GA, Tampa, FL and the Minneapolis-St. Paul, MN area.[1]

The iBuyer will make a cash offer for your home, allowing you to free up your equity to purchase the next home. The iBuyers will clean and fix up your old house and sell it on the open market earning a fee from the seller and the new buyer. Other companies like Redfin and Knock are competing in the same space racing to be the best one-stop shop. In addition, similar competing products are surfacing using new technologies to deliver better service to the customer. Rocket Mortgage (by Quicken Loans) has developed an app which allows you to apply for a mortgage in minutes from your phone. Companies such as Coldwell Banker, Keller Williams, Redfin, and ERA are among traditional brokerages testing out their own versions of an iBuyer type program. These programs, however, set out to ensure the realtor stays at the center of the transaction, no matter which selling option the homeowner wants. The brokerages are seeing that some consumers are tempted by the lower stress iBuyers offer, so they are carefully piloting these programs to assess whether there is enough interest to invest in this approach on a widespread basis.

New products and services continue to pop up almost daily. Recently, Zavvie introduced a national iBuyer instant offer comparison tool which allows home sellers to easily compare offers from multiple iBuyers. A similar program is available through the company, HomeLight's comparison tool "Simple Sale." These new technology services will bring both benefits and words of caution. The disclosed costs to use an iBuyer service are generally higher than traditionally brokered transactions by as much as 1% to 3%. However, there is a hidden cost in that the selling price to the iBuyer is often lower than what the iBuyer sells the home for. Thus, a portion of the profit on the home sale is not apparent to the consumer. In addition, the costs are bundled differently. It may be difficult to compare the services financially on an "apples to apples" basis. The consumer will decide if the trade-off of less profit is worth the increased convenience and time saved by utilizing this platform. "Zillow says it's making $1,723 per home flip at a minuscule 0.6 percent profit, which leads one to wonder if this space is really worth getting into if you don't have multiple modes of monetization."[2]

Consumers are not the only ones impacted by this technology. New home builders, developers, and rental real estate investors will also be impacted by this new business model. For example, some new home builders are currently "listing" their new homes with the iBuyer companies to give consumers the option of a new build, and the option to flip new construction homes quickly. Investors interested in purchasing homes on a large scale to rent to consumers will likely also use this service to find homes and potential renters. The implications will be felt throughout the residential real estate industry.

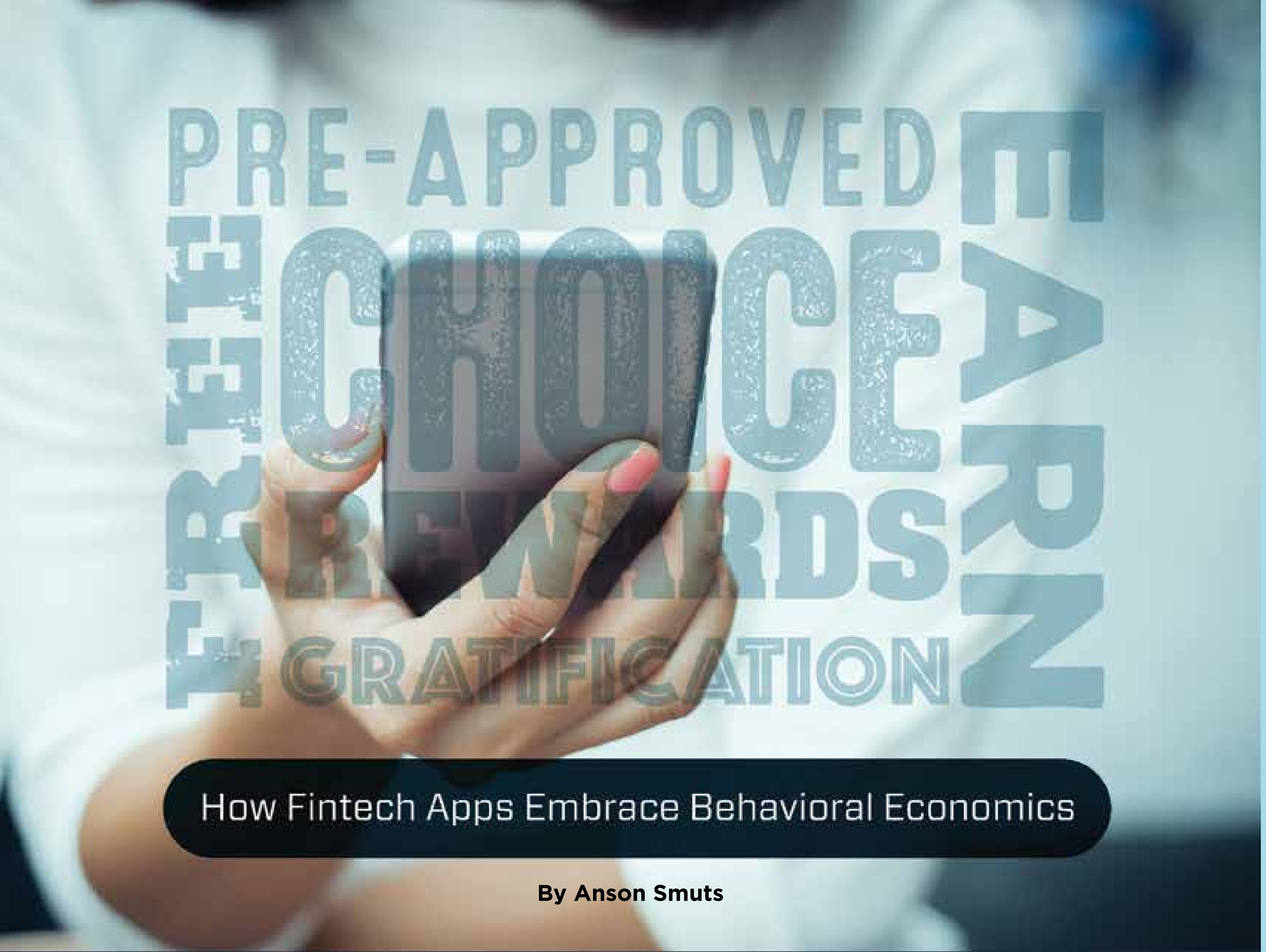
The bottom line is new and exciting things are happening in the residential real estate space which will make consumers' lives easier and create business opportunities for those who can keep up with the pace of change. If you choose to explore this route, do your research, speak with both traditional realtors and the new iBuyer, get an attorney involved to understand the risks you are taking and what the implications are if something goes wrong. As for myself, it is an intriguing prospect both personally and professionally.

Carolyn Riegler
CPA, CFE, CTP, Managing Director, specializes in litigation support, dispute resolution, forensic accounting, real estate, and business valuations.

---

[1] https://www.curbed.com/2019/3/21/18252048/real-estate-house-flipping-zillow-ibuyer-opendoor accessed May 24, 2019

[2] https://www.curbed.com/2019/3/21/18252048/real-estate-house-flipping-zillow-ibuyer-opendoor



How Fintech Apps Embrace Behavioral Economics

By Anson Smuts

As mentioned previously, disruption of the financial industry has been similar to that of other industries, with start-ups offering accessible, affordable and technology-driven services to capture market share. However, the disruption caused by Fintech has been different due to its embrace of behavioral economics, which explores the ways in which human decision-making strays from rational outcomes given risk or uncertainty.

When it comes to financial decision-making, irrational behavior is caused by the inability to measure opportunity costs, assess short-term versus long-term benefits, and take all available information into account. As a result, consumer choices are often biased, impulsive, driven by a desire for immediate gratification and subject to limited attention spans. Fintech companies accept these limitations and biases by designing their products to not only account for such behavior, but also guide consumers towards sound decisions through the use of nudging techniques (a nudge is an attempt to alter behavior without explicitly limiting choice). A famous application of a nudge can be seen in the 401(k) system, where in recent years companies began automatically enrolling new employees into a 401(k). According to Vanguard's "How America Saves" Report, plans with automatic enrollment had an enrollment rate of 93%, compared to 63% for voluntary enrollment plans.

So why do consumers need to be nudged? Because, as the saying goes, we're only human. In *Thinking Fast and Slow* (certainly one of the most influential books ever published about behavioral economics), Daniel Kahneman explains that humans are subject to bounded rationality, and their thinking can be described by two systems - "fast" and "slow." He poses a puzzle to illustrate the two systems of thought. It goes like this:

- A bat and ball cost $1.10
- The bat costs one dollar more than the ball.
- How much does the ball cost?

Kahneman urges the reader to follow their intuition, which should arrive at a conclusion following the "fast" system. The common answer found is ten cents. However, doing the math, at this price the total cost would amount to $1.20 ($0.10 for the ball and $1.10 for the bat, which costs one dollar more than the ball). The correct answer is five cents. This example is intended to illustrate how the fast (or automatic) system is impulsive, intuitive, emotional, and likely to fall prey to immediate gratification. In contrast, the slow system is logical and effortful.

These concepts behind behavioral economics have been employed in marketing of financial products for some time, often exploiting consumer emotions to evoke needs and wants (appealing to the "fast" system). Every one of us has received a letter in the mail with "pre-approved" stamped on the front. Almost all credit cards market themselves based upon the rewards they offer in the form of either financial incentive or some form of exclusive service. Banks and other financial institutions emphasize the "free" services offered when trying to sell you something else. These examples show the ways in which we, as consumers, are susceptible to making financial decisions based upon criteria that are not related to our financial well-being. That's where Fintech meets behavioral economics.

Take the mobile apps Ladder and Lemonade, which address consumers' needs for immediate gratification while also improving their financial well-being. Both apps are designed to be instant using advanced data analytics - allowing (or nudging) users to sign up for policies in minutes, not days or weeks, and even get paid out for a claim in 3 minutes. Further, these companies are intentionally named to sound nothing like a traditional bank or insurance company. This is known in behavioral economics as priming, which involves stimuli used to invoke certain ideas or emotions. In the case of Fintech, different naming conventions allow these companies to establish from the outset that their services are different. (A great example of the power of branding is EarnUp, a loan-payment app, which changed its name from APASave after research found that people prefer the term "earn" to "save.")

Another example of behavioral economics in Fintech is the application Acorns, which is one of many investing apps. The company recognizes that people are influenced by present bias, whereby they place greater value on rewards today than in the future, and they are therefore resistant to saving – never mind actually investing. The app allows users to invest without taking a chunk out of your monthly paycheck by rounding everyday transactions up to the nearest dollar, taking the difference and investing it in an ETF or retirement account. The automated process of a relatively immaterial amount allows (nudges) consumers to begin investing without large commitments.

Another bias we are all guilty of is mental accounting, which results in different treatment of certain monies when it should really all be treated the same. The best example is how people treat their end-of-year bonuses or tax refunds differently as compared to their monthly paychecks, which usually means they use these funds more frivolously. (Side note: The government also employs some behavioral economics. If tax refund were instead - and more appropriately - called government loan repayment, I'm certain people would think twice about the withholdings on their paycheck each month.) To address this, some Fintech apps nudge consumers to set aside some of these funds before they hit their bank accounts, thereby avoiding the temptation to splurge on a shopping spree.

The Fintech examples above have been selected to illustrate my point (otherwise known in behavioral economics as confirmation bias) that irrational behavior does not necessarily need to be overcome by modern technology, but rather directly addressed. The developments in Fintech in recent years provide promise that the new generation of financial institutions will help us all become more financially responsible by making insurance and saving easier, more accessible, and more approachable, thereby also enabling outreach to under-banked communities. Exciting times ahead.

Anson Smuts *CMA, CFE, CVA, Director and Senior Economist, utilizes his accounting and finance expertise in mergers and acquisitions, business valuation, intellectual property, and data analysis to identify strategies for business growth and development.*

Does the impact of mobile payment technology impact the economy?

By Andrew Malec, Ph.D.

Over the past two decades, digital services have transformed economies and lives across the world. Smartphones and mobile phone apps have affected our everyday lives from the way we commute (e.g., Uber, Lyft) and purchase groceries (e.g., Instacart, Amazon) to how we pay bills. With the rapid development of smartphone and financial technology, mobile wallet payment transactions have skyrocketed. In fact, the total transaction value worldwide through mobile payments exceeded $350 billion by 2017 and is expected to grow to an annual rate of 39% to over $1.6 trillion by 2022 (Statista 2018).

A recent academic paper published in the American Economic Association's Papers and Proceedings studied the introduction of mobile-payment technology in Singapore to examine its impact on the economy.[1] Specifically, the authors studied a dataset of 250,000 bank account holders from a Singaporean bank from 2016 to 2018 to observe these consumers' mobile wallet transactions, as well as their ATM, debit, and credit card transactions. Singapore has been moving toward a cashless society, and the fast development in mobile payments plays a critical role. On April 13, 2017, Singapore introduced the use of the Quick Response ("QR") code payment function in the mobile wallet. This technology enables users to receive and make immediate payments by generating their own QR code in the mobile phone app. Buyers and sellers of goods and services can complete a transaction by displaying or scanning QR codes. This technology not only brings convenience to consumers, but also reduces transaction costs, which is especially impactful for small and new businesses.

The authors observe a significant increase in mobile wallet usage from Singaporean bank account holders after the QR code-payment introduction. For both the transaction amount and transaction counts, the mobile wallet transactions stay relatively flat before April 2017. Upon the introduction of new QR code-payment technology, the monthly transaction amount and count start to trend up almost immediately. In contrast, ATM monthly withdrawals stay rather stable throughout the year, suggesting that the rise of mobile wallet transactions is not simply driven by a reduction in cash usage. The authors also bifurcated their data by transaction size and find that the increase in the number of small-size transactions greatly outnumbers that of large-size transactions, suggesting that consumers respond to the new payment technology by using the mobile wallet more frequently, especially for small-sized transactions.

The authors also analyzed the data to determine if the monthly transaction amount in mobile wallet transactions by the consumer is merely a substitutable payment method for credit/debit cards. They find that, in support of an increase in spending after the introduction of a mobile-payment technology, debit and credit card sales increase by about 3.5% per month, especially for small and entrepreneurial firms. The authors note that one plausible explanation for the aforementioned card spending increase is that the new mobile-payment technology reduces transaction frictions by shortening transaction time, which could promote demand for goods and lead to a genuine increase in spending. They investigated this hypothesis and found corroborative evidence. Small and new merchants attract more new customers after the technology is introduced. Card-sales growth does not merely reflect a change in payment behavior by existing customers; the payment convenience generates additional demand by driving retail traffic. New merchants possess a less stable customer base and thus will receive a greater benefit from an increase in consumer traffic.

This paper contributes to the Fintech and digitization literature in that it finds evidence that the enhanced convenience in mobile wallet payment fosters real business growth, especially for new and small businesses, and is not merely a substitutable payment mechanism. The world is shifting to a digital consumer economy. It is important for economies to understand how mobile wallet payments affect economic growth, as well as understand that generational differences exist in managing money and engaging in transactions which will also impact how these financial transactions are conducted.

[1] Agarwal, Sumit, Wenlan Qian, Bernard Y. Yeung, and Xin Zou, "Mobile Wallet and Entrepreneurial Growth," AEA Papers and Proceedings 2019, 109:48-53.

Andrew Malec, Ph.D. *Partner and Managing Director, is the firm's chief economist and head of O'Keefe's Intellectual Property ("IP") Practice Group. He is a recognized expert in providing economic advisory services, litigation support, and valuation opinions.*

TARIFFS

Where are we now?

By Carolyn Riegler

In June of 2018, I discussed the correlation between automotive and agricultural products in the world trade balance equation. For every tariff the U.S. implements, the countries impacted, were implementing retaliatory tariffs on imported goods to strike back at the U.S. trade policy. As imported steel tariffs increased, agriculture exports were hurt with an opposite impact due to tariffs in foreign countries. Soybeans, corn, pork, dairy and more faced tariff increases in China and Mexico from 25 to 40%. In response to the impacts of foreign trade limitations on agriculture products, the USDA announced plans to authorize up to $12 billion for programs to help farmers and ranchers caught in the middle. Steel and aluminum products also faced hardships due to looming price increases on their raw materials, resulting in thousands of manufacturers applying for tariff exemptions.

Fast forward one year....

Some in the manufacturing sector have been successful in obtaining tariff exemption approvals from the U.S. Department of Commerce. The Detroit News reported in the last year, the Commerce Department approved requests from "370 companies for up to 4.1 million tons of foreign steel, with roughly 8 percent of the total coming from China, and close to 30 percent from Japan."[1] Many recipients of the waivers are subsidiaries of foreign-owned manufacturers. These exemptions, however, have not been felt industry wide. The Detroit News also reported on a local supplier, the supplier reported 3 to 4 percent material cost increases since the tariffs went into effect. This manufacturer of automotive components has seen 21 of its steel tariff waivers denied, 15 approved, and 25 are still being processed.[2] The lack of consistency in tariff waiver approvals continues to cause chaos for many manufacturers. The tariff impacts vary widely on a case by case basis.

As for the farmers, what happened to the $12 billion in promised federal aid? According to the publication Successful Farming, "the USDA has received nearly 805,000 applications and paid out $6.4 billion so far to buffer tariff impacts. An additional $1.23 billion could be paid on applications still being processed, which would put the payment total at $7.64 billion."[3] In addition, the USDA reports it awarded $200 million to trade groups and will purchase $1.2 billion in food for donation to public nutrition programs to ease the financial burden of the tariff wars on farmers by purchasing product that cannot be sold to its traditional customers such as China. American farmers continue to bear the financial burden of trade disputes. The Food and Agricultural Policy Research Institute (FAPRI) recently stated "the projected prices for U.S. Soybeans and other products affected by current trade disputes remain below levels that would prevail if foreign tariffs were removed."

In addition to trade constraints, relatively solid growing conditions have produced an oversupply of large crops such as soy, corn and wheat. Farmers in some states have plowed their crops under as there is not enough room to store them in storage facilities because they are unable to sell their products to China. In addition to crops, animal products are experiencing downward pricing pressures due to increasing supplies of livestock and poultry which cannot be sold in their traditional markets. The supplies are increasing because historical customers (China) are no longer purchasing the products in historical quantities.

What about the new Trade Deals?

Much has been said about the new U.S., Mexico, Canada trade deal ("USMCA") which was signed by the three countries on November 30, 2018. The new agreement is touted to significantly improve the trade balance for U.S. companies and workers. While the three countries have reached a new rebalanced agreement, with many benefits to the U.S., it cannot come into effect until the completion of TPA procedures (a legislative procedure written by Congress, through which Congress defines U.S. negotiating objections and priorities for trade agreements), including a Congressional vote to implement the bill. Given the current political environment, this may be an insurmountable task. In addition, on May 31, 2019, President Trump announced an additional 5% tariff effective June 10, 2019. He stated the tariff would take effect "until such time as illegal migrants coming through Mexico and into the U.S. stop."[4] This move may put the new trade agreement back to square one. Tying tariffs to the immigration policy will be a twisted road.

As for China, the trade negotiators for both sides continue to work to find solutions to revamping decades long trade practices. Agreement on the core issues such as patent infringement and intellectual property rights, may be more difficult than others to reach. One of the biggest obstacles will be the negotiation of ongoing enforcement regulations. Additional tariffs were scheduled to go into place by both the U.S. and China earlier this year, however, both sides suspended additional tariff increases to promote a positive atmosphere during the ongoing trade negotiations. This was a promising sign. However, recent developments indicate we are not at the end of the tariff wars. In May, President Trump raised tariffs on $200 billion worth of Chinese goods from 10% to 25% despite the continued negotiations with China. China responded with tariffs on $60 billion of American products days later.

U.S. Secretary of Agriculture Sonny Perdue was joined by multiple USDA undersecretaries and staff in unveiling a general outline of a new farmers' assistance program during a conference call with media, May 23. The new Trade Mitigation Program (TMP) is similar to one implemented last year, although funding for 2019 is boosted by 25 percent to $16 billion, compared to $12 billion last year. Perdue said the higher level of funding is more in line with the estimated impacts of retaliatory tariffs on U.S. agricultural goods and other trade disruptions.

And so it continues... progress is slow and costly. We are feeling the financial impacts all the way from steel to soybeans.

---

[1] Detroit News, February 15, 2018, "Steel Tariffs waived for Michigan firms despite Trump's tough trade-talk."

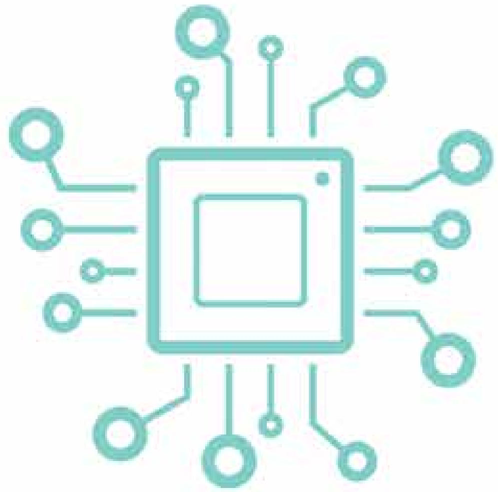
[2] Ibid.

[3] www.agriculture.com/news/business Successful Farmer, "Trump Tariff payments top $6.4 billion as deadline nears," Chuck Abbott, February 5, 2019.

[4] Crains Detroit Business, May 31, 2019, Trump to impose tariff of up to 25% on Mexico, jeopardizing new North American Trade Agreement, Jenny Leonard and Shawn Donnan.

Carolyn Riegler

CPA, CFE, CTP, Managing Director, specializes in litigation support, dispute resolution, forensic accounting, real estate, and business valuations.



RETAIL TODAY:

ADAPTING, EVOLVING AND EMBRACING TECHNOLOGY.

By Patrick O'Keefe

As published in RetailCustomerExperience.com

As traditional retail struggles in many ways with new realities, there exists a pair of myths that persist and pervade most conversations related to the industry. They are:

- Retail brick and mortar is shrinking
- Technology will eventually destroy brick and mortar retail

Such myths are exactly that and, upon further examination, quite far from reality. That said, there are a dizzying array of trends and data that should be reviewed and scrutinized in order to understand what is really going on and the best way forward.

E-COMMERCE IS GROWING:

There is no denying that e-commerce is on the rise and growing at a faster rate than in store with sales values expected to reach $414 billion this year. Not surprisingly, Amazon is still king with 44 percent of all e-commerce sales, roughly four times that of Ebay. Amazon does struggle, however, you might be interested to know, with luxury offerings as consumers are both fearful of knock-offs (watches and jewelry) and desirous of experiencing (touching, feeling, trying on) such items in person.

Much of this e-rise is generational. Generation Z, despite having ultra low incomes, spend the highest percentage of their income online of all demographics (9 percent), while 40 percent of men and 33 percent of women (18-34) say they would ideally like to buy everything online. Convenience is another key factor with 60 percent of all adult Americans saying they like avoiding a crowded mall or store. For some traditional retailers it is not hard to fathom a disdain for technology. However, when understood and utilized correctly, tech can and does serve as an important driver for brand loyalty and creating a true customer experience.

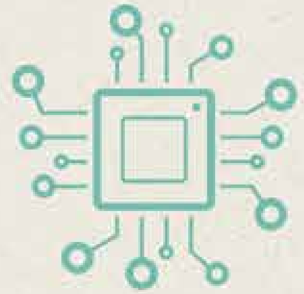
Patrick O'Keefe *CPA/ABV/CFF, CTP, MAFF, Founder and CEO, recognized expert in the fields of strategic advisory services, corporate reorganization, debt restructuring, turnaround consulting, due diligence support, valuation and litigation support.*

TECHNOLOGY AS A TOOL

While there have been a tremendous amount of store closings over the past four or five years, the pendulum appears to be swinging the other way with more and more physical stores opening their doors. In fact, when you look at overall statistics, store sales still make up a strong 85 percent of all retail sales. And while technology has been the bane of existence for many traditional sellers (look at consumer electronics) many savvy retailers understand if you can't beat it, join it – and improve upon it. Statistics show, in fact, that 55 percent of online shoppers would prefer to buy from a merchant with a physical store presence over an online-only retailer. Seventy-two percent of young shoppers research online before purchasing in a store to check prices and customer satisfaction ratings. Moreover, three out of four customers are more likely to visit a physical store if its online information is useful – with digital interactions influencing 36 cents of every dollar spent in a brick and mortar store.

Doing this as well as anyone I've seen of late is international clothing retail company Hennes & Mauritz, better known as H&M. They have proven that they understand the importance of melding online with in store. A recent video ad demonstrates this well. A young woman is sitting on a bench outside watching friends play basketball and flipping through a magazine. In it, she sees another girl wearing clothes and shoes and jewelry that catch her eye so she takes a picture with her cell phone. The phone then details the items' brands, prices and where she can shop locally to purchase them. As she is leaving to head to an H&M someone else sees the clothes and shoes the first woman is wearing and takes a picture of her – and the experience begins anew. And that is what is key for established in store retailers today: creating a unique, positive and meaningful experience; one that provides current and potential customers with the ability to interact and be informed – in person and online.

continued on page 16



continued from page 15

INTERACTION LEADS TO ACTION

And when you talk about interaction, that discourse not only means communication between retailer and consumer. Online reviews and recommendations from family, friends and other online users also greatly influence spending. In fact, 55 percent of shoppers say that online reviews influence their shopping experience, while 36 percent of consumers spend 30-plus minutes comparison-shopping before making a decision on purchasing a commodity product.

And while many seek to avoid crowds while shopping in person, data shows we are still quite literally social animals. From Facebook to Instagram and everything in between, social media is becoming more and more influential in consumer buying decisions.

Consider the following:

- 85 percent of orders from social media originate with Facebook.
- 62 percent of consumers share local deals with friends.
- 40 percent of 18 to 34-year-olds are likely to use social media for gift ideas.
- 25 percent of U.S. consumers will consult social media before buying a gift.

For retailers, here's the real kicker: 78 percent of small businesses attract new customers and engage current ones using social media.

The positive customer experience imperative

Earlier in this article I referenced the work of H&M in creating and promoting a unique shopping experience. It is also vital that that experience is a positive one – whether online or in store. The facts are, once again, in the data. U.S. brands are losing approximately $41 billion each year due to poor customer service; 65 percent of consumers have cut ties with a brand over a single customer service experience; and 64 percent of people believe customer experience is more important than price.

To be sure, brand loyalty is essential. And here's why: The probability of selling to a new customer is between five to 20 percent, while, the probability of selling to an existing customer is between 60 to 70 percent. Further, it costs six times more to attract a new customer than to retain an existing one and loyal customers are worth up to 10 times as much as their first purchase.

CHANGING IN-STORE EXPERIENCE

We've established that for today's brick and mortar retailers, technology should be embraced and not eschewed. But what else are today's savvy marketers doing to stay viable and attract shoppers to their storefronts? How are they adapting and evolving? Again, it is all about offering unique experiences, products and other offerings. Seventy-three percent of consumers say they prefer to do business with brands that personalize the customer experience. Saks offers in-store technology that allows you to see yourself in a variety of hair and makeup styles with virtual and augmented reality. Similarly, visit Ikea and they'll demonstrate how new furniture and home décor offerings will look in your home. Visit Dresden Optics and you can customize your eyewear, with a variety of interchangeable lenses, frames, sizes and colors. Never mind Build-A-Bear, now we can build a watch or a purse or virtually anything. And, to get you coming back, technology prompts and pings make sure consumer and retailer stay in close contact with a range of coupons and other incentives. Remember H&M referenced earlier? They now offer the opportunity to return and recycle old clothes. Target, meanwhile actually has three varying store concepts — traditional, downtown and small — to more effectively fit into the fabric of the particular community it is serving. Small in fact is big. To stay nimble, more and more smaller stores are opening up. This is particularly ideal for independent and start up retailers as there is less need for working capital to fund and carry inventory.

FINAL THOUGHTS

As has been demonstrated, for traditional retail, the sky is far from falling. Rather, the focus should be on embracing technology and social networks and the big data information it brings along with the ability to more inter-personally interact with customers. The foundation of good retail, however, has not and will not change. It must evolve but will forever be predicated on good old-fashioned customer service – giving the customer what they want, how they want it and when they want it. That, in turn, breeds loyalty, sales and a healthy bottom line.

Did you Know?

Congratulations
to Grow Michigan's Winners!

Grow Michigan recognized two Michigan based companies for their outstanding growth in creating Michigan jobs and economic development.

MMI Engineered Solutions received the economic impact award for increasing jobs from 87 to 220 at their Saline, Michigan plant. The Company specializes in tooling and injection molding for the automobile industry.

Firstronic, a circuit board assembly company for the automotive and medical industries with a plant in Grand Rapids Michigan received Grow Michigan's Deal of the Year award for its substantial growth in sales and employment in 2018. The Company increased its employment by 50 jobs and watched its sales increase over 45% in 2018 since Grow Michigan's funding.

Save the Date

Patrick O'Keefe and **Stephen Weber** are speaking at the Federal Bar Association - Western District of Michigan's 31st Annual Bankruptcy Section Seminar.

On Saturday, July 27th, Pat O'Keefe will be on a panel titled, RSAs and Liquidating Trust Agreements – Plans of Mice and Men.

On Sunday, July 28th, Steve Weber will be on the panel titled Agricultural Insolvencies – Rain on the Scarecrow; Blood on the Plow.

For more information on this Seminar, please visit: https://westmichiganfederalbar.org/event/2019-summer-seminar

Keith Chulumovich has been promoted to Managing Director. He is an accomplished finance leader focused on strategic and operational planning, executing financial goals, business analysis and financial reporting, process improvement, and financial services. Keith's breadth of industry experience includes leasing, manufacturing, logistics, supply chain, and real estate. He is experienced at working for private equity and in both large public and high growth privately held companies and has expertise in international companies, working capital management, financial analysis, strategic planning; turnaround/profitability improvement initiatives, management of operating budget and forecast planning cycles. Keith is an innovative problem-solver utilizing data analysis and business process development and standardization to optimize efficiencies and deliver cost effective solutions within complex business and reporting structures.

Katie Montague has been promoted to Senior Associate. She specializes in preparing complex financial analyses for use in litigation support assignments, including shareholder disputes, automotive recalls, and breach of contract matters. She also provides strategic advisory services to struggling companies, most recently serving as a financial advisor to the creditor committee for a large bankruptcy filing in Wayne County.

Katie also has experience in forensic accounting and preparing valuations for estate planning.

Matthew Rizzo is an honoree of National Association of Certified Valuators and Analysts' (NACVA) 40 under 40. This award exemplifies the brightest emerging leaders in the profession.

Matt provides business valuation expertise in many types of transactions including, but not limited to mergers and acquisitions, shareholder disputes and gift tax valuations providing objective, independent valuations according to facts and circumstances. He provides litigation economic damages analysis to clients with a variety of issues, such as, patent infringement, warranty breaches, and contract disputes within many different industries. Matt also provides extensive corporate turnaround consulting services with hands-on experience with tech companies, consumer product manufacturers and consumer goods & services companies.

We are proud to announce that **Amanda Rymiszewski** was named the 2019 Community High School Mentor of the Year by Winning Futures, nationally recognized in empowering students to succeed through mentoring, life skills development, goal setting, job readiness training, and career exploration. Winning Futures hosted its 25th Anniversary Awards Celebration on Tuesday, May 14, 2019, at Club Venetian in Madison Heights where Amanda was honored at the sold-out, invitation-only event.

Anson Smuts has been promoted to Director and Senior Economist. He utilizes strong knowledge of accounting and finance principles, mergers and acquisitions, business valuation, intellectual property, and data analysis to identify strategies for business growth and development. Anson has assisted clients with post-acquisition disputes involving earn outs and working capital adjustments, business valuations, financial budgeting and projections, damages in intellectual property matters, damages in fiduciary duty and employment matters, and fraud investigations.

O'Keefe
2 Lone Pine Road
Bloomfield Hills, MI 48304
www.okeefellc.com

Special Financial Tech Issue Inside:

Fintech: Competition or Cooperation?

Residential Real Estate: The iBuyers

Fintech Apps and Behavioral Economics

Mobile Payment and the Economy

O'Keefe

Clarity. Results. Together.

ENTERPRISE CONSULTING • LITIGATION SUPPORT • STRATEGIC ADVISORY SERVICES • TURNAROUND AND RESTRUCTURING