

# SelfInformed

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# GOING ELECTRONIC

## How To Squeeze Paper Out Of Your Payment System

By Don Sadler

Remember when grocery store baggers started asking whether you wanted paper or plastic bags?

Now many micro-business owners have to answer a similar question when it comes to their payment systems: Do you want to send and receive payments via paper or electronically?

About two decades ago, major U.S. financial institutions and the Federal Reserve began a concerted effort to replace the billions of paper checks written each year with electronic funds transfer, or EFT. While we're still far from a paperless payment society, EFT is making serious inroads as the preferred payment vehicle in the U.S.

*Even a business with just a few employees can benefit from direct deposit.*

The 2010 Federal Reserve Payments Study found that 24.5 billion checks were written in the U.S. in 2009, which was down about 7 percent from three years earlier in 2006.

Meanwhile, the number of electronic payments made via the automated clearing house, or ACH, rose more than 9 percent, from 14.6 billion in 2006 to 19.1 billion in 2009.

“The increase in electronic payments and the decline of checks can be attributed to technological and financial innovations that influenced the payment instrument choices of consumers and businesses,” the Federal Reserve noted in the study.

In other words, there are more cost-efficient options available to business owners when it comes to making and receiving payments electronically than ever before.

David Allen, a treasury management officer with Regions Bank in Benton, Ark., says that the cost of ACH payments has gone down considerably in recent years.

“And ACH payments are a lot cheaper than processing checks or initiating a wire transfer,” Allen says.

Here’s what you need to know when deciding if electronic payments are right for your micro-business.

## TYPES OF ACH PAYMENTS

There are three primary types of ACH payments.

### 1. ACH debits and credits

These can be either business-to-business or business-to-consumer payments.

On the B2B side, you can pay your vendors and suppliers via ACH credits, or they can collect funds from you via ACH debits to your account.

“Most businesses prefer initiating ACH credits, rather than having their accounts debited by vendors, because it gives them more control,” Allen notes.

If your customers are primarily consumers, you could follow the B2C ACH payment model that’s become common among many utility companies and health clubs. These were among the first businesses to begin using the ACH to collect consumer payments electronically on a large-scale basis.

“Small businesses can enjoy the same cost-saving and cash flow benefits,” says Allen.

### 2. Direct deposit

Today, about three-quarters of all employees are paid electronically via direct deposit instead of receiving a traditional paper paycheck, reports the National Automated Clearing House Association.

However, small businesses aren’t as likely as larger companies are to offer their employees direct deposit, says George Throckmorton, the association’s managing director of advanced payment solutions.

“Our research shows that small businesses aren’t as aware of the benefits of direct deposit and how it works as larger firms are,” says Throckmorton. “But even a business with just a few employees can benefit from direct deposit.”

### 3. Federal, state and local taxes

The ACH has become a common funds transfer mechanism for the payment of business taxes at all levels of government.

“You don’t want to be late with your tax payments,” Throckmorton says. “Making them electronically provides assurance and confirmation that they’re posted on time.”

## COST VERSUS BENEFIT

Throckmorton says many micro-business owners are hesitant to venture into the world of electronic payments because they’re not convinced the benefits outweigh the costs.

“This is a hard segment to help get over the hump from paper to electronic, because every dollar counts for these types of businesses,” says Throckmorton. “But once they realize the benefits, most of them see electronic payments in a whole new light.”

What benefits might you expect for your business?

### Greater efficiency

Electronic payments allow businesses to automate much of the payment process, which improves efficiency. For example, if you make regular monthly payments to a supplier, you can set it up with your bank so that payments are made automatically on the due date.

“The business doesn’t have to remember to write and mail checks or re-key the same information into its accounts payable system every month,” says Throckmorton.

## The NASE Can Help

The NASE’s new partnership with First American Payment Systems gives you access to credit card processing with rates as low as .08 percent and 10 cents per transaction over cost.

With **First American Payment Systems** you get the products you need to help your business grow and a variety of service options such as:

- Free online reporting and statement analysis
- 24/7 in-house customer service and technical support
- Experienced team to walk you through product installation
- Easy-to-understand merchant statements

**First American Payment Systems** has the ability to enhance your micro-business with:

- Credit, debit, gift card, check and EBT processing
- ACH (recurring payment) processing
- E-commerce processing
- Equipment purchase and lease options
- And much more!

Have questions about electronic payments and other micro-business issues? The **NASE micro-business experts** can help.

These professional consultants can answer your questions, offer advice and help you avoid costly mistakes. Plus, as an NASE Member you have online access to our **team of consultants** 24/7—at no cost to you.





*Most banks can offer comprehensive solutions and packages that make it easy for small businesses.*

### Improved cash flow

Receiving payments from clients electronically via the ACH provides significant cash flow advantages. It means you're assured that payments will be made automatically on the date they're due, rather than waiting for checks that may or may not be in the mail.

Also, checks don't sit on your desk or bookkeeper's desk for days (or weeks) before they're deposited, further boosting cash flow and improving cash flow forecasting.

### Lower payment processing costs

While there are modest fees associated with ACH transactions, the increased efficiency of electronic funds transfer more than makes up for them.

For example, the National Automated Clearing House Association reports that businesses can save from \$2.87 to \$3.15 per payment by using direct deposit instead of paper checks.

### Environmental friendliness

Electronic payments are a green alternative to writing, mailing and processing paper checks. They also reduce the resources used in the creation and transportation of checks.

### Security

Although some micro-business owners voice concern about the security of electronic payments, their worry is unfounded.

The National Automated Clearing House Association reports that since the inception of the ACH nearly 40 years ago, there has not been a single reported instance of an ACH payment being lost.

## GETTING STARTED

Allen, of Regions Bank, says that micro-business owners who want to make electronic payments should first talk to their banker.

"Most banks can offer comprehensive solutions and packages that make it easy for small businesses and self-employed individuals to make and receive electronic payments."

A limited, but usually sufficient, number of ACH transactions is included in most banks' online banking packages, he notes.

For example, small businesses can conduct up to 150 ACH transactions a month—regardless of whether they are debits or credits, payroll direct deposits or tax payments—as part of the Regions Bank Online package.

In addition to ACH transactions, most online banking packages provide access to previous-day and real-time account information. They also usually allow owners to make transfers between accounts and send wire transfers.

Finally, Allen points out that many of the small businesses he works with don't have a choice of whether or not to receive payments electronically.

"Many large national and big-box retailers require their vendors to receive payments electronically. The good news is that it's easier and cheaper today than ever for small businesses to comply with this requirement." ■

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**Don Sadler** is a self-employed freelance writer who now receives some of his payments electronically.



# Who Is Angie?

And Why Should You Be On Her List?

*By Jan Norman*

Would it be a blessing or a business killer if the whole world knew what your customers thought of your micro-business?

In the social media age, the question isn't if, but in what format, people tell others what they think of your company.

There are literally millions of websites, blogs and articles online that carry information and reviews about businesses, products and services.

To get an idea of what you—as a micro-business owner—face, let's look at just four of the popular consumer/business websites:

1. [Angie's List](#)
2. [Service Magic](#)
3. [Yelp](#)
4. [The Better Business Bureau](#)

Each has a different business model as well as benefits and drawbacks for micro-business owners who are trying to differentiate their companies and attract customers in a crowded marketplace.

Understanding how these four well-known sites work can help you evaluate other sites built on similar models.

## How They Work

The [Better Business Bureau](#) is the oldest of these business rating sites.

Founded in 1912, the Council of Better Business Bureaus is the umbrella for more than 120 locally-owned, independent franchises. The bureau gives A+ to F grades to millions of businesses. It also offers mediation services when a customer and business have a dispute.

Access to these ratings is free online at the [Better Business Bureau](#).



*“Recent statistics have proved that consumers are reviewing and conversing about businesses.”*

**Angie’s List** has an ever-growing database of mostly service businesses and medical professionals in 500 categories, with consumer reviews written by more than a million dues-paying members. The company says it gets 40,000 new reviews a month at the site.

**Service Magic** pre-screens licensed contractors and some services such as photographers. Consumers then visit the site, input their needs and receive three to four referrals. The businesses pay for each referral they get.

**Yelp** combines user reviews, social networking and local search. Businesses can be listed for free. And the site doesn’t charge users to write a review. Yelp makes its money by charging companies for better placement in search results and for extra features in their listings.

## What They Cost

The **Better Business Bureau** doesn’t have members. Instead, businesses are accredited for an annual fee that’s determined by company size and location.

For example, the Louisville bureau charges \$405 for a business with one to three employees and \$3,500 for companies with 1,500-plus employees. The Greater Maryland bureau charges \$399 a year for one to two employees and \$6,635 for 1,251 to 2,500 employees. Dispute mediation fees also vary.

The **Better Business Bureau** allows a business to promote its accreditation, which is seen by many consumers as a Good Housekeeping Seal of Approval for businesses.

On **Angie’s List** only consumers who pay about \$5 a month are allowed to write reviews, which the company says improves the quality of the comments. Businesses can respond to their reviews for free. If a company has at least two A or B ratings, the owner can buy ads on the site.

**Service Magic** charges its contractors referral fees of \$7 to \$50 per lead, depending on the type and size of a job.

**Yelp** listing enhancements can run \$300 a month, according to micro-business owners who have tried them.

## How To Maximize Benefits

“Recent statistics have proved that consumers are reviewing and conversing about businesses,” says Manal Richa of MarCom Network, a marketing and creative agency in Irvine, Calif.

“So for business owners it would be best to be online, to connect with consumers and prospects, answer their questions and comment on their reviews.”

The **Better Business Bureau** has influence with millions of Americans and Canadians, so a business that receives a notice of a complaint from the bureau should respond immediately and completely. One unanswered complaint can draw an F grade.

Any business that pays for accreditation should use the BBB symbol in an area visible to the public, such as on websites, in marketing materials and at storefronts.

To get the most out of **Angie’s List** and **Yelp**, business owners should encourage customers to post reviews about their companies, products and services. Owner should also participate and respond using the social networking aspects of each site.

## Watch For Pitfalls

Many consumers think the **Better Business Bureau** is a sterling consumer protection advocate. After they find out that the bureau charges businesses for accreditation, some lose trust in the whole process.

Also, many people see the **Better Business Bureau** as becoming irrelevant as social media and business review sites gain traction with consumers.

**Angie’s List** says it verifies reviews to make sure companies aren’t “stuffing the ballot box.” But business owners have reported getting around the verification by using email addresses and contact information under different names.

## The NASE Can Help

The NASE can help you master online marketing and other business skills by paying for business seminars, conferences and other training.

Through the NASE's **Succeed Scholarship™ program**, association members can apply for awards of up to \$4,000 to pay for continuing business education.

The scholarship money can be used for:

- Participation in seminars and conferences that support the growth of your business

- Training courses for business certifications and licensing
- College or university courses, either online or through a local institution

This is your opportunity to apply for a scholarship that will help you polish your business skills, gain new knowledge and stay up to date in your industry.

Learn more about the NASE's **Succeed Scholarship™ program** and apply online.

NASE Succeed Scholarships are awarded at the sole discretion of the NASE. Unfortunately, not everyone who applies will receive a scholarship. Decisions of the selection committee are final and are not subject to appeal. No application feedback will be given.

*Angie's List has an ever-growing database.*

For consumers, **Service Magic's** database of businesses may be thin in some categories and communities. Some business owners complain that consumers give bogus contact information or seek free tips and then don't sign a contract.

**Yelp** is strong in such metro areas as New York City and Los Angeles, but not in many small communities. Although 85 percent of its reviews are positive, the site has been criticized for unfair negative reviews, sometimes written anonymously and—some owners claim—by competitors. **Yelp** won't censor the reviews.

*Service Magic pre-screens licensed contractors and some services.*

## Next Steps

If your micro-business hasn't yet made the leap into social media review sites, you need to jump in soon.

Take time to visit the sites. Look at listings for companies similar to yours in size, industry and geographic location. What kind of ratings and reviews are they getting? What kind of feedback are they giving to consumers?

If you're not sure that **Angie's List** or a similar site is right for your business and your budget, talk to other business owners. Find out whether paying for placements and/or referrals generates leads or sales or both. ■

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Writer **Jan Norman** knows the importance of social media for small businesses. Read her **blog** at The Orange County Register.



## SMALL TAX TWEAKS

# Could Help The Self-Employed

By Kristie L. Arslan

We can all agree that the **tax code could be more fair** for Americans who want to start their own small business. It's one of the pillars of the **national self-employment initiative** that the NASE has been urging policymakers to adopt.

Now President Obama is joining the fight for fair taxes. One of the key components of his **American Jobs Act** is a further extension of last year's payroll tax cut for employees. In 2011, the employee FICA contribution stands at 4.2 percent, a cut of 2 percent. The President's proposal would cut the employee contribution even further to just 3.1 percent. Employers would also see their contribution halved to 3.1 percent.

### A PAYROLL TAX CUT

For the nation's nearly 22 million self-employed business owners, **extending the payroll tax cut** to employers is a big deal because they pay both the employee and employer portions of the FICA contribution. The NASE has been arguing that extending the payroll tax cut to employers will decrease overall tax liability for the self-employed in the short-term. The Jobs Act will also help these businesses generate growth for the long-term.

**A few small changes to the tax code would make a big impact on the nation's smallest businesses.**

The tax relief will extend to the four different types of **business structures** that the self-employed have to choose from: sole proprietorship, partnership, corporation and limited liability company. Each business structure pays the same amount in FICA taxes and each has certain advantages and disadvantages that a new entrepreneur must take into consideration. Tax advisor and legal counsel are just two of the hats that self-employed business owners must wear when starting out.

The tax relief included in the American Jobs Act may help some of the current unemployed and underemployed seek out self-employment as a job option. It will also help millions of existing businesses generate economic activity and help our economy return to prosperity.

### A LEVEL PLAYING FIELD

Let's face it: Corporations are treated differently than self-employed businesses in the U.S., especially when it comes to taxes.

A corporation is able to write off the amount it pays for its employees' health insurance, thereby lowering its taxable income. Self-employed business owners, on the other hand, are the only type of business that must pay for health insurance with post-tax dollars. This makes health insurance very expensive for many of the self-employed—costing them money that could otherwise be spent on advertising, phone lines or even hiring additional workers.

A few small changes to the **tax code** would make a big impact on the nation's smallest businesses. Many more people may go into business for themselves—keeping them off of the unemployment rolls—if it was easier to do so.

### THE NASE CAN HELP

There's much to think about in terms of tax implications when starting a business, and entrepreneurs won't necessarily have a CPA or tax lawyer at their disposal to navigate through the many different considerations.

Fortunately, the NASE has **resources available** for those interested in starting a new small business—resources that can help new business owners navigate the current regulatory landscape to ensure they succeed. ■

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**Kristie L. Arslan** is president and CEO of the NASE and provides critical insight to policymakers on issues affecting our nation's self-employed. You can contact her at [advocacy@NASE.org](mailto:advocacy@NASE.org).





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