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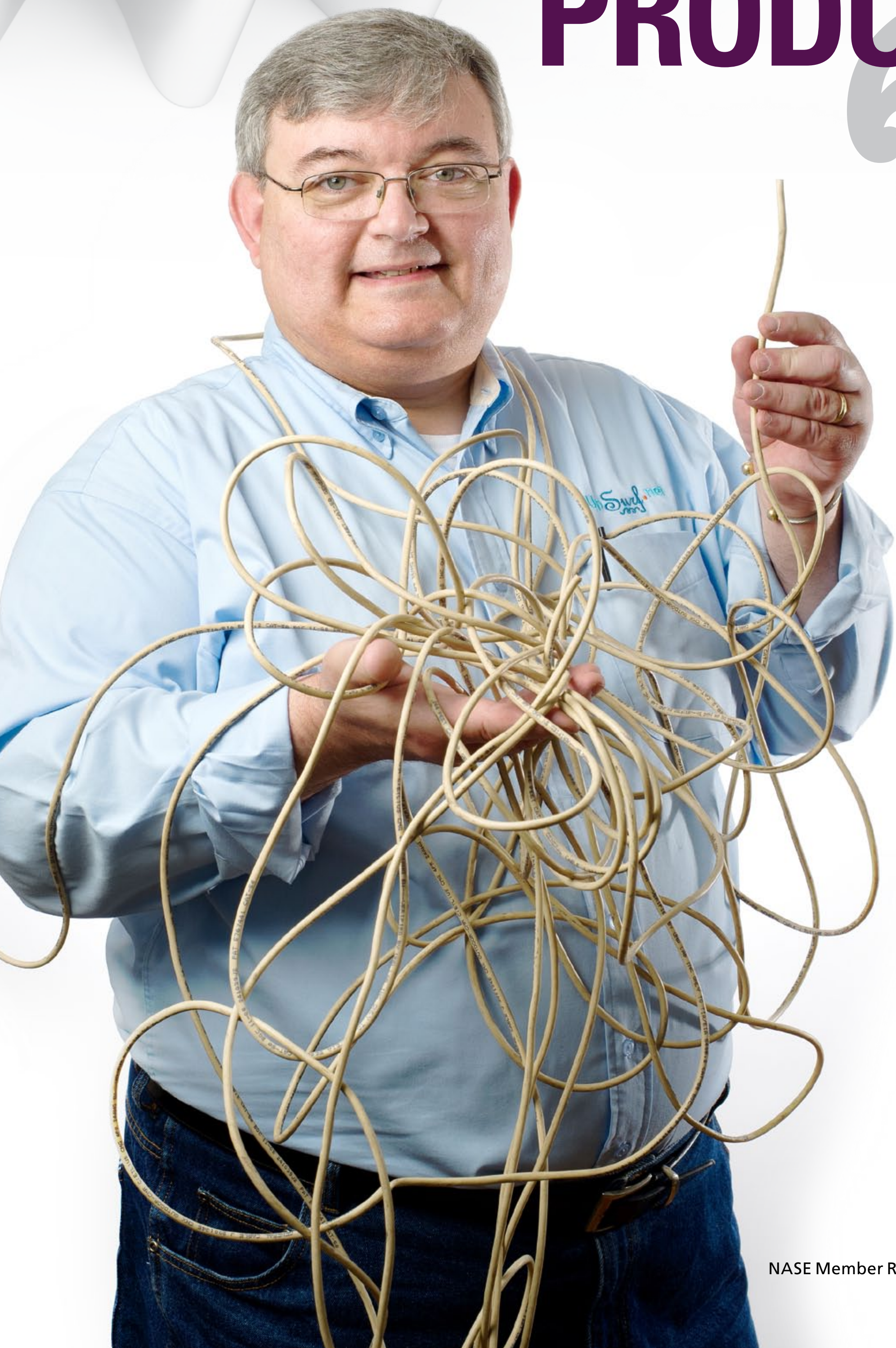
TABLE OF CONTENTS

PRODUCTIVITY 2.0

Productivity Carries New Meaning For NASE Members



NASE Member Robert Rogers.

By Jan Norman

Micro-business owners love to be productive. The ability to work hard and reap the full reward for the effort is the reason many NASE Members started their own businesses in the first place.

During good times, when micro-business owners are firing on all cylinders with more work than time, improving productivity means choosing the most profitable products or services. It means keeping the best clients and ending relationships with customers who are too demanding. And it means finding ways to complete tasks and projects faster to increase profitability.

That's during the good times.

In the not-so-good economic times, things are different. And that's what many micro-business owners are experiencing right now.

In these times, the cylinders are misfiring. In many businesses, products or services are barely profitable, and too few customers—demanding or otherwise—are available to fill the hours the owner needs to work just to meet the bills.

"What you have to remember is that productivity has always been very cyclical. When the economy sags, productivity sags," says Princeton University economist Alan Blinder.

The challenge right now for many micro-business owners is very different than it's been in the past. Instead of finding ways to work more efficiently, the task at hand is regaining enough work to fill the workday.

The bottom line? NASE Members say that productivity has taken on a new meaning in today's economy.

Create Value

NASE Member Robert Harvey, owner of RH Services Property Maintenance in Boothwyn, Pa., recently lost his biggest client. So after more than 17 years in business, productivity improvement for him means finding new clients to replace the lost work.

"I've had this happen before; a large client goes in a different direction," Harvey says. "So I'm confident we can recover."

He is using a two-prong strategy.

RH Services has specialized in commercial, retail and restaurant clients. Now Harvey is broadening his search to owners of residential projects. Second, he has hired a full-time salesman to knock on doors, which should bring in more business while freeing up time for Harvey to cultivate relationships with company decision-makers.

"The property maintenance business is all about relationship building," he says. "As clients expand, they bring us onboard for more work based on the quality of the work we have done for them in the past."

Years ago, Harvey contacted a fast-growing retailer and started completing construction cleanup at its new stores. That work led to a steady stream of contracts to handle a variety of ongoing property maintenance.

"Productivity has always been very cyclical."

Times have changed. Currently, he will accept work for odd hours, such as 7 p.m. to 2 a.m., to keep his employees busy and get a foot in the door with other companies that might replace the work RH Services recently lost.

Whether starting a new venture or rebuilding an existing one, productivity, at its most fundamental, equals value divided by time, explains personal development author and blogger Steve Pavlina. To increase productivity, you must either increase the value you create or decrease the time you spend to create that value, he says.

Right now, Harvey is creating value by finding new clients. He hopes that effort will pay off so that he can decrease the time he spends finding new work and devote more of his time to increasing his company's value to good paying clients.

Plan First

Such productivity improvements require planning, continuous improvement and smart use of technology, say the experts.

A good place to start is defining what productivity means for your specific business, which will be different for different firms.

California consultant, speaker and author Jason Jennings studied more than 4,000 companies worldwide to find the most outstanding examples of productivity. He discovered that the most productive companies had a simple, big objective that everyone in the organization understood.

He describes some of these companies in his book "Less Is More: How Great Companies Use Productivity as a Competitive Tool in Business" (Portfolio, 2002). These companies, Jennings says, identified the factors that could improve productivity and measured them constantly. And for every potential action or project, they asked, "What's the good business reason for doing this?"

2 WAYS THE NASE CAN HELP

1. Ask The Experts

The professional Business Strategy Experts give NASE Members confidential and convenient online service. Turn to the specialists when you need:

- Answers to productivity questions
- Advice for moving your business forward
- Tips to make changes happen more easily

NASE Members have unlimited access to the small-business experts. And the cost is included in your NASE Membership.

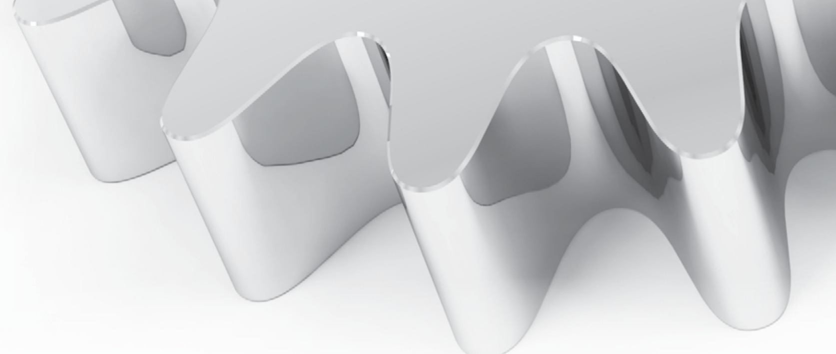
2. NASE Growth Grants™

Need to invest in new technology to boost productivity at your micro-business? Want to replace ineffective advertising with a more productive online marketing campaign?

An NASE Growth Grant™ could provide the funds you need. The $5,000 grants are designed to help you meet a specific business need. To be eligible for an NASE grant, you must be an NASE Member in good standing and meet other eligibility requirements.

You can find out more and apply for an NASE Growth Grant™ online.

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



An owner of even the smallest business can take those same actions to build greater productivity.

NASE Member Richard Fowler, for example, questioned why he accepted insurance payment for clients at his Prestonwood Counseling Center in Dallas, Texas.

"I found insurance companies were waiting months and months to respond [to invoices] and then they said 'you didn't fill out the papers right.' The [accounts receivable] were tremendous."

So instead of insurance payments, Fowler switched to a sliding scale of fees according to clients' income.

The result? Fowler actually increased his revenues and served his clients better in the process.

"I've tried all sorts of productivity improvements, but the best is being a good counselor. Eighty-five percent of new clients are referrals," says Fowler.

Use Technology Wisely

Many makers of software, smartphones and computers market their products and services as great productivity enhancers.

But NASE Member Robert Rogers urges caution and research before spending on technology. Otherwise, you could end up with an expensive toy rather than a productivity tool.

Rogers knows firsthand what he's talking about. He owns UpSurf.net, a computer repair and website building service in York, Maine.

"Technology is my business, but even I know all technology isn't for everyone," he says. "In these tough times, I have been using my computers and software as long as possible, staying away from impulsive buying because advertisements promise to help my business.

"When I do spend money on technology, I research it until I know everything there is to know, figure how long before I get my return back from this purchase and where this return will be coming from," he explains.

One technology purchase that paid off for Rogers was a software system to process invoices, track sales and manage customer information. The time he saves, plus the information he collects that can help his marketing, "make this expense well worth it," he says.

Fowler says his counseling center also started using technology to make the practice more efficient and to save money.

At the center, each counselor has his or her own independent practice, but they share office expenses. They eliminated a secretary, and each now uses software programs to perform scheduling, billing, recordkeeping and client maintenance, Fowler explains.

Know What Works

Maximizing productivity is not a one-size-fits-all process.

That's why micro-business owners are likely to try things they expect to improve productivity and discard what fails to produce desired results.

Property maintenance contractor Harvey says he learned that discount offers and newspaper advertising doesn't save him time or bring in more business.

"In the commercial field, those things don't reach the owners we need," he says.

Fowler says he found that advertising in the Yellow Pages was unproductive for his counseling practice.

But, teaching seminars was a double dose of productivity. He earned money by conducting the seminars, and they brought in more clients.

Rogers says that mass email marketing campaigns to strangers proved unproductive for his technology firm. The biggest productivity producer has been sending special offers to people who know him or have done business with him before.

"Using a very inexpensive, online emailing system has created a great deal of word-of-mouth referrals for my business," he says.

Some productivity builders don't work all the time, Rogers adds.

In the past, he tried hiring part-time technicians and office managers with the idea that the more staff he had as a resource, the more he would be able to accomplish in a day.

But, the time and effort it took for training proved to be a big downside.

Currently, his is a one-person business that uses outside contractors and occasional college students who he can bring into the office a few hours a week to help with paperwork.

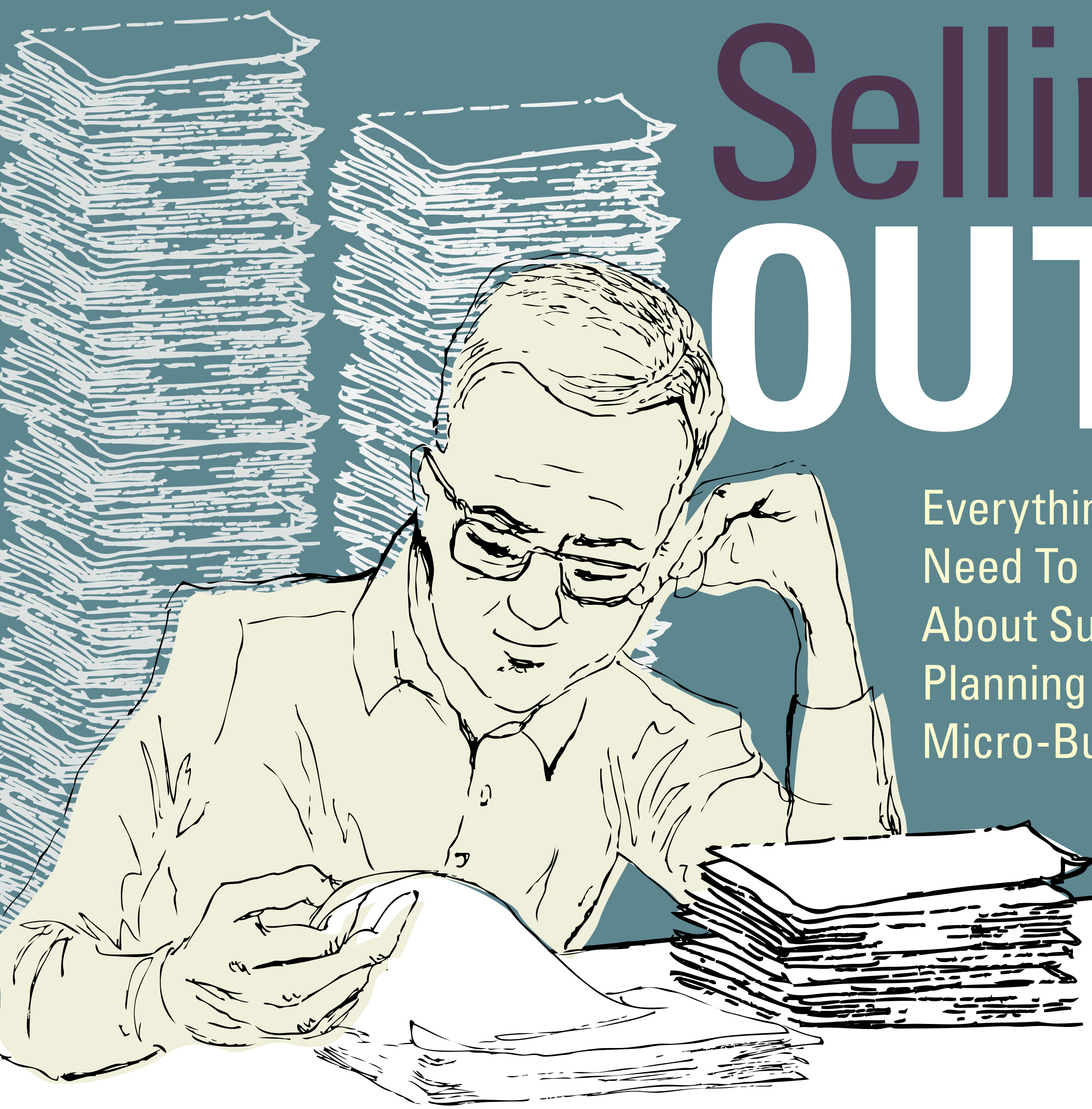
Continue To Improve

Often, the concept of making a micro-business more productive can seem overwhelming, especially in a slow economic recovery. But it doesn't have to be accomplished overnight.

Consultant Debbie Gilster, head of the California-based Center for Productivity, says, "Most people don't get organized because it's an overwhelming process. So take one major thing you want to change and do that. Don't do a list of 15 or 20 things." ■

Maximizing productivity is not a one-size-fits-all process.

Jan Norman is a freelance writer who uses to-do lists and online calendar reminders to be more productive. Read her blog at **http://jan.ocregister.com**.



Selling OUT

Everything You Need To Know About Succession Planning For Micro-Businesses

By Don Sadler

Many micro-business owners have a hard time envisioning anyone else running their company. It's your baby, after all, and you've built it from the ground up with your own blood, sweat and tears.

The reality, however, is that eventually there will come a day when you'll transfer ownership and management to someone else.

Unfortunately, many small-business owners have given little if any thought to the idea of succession planning. The difficult emotional issues involved and the potential complexity of the process can make it easy to shove succession planning to the back burner.

"Most owners haven't given succession planning much thought beyond 'I ought to do something,'" says David Geller, principal of Atlanta-based GV Financial Advisors, a financial planning firm that specializes in working with private and family business owners. "But it's critical that owners think through what they want to happen to their companies when it's time to hand over the reins."

And that includes solo entrepreneurs or business owners with just a few employees. Here's what you need to know.

Build Value Today

Your business represents your occupation and livelihood today, and probably your retirement income and financial security tomorrow as well. Therefore, failing to plan for business succession can threaten not only the ongoing viability of your company, but also your financial future after exiting the business.

This makes it critical to concentrate on building value in your business today while devising a plan to monetize this value in the future to meet your retirement or other post-business income objectives.

There are numerous ways to create more value in your business—or as the experts say, to create value drivers.

"Value drivers can reduce a buyer's risk in purchasing your business and enhance the prospects that it will grow significantly in the future," says Geller.

Jay Carter, managing director at Greer & Walker Corporate Finance, a Charlotte, N.C.-based exit planning and investment banking firm, identifies six key value drivers for most small businesses:

1 Corporate records, legal documents and contracts: Do you have copies of all agreements the company has entered into, and are they current and in good standing?

2 Financial statements and controls: Are solid controls in place and well documented? Are your financial statements readily available and accurate? You might consider having your financials audited or reviewed by a reputable accounting firm one to two years before exiting the business.

> "When selling to external buyers, you'll want to determine the highest possible value for the business.

3 Management team: Is a seasoned and experienced team of managers ready to assume your day-to-day responsibilities and help ensure a smooth transition to new ownership?

4 Technology: Is your technology up to date and sufficient to meet the demands of your customers and your industry in general?

5 Growth: Do you have a realistic growth plan for the business?

6 Customer concentration: Is your customer base diversified? For example, does any single customer represent more than 10 percent of your revenue? Potential buyers will view heavy customer concentration as a risk that diminishes the value of your business.

Geller adds one more key value driver for most small businesses: the owner's relationships with clients, vendors and other key partners.

"One of the keys to maximizing the value of a business is creating a structured plan for transitioning those relationships to the new owner and management team," Geller explains.

Answer Key Questions

Carter lists three questions you should ask yourself as you begin thinking about your business succession plan.

1 When do you think you'll be ready to leave the business?

You might plan on running your business until retirement—if so, how long do you want to keep working?

"Either way," says Carter, "give some thought now to when this might be, so you can start planning accordingly."

> An experienced succession planning team helps you avoid what's avoidable and deal with what isn't.

2 How much money will you need to realize from the sale of your business to meet retirement income needs?

3 To whom might you want to sell your business? Your primary options include:

- Internal buyer

  This may be employees via an employee stock ownership plan or a management team via management buyout. Or you might want to sell to your family members or heirs.

  Often, getting the most money possible isn't the primary goal when selling to internal buyers. Rather, ensuring employment security for staff and family members and the continuation of your business legacy might be more important.

  In this case, you might be willing to accept less money and less favorable (perhaps even riskier) terms to make the sale happen.

  "Here, you need to determine the lowest value you can accept and defend for the business," says Geller, "because this will impact the taxes you and the insiders pay and whether both sides can achieve their financial goals."

- External financial buyer

  This may be a private equity group or an individual. Private equity groups look for companies with strong growth potential that they can later sell for a large profit and return on their investment.

  "Individual buyers may also be interested in the future value, but tend to be more focused on recurring income," Carter adds.

- External strategic buyer

  These buyers often seek businesses whose products or services complement their own. Or, they may be looking to increase market share by acquiring your customer base.

  "Often, strategic buyers are willing to pay a higher price than financial buyers," notes Carter.

"When selling to external buyers, you'll want to determine the highest possible value for the business," says Geller, "so you can negotiate the highest possible price and the most favorable terms for yourself."

Find The Right Advice

Carter says there are countless and complex issues involved in selling a business, which makes working closely with a team of experienced professionals critical.

"An experienced succession planning team helps you avoid what's avoidable and deal with what isn't," he says.

Your team should include:

- An experienced transaction attorney
- A tax expert
- A personal financial advisor

In addition, Carter recommends getting the expertise of a transaction advisor.

This individual "holds everything together and keeps the other parties moving in the right direction even when surprises crop up," says Carter. "And there are always surprises."

Structure The Sale

The structural issues of succession center around two key questions, Carter notes:

1 Are you selling stock or assets?

2 How will you get paid?

"For tax and liability reasons, sellers generally prefer a stock transaction, while buyers generally prefer an asset transaction," Carter explains. "The buyer will ultimately determine the final transaction structure, but the impact on the seller must be considered when the purchase price is negotiated."

Another major issue is how much of the purchase price will be paid in cash at closing and how the balance (if any) will be paid.

"Sellers should never count on getting all cash for their business at closing," says Carter, "because buyers may require seller financing due to a lack of available credit from other sources. Buyers also gain comfort knowing that the seller has some 'skin in the game' after the transaction closes."

You should also give some thought to your potential post-sale role in the business.

Carter says it's not uncommon for buyers to expect the owner to stay onboard for a period of time after the sale to help ensure a smooth transition.

"Owners can do this as a paid employee, consultant or board member, and this arrangement can be negotiated as part of the sale terms." ■

Don Sadler is a freelance writer who is starting to think about how he'll transition from self-employed business owner to retirement.

How Does Small-Business Legislation Measure Up?

An NASE Analysis

By Kristie Arslan

Recently, the NASE was asked by the Senate Committee on Small Business and Entrepreneurship about how the effects of the Small Business Jobs Act, signed into law last fall, have been felt by the self-employed community.

Any time the NASE is invited to an event like this, we get excited about the chance to review how a particular piece of legislation has or will, according to our studies, affect business owners' everyday lives. In this instance, I was happy to be allowed to speak before Congress on one of the most targeted pieces of small-business legislation that we have encountered.

The Small Business Jobs Act of 2010 included key provisions that benefited the vast majority of micro-businesses and provided some much needed bottom-line tax savings to the self-employed.

For some time, the NASE has complained that a lot of legislation aimed at helping small businesses actually ends up helping a small *minority* of larger small businesses. Rather, we suggest that lawmakers target legislation to the *majority* of the nation's small businesses, which are made up of self-employed businesses and those with 10 or fewer employees.

In my testimony, I reminded the committee about the Jobs Act provision that we supported most strongly—the one-year deduction on health insurance costs for payroll tax purposes. This is a deduction that the NASE has been working on for over a decade in Washington, D.C.

Sole proprietors should permanently have the option of this tax benefit, since they are the only business entity that ordinarily does not receive it. Though aware that Congress is currently leery of permanently adding any additional monies to the national debt, we believe that at a minimum this deduction should be extended for a two-year period.

Another provision that the NASE supports is the increase in the deduction for startup costs for new businesses. As part of the Jobs Act, the deduction was increased from $5,000 to $10,000.

Every business owner knows that unexpected costs always pop up during the founding of a new venture. Further, small businesses account for 64 percent of net new jobs created. As the nation's economy continues to rebuild itself on the backs of entrepreneurs, we believe this deduction should be made permanent.

We also let members of Congress know about proposals in the law that haven't proved as fruitful as imagined. For example, the Small Business Lending Fund was supposed to open up avenues for community banks, credit unions and community development funds to lend to small businesses in a way that larger banks have failed.

Unfortunately, the promised federal money still has not reached these institutions, making access to capital harder than ever for small firms. We encouraged the administration to move more quickly on putting this program in place, as it has already been several months since the Jobs Act became law.

If you want to join the NASE in voicing your opinion to legislators in Washington, D.C., contact your representatives in Congress by visiting our Legislative Action Center. ■

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