Turning Your Small Business into a Family Business

If you’re self-employed with a family, at some point you’re going to ask yourself the question: **is my small business going to become the family business?**

There are plenty of reasons to get your family involved in your small business. First, it helps your spouse and children understand exactly what is involved in starting a business and running it from the ground up. Second, it helps teach your children about the value of hard work and taking pride in a good job. Third, your spouse and your children are often your business’s most valuable assets!

However, if you want to turn your small business into a family business, you need to plan ahead. According to Forbes, only a third of all family businesses successfully pass their business down to the next generation. This means you need to start thinking about getting your kids involved in the business from a very early age. You need to consider whether you want to hire your spouse as an employee or a business
partner. You also need to think about the most important part of running a family business: deciding when to retire and how to pass the business down to the next generation.

Getting Kids Involved in Your Business

If you have young children, getting them involved in your small business early is a great way to teach them about the work that you do and about the value of hard work in and of itself. Consider it “Take Your Children To Work Day,” writ large.

When kids are small, letting them play next to you as you work or giving them basic jobs like sorting change helps acclimatize them to your small business and show them that work can be fun.

When your kids get a bit older, the best way to involve them in your business is to put them to work — and the best way to put kids to work is to put them on the payroll.

Yes, paying your kids to work for you is a smart choice for both children and parents. The kids know that their work is valued and are more likely to be invested in their jobs. They also learn important life skills, including:

- Punctuality
- Task completion
- Listening to and following directions
- How to interact with coworkers and customers

You, meanwhile, get a tax break. Many parents don’t realize that when they put children under age 18 on the payroll, they don’t have to withhold income taxes or payroll taxes on their child’s income.

To quote Entrepreneur:

“Pay your children for services they perform for your business, and you’ll actually generate an expense for your income taxes by pushing income to your children.”

Talk to your CPA or tax adviser about how to put your children on the payroll, and then find age-appropriate jobs for them to do. Middle-school and high-school kids can easily work behind a counter, stock items, and vacuum floors. They can also update websites, keep your

NASE Member Benefits

The NASE Membership includes over 40 benefits and discount programs. Some of these benefits include:

- 24/7 Access to Experts Online, Member Directory, Business Grants, $10,000 Term Life Insurance, Xtech Computer Support, UPS Delivery Service, access to Dental Insurance and more!

EXPERT ADVICE

Being the boss often means you are also head of HR, accounting, marketing, sales, bookkeeping and more. And sometimes you could use some help. With your NASE membership, you have access to experts in a range of fields to help you conquer your biggest business questions and prevent costly mistakes. You can get quick, knowledgeable answers from experienced consultants on taxes, accounting, cash management, marketing, contracts, legal issues and more. And best of all, these consultants are free to NASE members.

MEMBER DIRECTORY:

- Increase your Web presence
- Fuel your marketing efforts with quality leads
- Do business with other small business owners
- Pay nothing for a basic listing in the NASE’s Member directory!

GROWTH GRANTS:

Apply for a business development grant from the NASE worth up to $5,000! Designed to help address a specific business need. Need $5,000 To Help Your Business Grow? Apply For an NASE Growth Grant and you could receive up to $5,000 for your micro-business through the NASE Growth Grants program.

$10,000 INCLUDED TERM LIFE INSURANCE FOR NASE MEMBERS:

Your NASE Membership provides you and your family with Principle Member Group Term Life Insurance Coverage from MetLife for no additional cost. No additional contribution is required from the member in order for this insurance protection to be provided.
business’s Twitter account active, or do graphic design for flyers and signs. Make sure the jobs you create are legal — many states have restrictions about teenagers operating machinery, for example.

Hiring Your Spouse

Hiring your spouse is a good way to help your business grow. By working alongside the person who is probably already your best friend and most trusted team member, you have the chance to combine your strengths to support your small business as well as your marriage.

There are two ways to involve your spouse in your business: as an employee and as a partner. (Read the IRS’s rules to learn how to distinguish between the two.) Each of these roles comes with its own benefits and drawbacks. Some people choose to make their spouse an employee to offer them small business health insurance, for example. However, if you are planning to create a true family business, consider making your spouse a full partner. After all, the two of you equally share the responsibilities of marriage, homemaking and child rearing; it is important that you join this endeavor on an equal footing as well.

Succession Planning

Some types of small businesses, such as consulting or teaching piano lessons, are designed to only last for one generation. However, many small businesses, such as restaurants, landscaping services, dry cleaners, or retail, naturally include the question of succession.

Simply put: are your children going to take over the business someday?

Before you can answer that question, you need to take a serious look at your children’s interest in the family business. Some children naturally gravitate towards your business, even from a very young age. These are the kids who are eager to spend time with you as you manage the business, and who are happy to take on business-related tasks (even if they still balk at doing “chores”).

Even children who do not initially show an interest in your business may develop an interest over time. Don’t be surprised if your teenager chooses to pull away from the family business and explore his or her own interests. In time, the family business may start to look more attractive -- especially if you are able to give an adult child a career opportunity that isn’t otherwise available in a tough job market.

If you think you will pass your business down to your children, it is important to start thinking about succession planning early. Many small business owners think about succession planning only in terms of when they will retire -- not how to incorporate other family members’ needs and interests, which are equally valid. Your adult child may want to begin running the business before you want to enter a full retirement, for example. Your spouse may want to retire earlier or later than you do.

Forbes has a great article on questions you need to ask regarding succession planning, as well as how to create a plan that works for you and your family. Start there, and remember that the question of succession is never just your decision; it’s a family decision.
Generational Connections

Many small business owners dream of the day when they’ll be able to walk into the business they created and see their son or daughter greeting customers while their grandchildren run to get boxes from the storeroom. However, the future is hard to predict, and it probably won’t look like what you imagine.

The best way to connect your business to future generations is to involve them as soon as possible and to give them as much leeway as possible in shaping the business’s growth. Your children and grandchildren may greet customers and stock boxes, but they might also optimize your website for Google Glass or build the business app for the new generation of smartwatches. At some point, you’ll have to let them teach you what your business needs.

Also: don’t forget about the generation above you. One of the best ways to help support your parents or in-laws as they bridge the gap between full-time employment and full-time retirement is to hire them to work at your business. (Hiring your parents also comes with its own set of tax benefits.)

Yes, it may feel strange being the “boss” of your mom or dad, but hiring your parents or other older relatives is a good way to help them stay active and connected with the community -- and, of course, to give them opportunities to spend more time with their family!

Don’t Forget to Disconnect From Work and Reconnect With Your Family

Here’s one important aspect of running a small business that many business owners forget: at some point, you have to disconnect from work and reconnect with your family. Being “Mom” or “Dad” is hard enough; being the parent who is also the employer/supervisor/boss is even harder. Combine that with the idea that running a small business is a 24/7 job, and you run the risk of creating an environment which may be good for your business but is bad for your family.

If your kids and your spouse currently work for the family business, ask yourself these questions:

- How many nights a week do you eat together as a family?
- Do you have at least one day and night a week to spend together that doesn’t involve working for the business?
- Do your spouse and children have opportunities to take leadership roles in other areas of your family life, or are you always the boss?

Resources Available

- IRS: Husband and Wife Business
- IRS: Small Business and Self Employed Family Help
- SBA.gov: Small Business Loans and Grants
- NASE: Small Business Grants
Do each of you have opportunities to develop identities, interests, friends, and hobbies that are not related to the business? Do you have the time to take an interest in each other’s hobbies?

Do you feel like you have to turn down “typical” family experiences (vacations, school plays, slumber parties) in favor of the business?

If your family business feels like it is taking away from your ability to be a family, it’s time to step back. Maybe you need to hire additional employees who aren’t related to you. Maybe you need to close up shop one night a week, even if it cuts into your profit. Make time to step away from your workplace roles and enjoy being a family together. This work-life balance will make both your business and your family stronger, and will increase the possibility that your children will want to carry the family business into the next generation.

References:
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**Q:** I have been self employed for over 10 years and love what I do. My biggest client wants to change my classification to an employee instead of continuing as an independent contractor. Is it better for me to switch to employee or to stay as an independent contractor?

**A:** The most important thing to keep in mind is that the classification of a worker as either an independent contractor or as an employee is NOT a matter of choice. The classification is dictated by the overall working relationship between the company and the worker and is based on things like behavioral control and financial control. In other words, if the company basically tells the worker when to be at work, how to do the work, provides the tools to do that work, and maybe even tells the worker what to wear to work, then most likely the relationship is one of employer and employee. If, on the other hand, the company only controls the end product with the worker deciding all of the hows, whens and wheres then most likely the relationship is one of company and independent contractor.

Again, the key point is that the classification is not a matter of choice. Further, the company has the primary responsibility of evaluating the facts and circumstances of the working relationship and therefore determining a specific worker’s classification. There are pros and cons to each, but the bottom line here is that the employer, the client, is responsible for determining the working relationship and they must decide based on the facts and circumstances of their specific situation. If they have determined that the relationship is indeed one of employee/employer, most likely it will not be up to you.

If your client has determined there needs to be a change in classification, there a number of differences to consider. First, if all of the work is the same, the pay is the same, and nothing else changes, the simple math would indicate that an employee will benefit by about 7.65% of the gross wages paid, since as an employee, the client will pay for half of the Social Security tax. As an independent contractor you would be responsible for self employment tax at the rate of 15.3%, while as an employee, you would pay only half of the tax or 7.65% while the employer would pay the other 7.65%.

Second, the business expenses you incur, if any, could be a bit different since as an employee any unreimbursed expenses you have in connection with the job such as mileage or supplies would not be fully deductible but instead are subject to a 2% of AGI floor. That basically means that the first 2% of your AGI in expenses would be disallowed.

Perhaps the biggest differences are the more intangible differences such as the potential for other non-monetary benefits such as time off, vacation, health benefits, etc. which may be hard to quantify. Likewise, the feelings of control, independence, flexibility, etc. that often come with self employment are difficult to quantify. The best advice would be to sit down with your client and make sure that you both have a good understanding of expectations and goals for the relationship. Discuss options and benefits and certainly maintain the highest level of communication, and regardless of classification you both will have created a new job.
Member Spotlight

Self Employed by Design

Marla Duran, Owner of Marla Duran Designs, based in Allentown, Pennsylvania, has been a NASE member since 2000. Her primary reasons for joining were for the great benefits and health insurance options. Marla’s company designs and creates women’s clothing; she gained notoriety for being on the Television show Project Runway in 2005.

What inspired you to enter the field you are in?
Essentially, I fell into what I do. I began as a potter’s apprentice in the early 1970’s. I was a college student in Washington, D.C. and took a pottery class. Immediately I was hooked as I discovered I loved working with my hands. I started sewing a few years later. I had my son in 1978 and started making baby clothes. I was living in Los Angeles and found a store that was interested in what I was creating. I eventually moved back to my hometown of Allentown, PA. I decided that creating clothing was going to be my profession as working for myself felt natural.

What challenges have you faced in your business?
Some of the biggest challenges I have faced has dealt with domestic fabric suppliers going out of business. I no longer have access to domestic fabrics. Some of the fabric suppliers I work with are interested in volume, and as a small business I find it harder to access the materials I desire.

How have you overcome these challenges?
I have overcome these challenges based on a piece of advice that I often give when asked, “Be prepared to work hard, dedication is necessary for success.” In working harder to find the materials and being dedicated to my craft and my business I have found out that the fabrics are harder to find but still exist. I travel to New York City a few times a year to attend fabric shows and find the materials I need. I also attend fabric shows in Paris to find fabrics that are really special.

When did you notice that your business was starting to take off?
My business picked up and got more serious in 1993 when I got a rep in New York City. I started showing my work at trade shows and developed a following of stores who carried my work in their stores.

Tell me about the experience of being on Project Runway.
I was on Project Runway for its second season in 2005. The experience was unlike anything I have ever experienced. I had no idea what to expect, as I hadn’t seen the show. I knew there would be challenges, and I thought I would be good at using my spontaneity. I was unprepared for the pressure and for the constant scrutiny of the cameras! There was no letup, the cameras were always rolling. We were told, when to sleep, when to eat, when to cross the street! What I loved about being on the show was the critique in the work room. I am self-taught, the feedback really helped me get better at my work and helped shape the designer I am today.

How has Project Runway impacted your business?
Having been on the show, I have had many people recognize me as a contestant all over the world. This has proven to be both fun and a bit surprising I had no idea the show would have had such an impact on pop culture. As a result, I have found many people take a stronger interest in my work when I am participating in art fairs around the country. I have become known as “the one who was on Project Runway”. It certainly hasn’t hurt my sales. I think it has given me recognition and legitimacy as a designer.
How do you market your business?
I have participated in trade shows in New York City, Chicago, Los Angeles, and Dallas to market my clothing to stores. I started participating in juried art fairs in 1996. I eventually moved the majority of my marketing and sales to the art fairs. I discovered I enjoyed meeting the women buying my clothes and the feedback was invaluable.

Do you work with any online retailers?
I am not currently working with any online retailers. I seem to drag my feet when it comes to working online as I really enjoy the process of meeting my customers in person. I have many loyal customers who I have met over the years and they email me to see what’s new. I will send images and if interested, I send the piece in the mail.

What’s the best thing about being self-employed?
I enjoy the challenge of being my own boss. I can make my own schedule and take the time I need for my personal life. On the other hand, I feel that my commitment to my business is 24/7. While there are less administrative restrictions, there are always new challenges to face. I enjoy being able to see the results of my efforts fairly quickly and having a lot of freedom to act on my decisions.

What’s the best compliment you’ve ever received from a client?
I know women feel great wearing my clothes; they are comfortable, flattering to the body, and have a distinct look. That is very rewarding. I was at a prestigious art fair showing and selling my clothes. A fellow artist told me I was a consummate professional in the way I dealt with my customers; it was very rewarding to receive that great compliment.

Which NASE member benefit is most important to you?
I enjoy the reading the newsletter and learning about the experience of other small business owners. Additionally, in 2013 I was selected to be a member of NASE Member Council. We met in Washington, D.C. and talked about various challenges we face as self-employed small business owners. I was able to provide feedback about the various resources available to members at discounted prices and how they impact our businesses.
Direct Marketing could work for your business—and when it’s done correctly, it’s measurable so you can know if it’s working.

Direct marketing can take many forms: direct mail, direct response television, print, billboards or even your website. Direct Marketing asks your prospect to take action, such as call now, bring in this card, or log on and register.

But, will Direct Marketing work for your business? Here’s a simple formula.

What is your average profit per customer?

How many prospects become customers (what is your conversion rate from lead to sale)?

How many prospects can you expect to generate from an advertising campaign (Often the media sales rep will be able to provide you with some ‘industry standard return percentages’)?

Have you wondered what “Direct Marketing” is and if it would work to help grow your business. Maybe you’ve asked these questions:

What type of advertising will work for my business?

How often should I advertise?

Where should I advertise?

How much should I spend on advertising?

And, the big one—How will I know if my advertising is working?

By Terrie Turner
HERE’S AN EXAMPLE:

If your average profit per customer is $500
And you convert 30% of your leads to sales
Your advertising cost $10,000 (including creative)
You generate 102 leads
102 leads convert to 30 sales
30 sales x $500 profit = $15,000
$15,000 - $10,000 ad cost = $5,000 net gain

But, how do you know how many leads you will generate from your direct marketing efforts? This is always the million dollar question! Excellent creative and media placement are key to the success of any campaign. Make sure you work with someone that has experience in your industry with creative, and media placement. Look at what others in your industry do consistently. And, commit to testing to continually improve your Return on Investment.

Everything you do depends on what you’re selling and your target market. If a shoe store had great success with a postcard, it doesn’t mean that will work for your insurance agency. The target market may be the same, but the product is very different.

KEEP THIS IN MIND WHEN CHOOSING MEDIA:

1. Broadcast – Television and radio generally reach a very large geographic audience. Unless you have multiple locations you will be reaching and paying for many people that are not potential customers.
   a. If you have multiple locations and broadcast makes sense for your business, make sure you have adequate phone lines to handle calls – and be prepared to have the phones answered when the commercials run.

2. Newspaper – This is a media that is not as viable as it once was, however it can still be very effective with the senior market, especially in rural areas. However, this is not specifically targeted, so you will pay for circulation to people that are not your target customer.

3. Direct Mail – Solo mail can be specifically targeted. You can rent a mailing list by zip code, age, household income and many other factors. Shared mail, mail that is in an envelope with many other companies, is less expensive but generally has a much lower response rate. Although shared mail can work well for multi-location service providers such as dry cleaners or oil change establishments.

WHAT SHOULD MY AD SAY?

1. Call to action – Make it strong and repeat it.

2. An Offer – Look at what is common for your industry, and then do something bigger and better.

3. Testimonials – If you have a satisfied client that will provide a testimonial, this can be very effective.

4. Essential Information – include your phone number, web address and social media information as well as your address—and if appropriate, a map

Direct marketing can be a great way to grow your business. While this is a thumbnail sketch of a few foundational aspects of direct marketing, it’s a good place to start.

Terrie Turner is a Direct Marketing professional with more than 25 years of experience. Terrie is the President of Sunbelt Advertising.