SUMMER 20

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Coping with Higher Gas Prices

Like most small business owners, chances are you and your employees are struggling to keep up with the rapidly escalating cost of gas. While there is little you can do about the upward trend in prices, there may be steps you can take to reduce the impact that the rising cost of filling up is having on your bottom line.

Switch to more fuel-efficient vehicles. If you have a fleet of vans, SUVs, or other vehicles that use a lot of gas, now may be the time to trade them in for more fuel-efficient alternatives. If hybrids are out of your price range or hard to obtain in your area, consider downsizing to the smallest vehicles that would meet your needs.

Plan trips in advance. Encourage your employees to plan their routes carefully before driving to meet customers or make deliveries. Using Global Positioning Software (GPS) can help drivers identify the shortest and most fuel-efficient routes. Remind employees of the importance of booking appointments with the goal of minimizing the number of trips they need to take, especially to more distant locations.

Find alternatives to driving. While sales representatives sometimes need to meet with clients in person, it may be possible to conduct certain types of the business over the phone, by e-mail, or even by webcam.

Encourage more fuel-efficient driving practices. Remind employees that there are things they can do as drivers to reduce the amount of gas they burn on a given trip, including slowing down, accelerating gradually, and turning off the air conditioner.

Research low-cost gas retailers. Find out whether there are certain gas stations in the area that offer consistently lower prices, and instruct your drivers to fill up at these stations. There are websites that can help you track the lowest prices for gas in your area.

Set a gas budget. Monitor your company's gas consumption over a certain period of time to better identify how many miles are being driven and how much gas is being purchased. Based on this information, establish targets for the amount of gas each employee is expected to use. While drivers may sometimes have good reasons for exceeding these targets, having limits in place will encourage employees to conserve.

Communicate with employees about commuting costs. The extra money employees are having to spend to get to work is not only taking an increasingly large chunk out of their paychecks; it could also influence whether they will stay with their employers. A recent survey conducted by Florida State University's College of Business found that, with gas at $3.50 a gallon, one third of workers with a commute of at least 15 miles said they would consider quitting their current job if they could find a position closer to home.

Organize a meeting, or speak individually with employees about the impact rising gas prices is having on their commuting expenses. Whenever possible, encourage employees to carpool, take public transit, cycle, or walk to work. If your company is too small to make carpooling practical, think about getting together with other employers in the area to create a carpooling or vanpooling system. To minimize the amount of miles employees have to drive to get to work, consider allowing those who can to telecommute or to adjust their schedules so that they have to make fewer trips to and from the workplace.

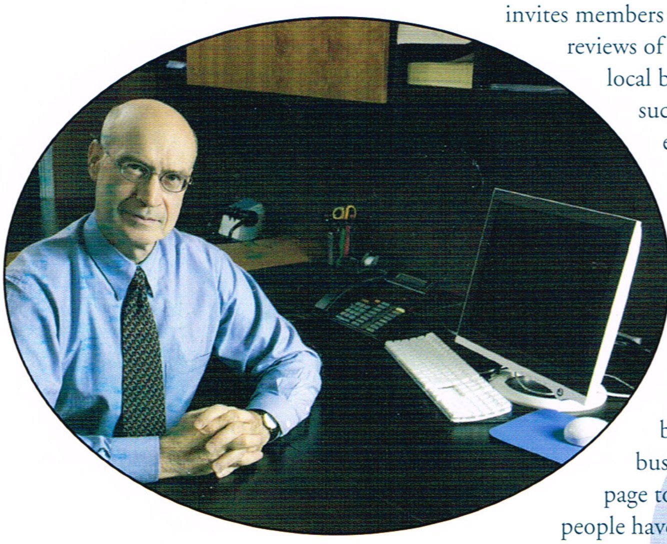
Raise prices or levy extra delivery charges. Customers are aware of gas price inflation; they are unlikely to bolt to the competition because of a minor increase in prices or a small additional charge for delivery. If you are uncertain about whether the market will bear these hikes, find out whether your immediate competitors have raised prices, or ask a few trusted customers whether they believe the increases you are considering are reasonable. ■

Inside this issue

Social Networking Your Way to Success

If you think social networking websites are mainly for teenagers looking to trade gossip and music tips, you might be surprised to learn that growing numbers of small businesses are using these websites to generate leads, promote their products and services, recruit employees and business partners, and improve their visibility in the wider community. And, compared with many forms of paid advertising, marketing a business through social networking sites is relatively cost-efficient, imposes low barriers to entry, and can enable business owners to target their messages more effectively.

Even if you have never been actively involved in promoting your business online, a web search could reveal that other people are talking about you. Your business may, for example, have been mentioned on a website like Yelp!, which invites members of the public to post reviews of their experiences with local businesses and services, such as restaurants, retailers, salons, and even automotive repair shops. While submitting your own "review" of your business is not allowed on Yelp!, you can log on as a business owner once a review has been posted, claim your business page, monitor the page to find out how many people have looked at your review or if more reviews have been posted, and promote positive customer testimonials on your own website or marketing materials. Browsing review sites can also help you to find out more about how customers rate your competitors.



There are many different types of social networking sites where you can post a profile, search for potential contacts, and glean fresh information about the marketplace. Many business owners choose to join industry-specific sites or more general professional networking sites like LinkedIn, which is designed to help professionals make new connections when looking for jobs or business opportunities, and to reactivate existing networks by helping them get back in touch with classmates and former colleagues. The site also encourages users to pose business-related questions to industry experts. In addition to enabling users to share online, professional networking sites can alert you to meetings, trade shows, seminars, and other events taking place in your area.

By becoming a member of professional and social networking sites, you can search profiles or discussion boards for other members who could prove useful to your business, including potential customers, employees, or suppliers. Rather than making a direct pitch, you may be able to initiate contact with prospects informally by participating in discussions on topics of common interest, offering them advice on questions they have posted, or inviting them to view your profile or meet with you at an industry-related event.

Depending on the type of business you operate, you may also want to think about creating a social networking site for your customers or devoting a section of your company website to customer networking. For example, Constant Contact, a provider of e-mail marketing tools to small businesses, operates ConnectUp, a website designed to be used by current and potential customers in the small business community. The site encourages members to post questions and share experiences in discussion forums, take part in educational "webinars," and access Constant Contact's professional advice or services. Custom social network sites such as these can be extremely effective in building customer relationships, attracting new customers, and generating repeat sales. Studying the postings on your site can also provide you with valuable information about the needs and interests of your customer base, making it easier to tailor your products accordingly.

However you decide to approach social networking, remember that you could lose potential sales and damage your reputation if you use social networking sites to aggressively market your business, rather than to share as a member of a community. Instead of launching into a sales pitch, seek to win the trust of your contacts by offering honest advice and opinions on issues about which you have expert knowledge and by interacting with others in a pleasant, non-confrontational manner. As well as helping you build your business, social networking could turn out to be a great way to make some new friends. ■

Effective Marketing Campaigns through E-Mail and Direct Mail

For most businesses, a marketing priority and even premium is placed on reaching prospective clients and communicating with current clients. In a web-savvy world, e-mail is becoming an increasingly valuable tool with its ability to reach thousands of prospective clients at a very low cost. However, direct mail remains the more traditional, tried-and-true approach to marketing communication. Determining which is the method for you depends largely on your business and your customer and client base. A good start might be to use both methods and track your response rates.

Online Strategies

E-mail creates an opportunity to send out personalized messages to targeted audiences and gives them the chance to take immediate action online, whether in the form of a sale or in further Internet research. Intriguing subject lines should preface e-mail communication with the goal of sparking the reader's interest while avoiding "spam triggers," such as "free," "today," "immediate," "now," etc. The recent anti-spam law means unsolicited e-mail can trigger a spam report, so it's a good idea to ensure that potential customers want to hear from you and your business. A good way to ensure this is with the use of double opt-in lists, which first require the person to sign up to receive the information and then again to confirm they want their information added to a mailing list. Such lists can then be purchased or built over time via a company's website.

Building a website, over time, will make a company, its reputation, and its products or services known, and it can also be a great tool in learning about the viewing habits of those who visit you online. You may wish to include an online survey with your website. Answers can often help businesses gain valuable information about their target audiences and can be used to customize future communications.

One successful way of communicating with clients and customers via e-mail is by using an e-newsletter. For example, e-newsletters can provide information on new topics, can go out immediately, do not need postage, and can include information about special offers and promotions.

While e-mail can deliver advertisement and marketing copy to thousands, it is critical for a business just starting out with this form of client communication to learn who is responding to this type of contact. This is called segmentation, which is the process of tracking a reader's response to a message. If a user clicks on a link of specific interest, consider sending an automated follow-up e-mail on that subject. There are many software tools available to facilitate this process. Direct mailings, on the other hand, however "tried-and-true" they may be, do not provide this type of immediate response.

Direct Return on Investment

Similar to the low costs of sending e-mail, direct mailings can also be an economical advertising and communication form *when used appropriately*. It can be a great way to prospect for new customers; if the business is well vested in its target market and has the names and addresses of potential customers, the cost of sending out a direct mailing can be well worth the investment. This also cuts down on any time associated with ensuring your clients and customers are willing to respond to e-mail communication. Direct mailings, however, often go hand-in-hand with accompanying e-mail contact.

A recent study conducted by InnoMedia for the U.S. Postal Service found that printed catalogs are responsible for 22% of website traffic and 37% of Internet sales. The study also found that nearly two-thirds of those polled felt that receiving paper mail is "more personal" than receiving e-mail from a company, and 58% of those surveyed said they found receiving paper mail "a real pleasure."*

While there are many advantages to using direct mail, including the fact that it is a widely accepted means of advertising when compared with e-mail, current trends indicate that e-mail is also becoming a widely-used means of client communication. Regardless of how your current clients and customers hear from you, and how you attract new business, the important thing to remember is that the goal is to make yourself, your brand, and your services known. Whether you use e-mail or "paper mail," doing so is an invaluable means of keeping your company's name and products in front of your customers. ■

* National Postal Forum, March 2005

The Benefits of Volunteering

With the cost of providing health care and other employee benefits rising, small businesses often find it difficult to compete with larger companies in attracting and retaining the most talented workers. Compared with other types of benefits, an employee volunteer program is relatively affordable, is easy to administer, and can go a long way toward improving employee morale, building employee skills, and boosting your company's standing in the community.

Developing a Situation Where Everybody Wins

Regardless of the size of the organization they work for, employees tend to appreciate the chance to engage in charitable activities with the support of their employer. Fortunately, there are many different ways to structure volunteer programs so that they meet the needs of employers, workers, and nonprofits alike.

When thinking about where to focus your efforts, there are three basic considerations that should be taken into account: the needs of the community, the skills and interests of employees likely to donate their time, and the resources of your organization. Before implementing a program, meet with a group of your employees to discuss what charities they would like to support and what forms of volunteering are most practical given your employees' work and family responsibilities.

In some cases, a team of employees may take paid time off from work to volunteer for a charity. Volunteering as a group can promote team-building and encourage employees to get to know each other outside of the usual work environment. In other cases, employees may agree to take on occasional pro bono work for a nonprofit and incorporate the assignments into their normal workload. Selected appropriately, these pro bono assignments can challenge employees to broaden their skills. Full-time employees who normally have little extra time to volunteer in the community may especially appreciate the chance to perform work that stretches them, both personally and professionally.

As well as providing employees with the good feelings that come with giving back to the community, volunteering can offer great networking opportunities and enhance your company's image among potential customers and business contacts. You may also wish to encourage employees to recruit family members and friends to participate in volunteer projects, thus broadening the effort and enabling them to spend much-needed quality time with people they care about.

Volunteering as a group can promote team-building and encourage employees to get to know each other outside of the usual work environment.

Setting Clear Policies for Volunteer Work

For an employee volunteer program to succeed, it is, of course, essential to have policies in place that clearly outline how employees are permitted to use their time when contributing to charity. These guidelines should include information about the types of organizations and activities employees may engage in with company support, as well as how employees will be compensated for the time they spend volunteering. Some companies provide workers with additional paid time off when volunteering, while others ask employees to use vacation, sick, or personal days to volunteer. Employees are typically also asked to submit requests to take time off for volunteering well in advance, so that coverage can be scheduled for these absences.

If you are uncertain whether your employees would be interested in volunteering, consider testing the waters by taking a day off as a company to participate in a volunteer activity. For example, instead of inviting employees to eat lunch at a restaurant, ask them to spend an afternoon planting trees or cleaning a beach in conjunction with a local environmental group, followed by a picnic. If the outing is well received, more ambitious volunteer programs could be developed. ■

Implementing a Knowledge Management Strategy

What would happen to your business if your most experienced member of staff suddenly walked out the door? Would knowledge that is essential to the success of your organization walk out, too, never to return?

Chances are, intellectual capital is just as valuable to your company as its more tangible assets. While some types of intellectual property can be patented and licensed, other kinds of information are more difficult to record and make available for future use. This includes the knowledge stored in the brains of staff members about methods, processes, contacts, and competitors. In some cases, the loss of this experience and knowledge can prove devastating to a business.

So how can an organization capture, store, and make ongoing use of knowledge? Some large companies appoint a Corporate Knowledge Officer (CKO) specifically to coordinate this often complex effort. But there are some relatively simple knowledge management strategies that can be effective in much smaller organizations.

Taking Stock

The first step is to create an easily accessible history of your company's work to date. You may want to appoint a knowledge management group and assign them the task of compiling a library of basic information essential to your business and its activities. For example, you may find that important contact details are scattered around the office on handwritten Rolodex cards or in address books. The mere act of collecting this information and making it accessible to all staff members via an intranet can add considerably to your organization's efficiency.

Technology Solutions

Depending on the size and requirements of your business, you may want to use a knowledge management software program to capture and mobilize your knowledge assets. A knowledge management group could work to ensure that the company's databases are populated with the resources staff need to do their jobs, such as contact lists and reference materials. Many software programs are capable of collecting unstructured data from applications such as e-mail and making the information available to other intranet users. Users can then enter key words or natural language questions to search the knowledge bases for information relevant to their query.

But knowledge management software is only effective if it is actually used to record all important outcomes arising from a company's external and internal activities and communications. Organizations therefore need procedures that facilitate the gathering of information from a broad range of interactions. While it is not practical—or even particularly useful—to record every word spoken at a meeting or during a phone call, it may, for example, be possible to require employees to enter information about these communications in an online form.

Upon the completion of a major project, a meeting may be called to review the work performed. Project participants may be asked to consider a specific set of questions regarding outcomes and lessons learned. A record of this meeting—in written, audio, or video form—can be made available online, so that staff members embarking on similar projects in the future do not have to "reinvent the wheel."

While technology has an important role to play in knowledge management initiatives, there are also more conventional forms of knowledge sharing that should not be overlooked when you are planning your organization's knowledge management strategy. One way to make explicit the tacit knowledge held by individual employees is to arrange a series of knowledge sharing workshops, in which members of staff present information that may be of value to employees working in other parts of the business.

Establishing knowledge management processes in your company may, at first, be a time- and labor-intensive undertaking. But the productivity gains your business will reap from such a system once it is up and running can be substantial. When faced with a challenge, large or small, your staff will have a wealth of information to draw upon to help them meet it swiftly and efficiently. ■

The Economics of Space: Buying vs. Leasing

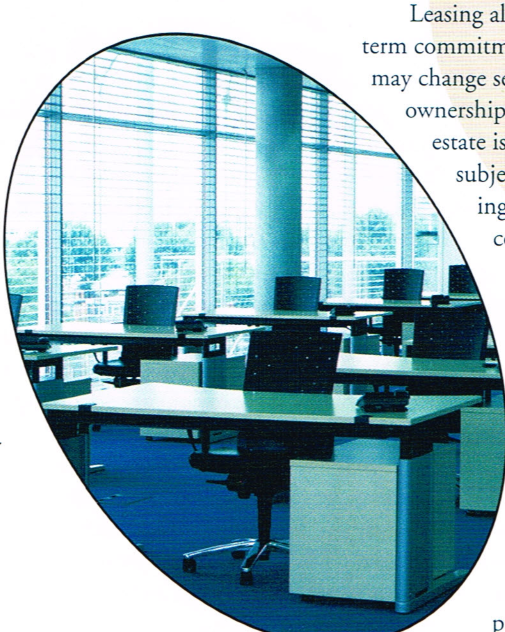
Any business that outgrows its office space or needs to relocate inevitably must weigh the benefits of buying vs. leasing. As you decide whether to rent or own, it is important to look at the specific needs of your business in the short and long term.

Property typically appreciates in value and can be a great investment over time, but ownership has financial challenges and management responsibilities that you can avoid by leasing. Both options have advantages and disadvantages that may affect relationships between owners and the fiscal health of your business.

To Rent or Own?

Whether you build from scratch or find a pre-existing space that suits your business, you will have the most control if you own the property and are not bound by the constraints of a lease. Landlords often limit the ways in which a space can be altered, and these restrictions can be frustrating for companies anticipating or experiencing growth. One compromise scenario is to lease unfinished space with the potential to design and build the interior to suit your business's needs.

Leasing also offers the flexibility of a short-term commitment if you feel your space needs may change several years from now. Property ownership carries more financial risk. Real estate is a relatively illiquid asset and subject to market fluctuations. Needing to sell in a soft market could be costly. Or, if you rely on income from leasing, you become subject to occupancy risk. Should you own in an area with a glut of commercial space available, it may be difficult to rely on tenant income.



Many landlords use rental income to cover property management and maintenance costs. If you are a tenant, you are free from these responsibilities, but pay for operating expenses—this is in addition to any profit the landlord builds into the rent. If you are an owner, you are responsible for the "landlord duties" but avoid leasing overhead.

Long term, owning property has significantly greater financial potential than leasing. However, in the short term, renting has its advantages, the most immediate being the lower initial outlay of cash. The cost of several months' rent and a security deposit is generally easier on cash flow than a substantial down payment for property or an outright purchase.

One compromise scenario is to lease unfinished space with the potential to design and build the interior to suit your business needs.

For tax purposes, rent is deductible as a business expense. The tax benefits for property ownership occur over time and may include annual depreciation and interest-paid deductions.

Ownership Considerations

For small business owners, the real estate equity that accumulates over time can lead to valuable planning options, but there are also important considerations if you share ownership of your business. Depending on the structure of ownership, complex valuation and buy-out issues may result when partners leave or retire. In certain instances, the company could be at risk. For example, suppose a retiring partner wants to cash in on his or her equity interest as a source of retirement income. Without prior planning, this demand could place a significant financial burden on the company.

The best choice regarding buying or leasing will depend on many factors, particularly your company's short- and long-term objectives. If property values increase, owning commercial real estate could be good for you and your business, but preparation is key. Seek the appropriate tax, legal, and financial professionals for specific guidance. ■

Calculating Your Break-Even Point

Profitability is the goal of every business owner. But before you can turn a profit, you first have to break even. Spending more money than you are taking in to produce a product or provide a service can quickly bleed a company of its capital. Even if your business has a financial cushion large enough to allow it to operate in the red for a period of time, you should at least be aware of the areas in which losses are occurring and have in place a plan for steering your company into the black.

Take Stock of Your Company's Position

The break-even point is the number that must be reached before an investment starts to generate a positive return. To run your business successfully, it is crucial that you have identified the point at which revenues cover expenditures on each of the products and services you offer, as well as on your overall operations. Because these break-even points shift as conditions change, break-even analyses should be performed regularly, preferably on a quarterly basis.

While there are a number of methods for determining a business's break-even point, one relatively simple approach is to calculate how large the company's gross profit margin must be to cover its fixed costs.

To get started, add up all the fixed costs your business has to cover regardless of sales volume, such as rent, payroll (including your own salary), debt payments, insurance, and similar overhead expenses.

The next step is to calculate the gross profit margin on the products or services you sell. The gross profit margin is a financial metric used to determine the percentage of funds left over from revenues after accounting for the cost of purchasing or producing the goods sold. The gross margin can be calculated on a per-unit basis or by subtracting variable costs from the sales price. The break-even point can then be calculated by dividing your fixed costs by your gross profit margin.

For a very simple example, imagine you have added up your expenses and determined that your monthly fixed costs amount to $50,000. Then, assume your business consists of purchasing gadgets at $3 per unit and selling them at $10 per unit, giving you a gross profit margin of $7 per unit, or 70%. When your fixed costs of $50,000 are divided by your gross profit margin of 70%, the resulting figure is approximately $71,429. This means you would have to sell 7,143 gadgets in a given month to break even. If sales dip below 7,143 units per month, your business is losing money, while any sales above this threshold represent profit.

The calculations become more complex, of course, when multiple product lines are involved or when expenses change frequently. There are many other factors that affect the financial health of the business over time, such as projected changes in market conditions. A break-even analysis should, therefore, be seen as a basic tool that can provide a snapshot of where a business stands at a given point in time, but it should be used in conjunction with other financial measures.

Improve Your Profitability

A break-even analysis can provide you with important preliminary information about the status of your business. If the results of the analysis reveal that your sales are not sufficient to cover expenses or that your profit margin is smaller than you would like it to be, there may be action you can take to lower your break-even point.

Start by investigating ways to reduce the cost of purchasing or producing the products or services you sell. Is there another supplier who would sell you the same or a similar gadget for $2.75, instead of $3? If you make the product yourself, are there options for manufacturing it less expensively?

Next, think about whether there are steps you can take to trim overhead expenses without harming your operations. Finally, consider raising prices. Implementing small changes in one or more of these areas could enable you to reset your business's break-even point and move your company in the direction of greater profitability. ■

Enhanced Business Investment Tax Breaks Available for 2008 Only

The Economic Stimulus Act of 2008, signed into law on February 13, provides enhanced incentives for small businesses investing in qualifying property, including a return of the 50% bonus depreciation allowance and a doubling of the Section 179 expensing limit. With the help of these new incentives, business owners can invest in equipment upgrades, computer software, and office furnishings, while preserving working capital. But because these special provisions apply only to property placed into service after December 31, 2007 and before January 1, 2009, small business owners hoping to lower their tax liabilities for 2008 must act quickly.

The new legislation permits small businesses to expense up to $250,000 of Section 179 property in 2008, up from $125,000 in 2007. Prior to the enactment of the law, a maximum amount of $128,000 was allowed to be written off in 2008 on the purchase of qualified property that did not exceed $510,000. Under the new law, the amount that may be expensed is reduced only if the cost of the Section 179 property placed in service during 2008 exceeds $800,000.

Businesses that qualify for Section 179 may also be able to take advantage of the 50% depreciation allowance on property they do not expense under Section 179. The bonus depreciation provision permits companies to increase the amount of depreciation deduction in the 2008 tax year. For qualifying property placed in service in 2008, businesses are allowed to depreciate 50% of the adjusted basis of the property. In practice, this means that, in addition to the usual depreciation of equipment that may be claimed for year one, any qualifying purchase made in 2008 will be eligible for 50% bonus depreciation. ■

Baby Boomers Worrying More about Retirement Savings

Workers of the baby boom generation report feeling less confident than in the past that their savings will meet their financial needs in retirement, yet relatively few know what steps to take to improve their prospects for building a retirement nest egg, according to a survey conducted by Harris Interactive for Longevity Alliance.

Researchers polled 2,521 U.S. adults, including 831 baby boomers (ages 44–62). More than half (56%) of all the baby boomers surveyed said they are less confident than they were three months ago that their retirement savings will carry them through retirement. Among those baby boomer respondents who reported having retirement savings, 7 in 10 said they are less confident, and 36% said they are much less confident than three months ago that their retirement savings will be adequate.

At the same time, however, the findings also suggested that few workers of the baby boom generation are taking action to build their retirement savings. The survey showed that just 39% of baby boomers with retirement savings have changed, or plan to change, their retirement savings strategies as a direct result of current economic conditions.

Of those respondents with retirement savings who have made changes, or intend to make changes, 43% said they would seek the advice of a financial advisor or retirement planning professional. Meanwhile, 31% of this group said they expect to reallocate funds from stocks to more conservative investments, 20% indicated they are investing in value-priced stocks, 13% said they expect to buy long-term care insurance, and 12% reported plans to purchase an annuity.

In addition, the survey found differences between men and women in their attitudes about their retirement savings. Results showed that 61% of female baby boomers said they are losing confidence in their retirement savings, compared with 49% of male baby boomers. ■

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Important Change in IRS Section 409A Compliance Deadline for Nonqualified Deferred Compensation Plans

On Sept. 10, 2007, the Treasury Department and the IRS announced, in IRS Notice 2007-78, that companies will have until Dec. 31, 2008 to bring documents into compliance with the final nonqualified deferred compensation regulations under Section 409A of the Internal Revenue Code. Previously, the deadline was Dec. 31, 2007.

Sec. 409A applies to a broad variety of deferred compensation arrangements and sets forth requirements that affected plans must satisfy. Any company with a nonqualified deferred compensation plan—a deferred compensation plan that is generally designed to favor only certain individuals or groups of individuals—should be certain that the plan is in compliance with the law. The penalties for noncompliance can be severe: Plan participants will be taxed on plan benefits at the time of vesting, and a 20% penalty tax and potential interest charges also will apply.

For more information or to discuss your deferred compensation plan, contact Marty Waitz, CPA, at 516-747-2000 or via email: mwaitz@mwellp.com.

Want to Collect Depreciation Deductions Sooner?

As a commercial property owner, you're probably depreciating the building over 39 years. So every year, you get to deduct 1/39th of the property's value (excluding land) from your taxes.

That's a long time to wait to receive all the tax benefits. Fortunately, there may be a way to accelerate the deductions and reduce the current year's tax bill.

By conducting a "cost segregation study," you can dramatically speed up the depreciation process. That's because certain items that are part of the building may qualify for faster write-offs. Depending on the property, a cost segregation study takes a percentage of the cost out of 39-year depreciation and puts it into five, seven, or 15-year depreciation recovery periods.

It's best to do a cost segregation study when a building is placed in service, but there may be opportunities later on that are available to your company. With a cost segregation study, you can improve cash flow by reducing your tax bill the very next time you file a return!

Our firm conducts cost segregation studies. Contact Wayne Olson, CPA, JD, Chair of the Real Estate Practice Group, at 516-747-2000, or via email: wolson@mwellp.com to find out if your building qualifies for this tax break.

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