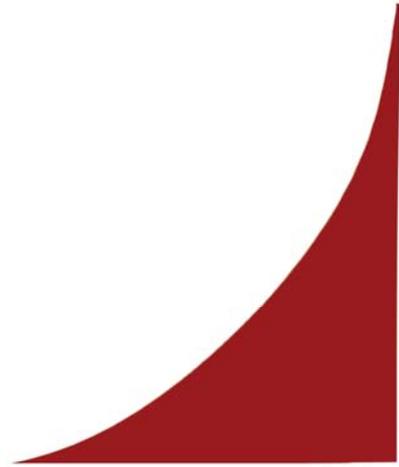


SMALL BUSINESS SURVIVAL eBook

**HOW TO SUCCEED  
IN A DOWN ECONOMY**

**NFIB**

The Voice of Small Business.®



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## START MY BUSINESS

### So You Want to Start a Company in These Times?

It's the dream of many people to have their own business – essentially, to be their own boss. Unfortunately, about one-third of all new businesses are gone within the first two years, and, according to the Bureau of Labor Statistics, of the two-thirds that survive only about 40 percent last as long as four years. Starting and growing a business is not for the timid.

Before deciding to move ahead with your own business, examine your suitability for doing so.

- You need to **determine what you do best** and how this relates to a potential business. Your interest in the activity has to be **enthusiastic and genuine**.
- Starting your own business can affect your daily life. You're likely to be looking at **longer hours and fewer vacations** and holidays.
- You'll probably experience **initial loss of income**; no more regular paychecks will come in.
- You'll need to know how much you're capable of handling yourself. Rarely does one person possess all the skills needed to start and maintain a business. You may have to **hire others to compensate for your weaknesses**.

- And before proceeding further, ask yourself:
  - Does my dedication to this particular activity align with a business need?
  - Is the market likely to support my product or service, even in a downturn?
  - Who are my likely customers and how will I reach them?

**Financing** is usually the greatest obstacle to starting a business. If you don't have the money on hand, the best route is probably a bank loan. However, before borrowing check with the Small Business Administration (SBA). The SBA offers funding programs and might even guarantee your bank loan. But first you need a realistic business plan and a solid credit rating.

There is free information to assist business start-ups. Look into:

- Available Web sites that provide free information on start-ups, such as [www.sba.gov](http://www.sba.gov);
- The Service Corps of Retired Executives (SCORE), which offers free business advice at [www.score.org](http://www.score.org). You can meet in person or inquire via e-mail.
- The Internal Revenue Service's site at [www.irs.gov](http://www.irs.gov), for the Small Business Tax Calendar providing instructions, options and deadlines for handling business taxes.
- The United States Postal Service, [www.usps.com](http://www.usps.com), to provide shipping supplies and information on direct-mail marketing including templates for creating your own mailing pieces.
- The U.S. Department of Labor, [www.dol.gov](http://www.dol.gov), for information about benefits, workplace health and safety, and wage rates.

- Resources in your own home area, such as the local Chamber of Commerce.
- NFIB's Business Resources: [Start My Business](#)

To get started you'll need a detailed [business plan](#) consisting of a summary, market analysis, assessment of competition, description of the company and how it will be organized (sole proprietorship, partnership, etc.), information about your products or services, and a realistic initial budget. This plan is a must for securing financing.

Finally, there's the question of your [business's physical location](#). Many successful small businesses were started by someone working at home. [Working at home](#) can be economical for a start-up, but it's not always practical given the nature of the business, local zoning ordinances, and other needs such as on-site employees and customer parking. If you're leaning toward doing business from home, be sure to first check all local ordinances that might apply.

## 10 Tips for Starting a Business in a Down Economy

Experts say starting a business in a down economy can be a very smart move. Prices for goods, services and labor are down while supply is up. The lag in consumer purchasing also gives the new business owner time to work out all the kinks and hone his or her sales pitch. That said, times are still tough, so here are 10 tips to help you start your business in a down economy.

1. **Buy used equipment.** The market is flooded with used furniture and office equipment as businesses shut their doors. Look for closing announcements in your local business news and then contact the Operations/Engineering Department for a deal. Craigslist and eBay are also good places to find used office equipment.
2. **Use your membership discounts.** As a member of NFIB, you can save on a variety of business services [save up to 68% on office supplies](#). Other associations that you belong to may offer similar discounts to help get you started. Do your research before you buy.
3. **Dial HR.** Local companies with recent layoffs can help identify available talent. Contact their human resources departments to see if they have recommendations to help you start staffing.
4. [Barter for goods and services](#). Companies such as BizXchange provide a network for business bartering.
5. **Start it on the side** (a.k.a. don't put all your eggs in one basket). Keep your current job, if possible, or continue your job search while building your new business. If the new

- business takes off, turn your focus solely to it; if not, you'll have something on which to fall back.
6. **Together is equal.** If you are venturing out on your own, separate your new business from all your other businesses and respective business partners. Without that legal separation, the failure or success of your new business will be owned, in part, by your other businesses.
  7. **[Offer discounts](#)** to a small number of customers who pay up front to increase cash flow.
  8. **Offer flexible terms.** Struggling businesses may switch vendors if you are willing and more able to work with them.
  9. **Take advantage of slow times.** Work out all the kinks and pitch your business to anyone and everyone you meet. When the market picks up, you'll be ready to soar.
  10. **[Customer service](#).** A no-cost frill that is worth cold, hard cash to your customer.

Starting a business in a down economy can be risky, but the rewards can be great. For best results, think creatively and work strategically. Then let us know how these, and other tips, helped your business succeed in a rough economy.

#### **Helping you further: 7 business-building basics for first-time business owners**

1. Build your business **[around your knowledge or passions](#)** – those things will get you through the tough times.
2. **[Fill an existing need](#)** in the market.
3. **[Get a mentor](#).**

4. Put together a long-term [business plan](#).
5. [Get the financing](#). NFIB and the Small Business Administration show you how.
6. [Structure your business correctly](#); NFIB helps you figure it out.
7. [Signed, sealed and delivered](#). When still small, it is tempting to seal deals with a handshake – bad idea. As the business grows, it can take more than a handshake to get out of those deals.

**NFIB**<sup>®</sup>  
Independent Office  
Supply Program

**Office Supplies: Up to 68% Off**

Locally owned and operated independent dealers use their common purchasing power to provide outstanding product selection, superior service and free next-day delivery on office supplies with **discounts of up to 68%** on the following office supply items:

- Filing, pads and paper supplies
- Writing instruments
- Mailing and shipping supplies
- Binders and accessories
- Toner and cartridges

## 9 Tips for Starting a Business While You're Still Employed

If you decide to launch your own enterprise before you quit your job, you're not alone. Most new entrepreneurs keep their job until their new venture is established and generates enough income to pay the bills.

So, how do you balance a job and a new business?

1. **Always remember that until you hand in your resignation, your job comes first.** Before moving ahead with your business plans, make sure you understand the responsibilities and work hours involved in running the type of business that you're planning to open.
2. **If your business demands your attention during your work hours,** find a business partner or hire an employee who is available to manage your new company while you're working.
3. **When considering businesses that mesh with your current work schedule,** look into an Internet-based company such as an eBay store. You can take care of most of your responsibilities before work, after work and on days off. Or consider a business such as dog-sitting, which you can operate only on weekday evenings and weekends while you're still employed.
4. **If you think your employer will be receptive, tell your employer that you're starting your own business.** That will make it easier to talk to your supervisor about changing your work schedule if you need more flexible hours.

5. **Never use your employer's phones, computers or other equipment or supplies** for business related to your own company. If you don't have a BlackBerry, invest in one now. Use it during breaks at your job to answer e-mail and make phone calls related to your own business.
6. **Try to meet on weekends with suppliers, potential employees and other people related to your new company.** That will help you avoid potential conflicts with your work hours. Avoid the temptation to meet with people before work. Traffic jams and other unpredictable delays can make you late for your job.
7. **Schedule at least an hour or two each week to work only on matters related to your new business.** At the top of your list should be making sure your company's bills are paid and your customers are happy.
8. **Prepare your family** for the prospect that you'll be working on your new venture on weekends and into the evenings on some weeknights.
9. **Be patient.** Stay focused on your job while you're at work. You may need that job longer than you expect. You can't predict how long it will take to get your new venture on its feet.

**Bonus tip:** Visit the "[Start A Business](#)" section of NFIB.com's Business Resources section for more information on venturing out on your own.

## 7 Essential Sections of a Business Plan

Though the task may seem overwhelming, writing a business plan is an important step in helping your company thrive in tough economic times. Business plans provide vision and a clarify strategy. They are also critical for businesses seeking funding. But where do you begin, and what should you include? Like most daunting projects, drafting a business plan is more manageable if you take it step by step. While plans vary by business, here's a synopsis of the **seven basic sections and what they should entail**.

**1. Executive summary:** The first section should be a concise overview of your business plan. While the summary should be short, it must be well written: Your goal is to draw readers in so they want to read more about your company. Though this section appears first, consider writing it last, after you've worked out the details of your plan and can summarize your thoughts succinctly and accurately. The executive summary for a standard business plan should include:

- Your business name and location
- The products and/or services offered
- Your company's mission statement
- The purpose of your plan (to secure investors, set strategies, etc.)

**2. Company description:** This high-level view of your company should explain who you are, how you operate and what your goals are. The company description should feature:

- The legal form of your business (corporation, sole proprietorship, etc.)
- The nature of your business, and the needs you plan to satisfy
- A brief history
- An overview of your products/services, customers and suppliers
- A summary of company growth, including financial or market highlights
- A summary of your short-term and long-term business goals

**3. Products/services:** Clearly describe what you are selling, focusing on the customer benefits. Incorporate details about suppliers, product or service costs and the net revenue expected from the sale of those products or services. Consider adding pictures or diagrams. In general, this section should include:

- An in-depth description of your products/services, emphasizing the specific benefits
- An explanation of the market role of your product/service and advantages it has over the competition
- Information about the product or service's life cycle
- Relevant copyright, patent or trade secret data
- Research and development activities that may lead to new products and services

**4. Market analysis:** Show your industry knowledge, and present conclusions based on market research. (Place detailed findings of any studies in an appendix.) Your market analysis should include:

- A sketch of targeted customer segments, including size and demographics of the groups
- An industry description and outlook, including statistics
- Historical, current and projected marketing data for your product/services
- A detailed evaluation of your competitors, highlighting their strengths and weaknesses

**5. Strategy and implementation:** Summarize your sales and marketing strategy and your operating plan. This section should include:

- An explanation of how you will reach target customers and penetrate the market
- Details about pricing, promotions and distribution
- An explanation of how the company will function, following the operations' cycle from acquisition of supplies through production to delivery
- Information on sources of labor and number of employees
- Data on operating hours and facilities

**6. Organization and management team:** Outline your company's organizational structure, and identify the company owners, management team and board of directors. Include the following:

- An organizational chart with descriptions of departments and key employees

- Information about owners, including their names, percentage of ownership, extent of involvement within the company and a biography listing their background and skills
- Profiles of your management team, including their names, positions, main responsibilities and past experience
- List of any advisors, such as board members, accountants and attorneys

**7. Financial plan and projections:** This last section of your business plan should be developed with a professional accountant after you've completed a market analysis and set goals for your company. Some of the important financial statements that should be part of your plan are:

- Historical financial data, if you own an established business, including income statements, balance sheets and cash flow statements for the past three to five years
- Prospective financial information, including forecasted income statements, balance sheets, cash flow statements and capital expenditure budgets for the next five years
- A brief analysis of your financial data, featuring a ratio and trend analysis for all financial statements

## How to Choose the Right Business Structure

### *The pros and cons of the most common types of business structures*

Thinking of launching your own business during hard times? Before you choose a location, hire a staff or put the word out about your new venture, you have a bigger decision make: **What type of business structure to establish.** The most common types of business structures are sole proprietorship, partnership, corporation, S corporation and limited liability company (LLC). When selecting a business structure, it's important to **weigh the legal and tax options** of each one, and which best fits your business. Here's a breakdown of the most common business structures and what each could mean for you:

A **sole proprietorship** is owned by one person and there is no legal distinction between the owner and the business. All profits and losses are accrued to the owner, and subject to taxation.

- **Advantages:** Sole proprietorships are easy to start up and easy to discontinue because the business owner has full control over the business. Also, the owner takes all profits from the business. It has tax advantages, too: The owner only pays taxes on profits and is not subject to corporate taxes.
- **Disadvantages:** The owner is responsible for all the business funds, so raising capital can be difficult. Also, the business owner would be responsible for all debts accrued by the business and other risks that can come with business growth.

In a **partnership**, owners share the profits and losses associated with the business.

- **Advantages:** You don't have to register with the state or pay fees to start a partnership, and filing taxes is easy since you only the partners are taxed, not the business.
- **Disadvantages:** All partners are personally responsible for any business debts or liabilities. Plus, if you don't completely trust your partner, a falling-out could wreck your start-up success.

**Corporations** are the most common form of business organization. It's given legal rights as a separate entity from its owner, thus keeping its owner from being liable if the company is sued. Corporations are owned by a group of people known as shareholders.

- **Advantages:** The limited liability of a corporation protects its owners from legal trouble or the business' debts. The corporation pays separate taxes from its owners, so the owners only pay taxes on corporate profits paid to them through salaries, bonuses and dividends.
- **Disadvantages:** There is more paperwork associated with making your business a corporation, as well as fees. Some types of corporations are taxed twice: Once on the company's profits and again on any dividends paid to shareholders.

An **S Corporation** is similar to a corporation, in that business owners have limited liability in the company. However, S corporations generally do not pay income taxes, but rather, the business' income or losses are passed along to shareholders.

- **Advantages:** Business owners have limited personal liability as with a corporation, but don't have to pay corporate taxes.
- **Disadvantages:** S Corporations can be costly to set up, and there are a number of regulations and requirements that must be upheld.

A **Limited Liability Company (LLC)** is the hybrid of a sole proprietorship and a corporation. Like a corporation, the owners of an LLC have limited liability, but is also shares the pass-through taxation of a sole proprietorship or partnership (meaning, if you own an LLC, you are only taxed once for your business).

- **Advantages:** The LLC is a flexible tax structure, allowing owners to decide if they want to be taxed as a corporation, sole proprietor, partnership or S corporation. Also, the owners of an LLC are protected from the acts or debts of the company
- **Disadvantages:** It could be more difficult to raise funds for an LLC because some the business structure is fairly new, and creditors and lenders find corporations to be more viable. As a result, some lenders will only lend LLCs money on the condition that its members become liable for the debt of the LLC.

For more information on which business structure suits your start-up, see the [IRS Business Structures information page](#).

## 6 Tips for Selecting the Right Company Location

Choosing the right location for your business is a delicate balancing act. Cost is a primary concern for every business especially in a recession, but it can't be the only litmus test. You're doomed if you open a clothing boutique in an industrial park with inexpensive rent. Yet paying thousands of dollars each month to set up shop in a high-traffic strip mall may not be a wise choice either if your sales can't support the steep rent.

When it comes to location, weigh your options carefully using these six criteria:

**1. Is the city business-friendly?** Most entrepreneurs want to open businesses where they live. But commuting may be beneficial. As you compare cities, consider average rents, the availability of labor, taxes, regulations, zoning ordinances and economic incentives.

**2. What's the nature of your business?** Identifying the needs of your business is paramount. Will you rely on walk-in customers, or do clients call for appointments? Do you require warehouse space and distribution services? Is it important that your office reflect a certain image? The type of business you operate influences whether you choose the top floor of a downtown skyscraper, a factory miles from the city center or some option in between.

**3. Are you in close proximity to the right people?** Four groups deserve consideration:

- A. **Customers:** For retail and service businesses, it's particularly important to be near customers. Take into account an area's demographics plus access to major roads and adequate parking.
- B. **Competitors:** Though it may seem counter intuitive, being near to your competition could be advantageous: Think about malls with lots of retailers that draw large crowds. But don't over saturate the market. If you open a print shop on a street where two others already operate, you may not gain enough market share. Do a competitive analysis prior to settling on a location.
- C. **Suppliers:** If you handle a product or rely on raw materials, you may want to locate your business near suppliers. Similarly, if you work with strategic partners, consider office space near them. (Think of the success of high-tech hubs such as The Research Triangle in North Carolina and Northern California's Silicon Valley.)
- D. **Employees:** Access to the right workers is imperative, whether you need highly skilled professionals or low-skilled hourly employees.

**4. What's your expected cost versus profits ratio?** Calculate whether anticipated sales or profits justify the price of your potential location.

**5. What are the company's interior requirements?** Consider the total square footage. Then decide whether or not it's important to have

meeting space, backroom facilities such as employee break areas, divided offices, etc.

**6. Who are your neighbors?** You may get cheap rent in a dilapidated strip mall, but customers may not feel safe visiting a company next to empty storefronts or an adult entertainment store. However, opening a coffee shop next to a bookstore will likely draw the intended customers, as would a toy store across the street from a daycare center.

## How to Name Your Company

Your customers' first impression of your business will be based largely on its name, so think of your company name as your calling card. To develop a name that fits the image you want to project, follow these steps:

### Identify your company's strengths

Your name should communicate your best qualities while differentiating you from competitors. Will you be offering innovative solutions? Is customer service a top priority? Create a list of the attributes that best describe your new company.

### Translate those strengths into a self-explanatory name

- Visit sites like [Thesaurus.com](http://Thesaurus.com) to look for words that have positive connotations. For example, if being trustworthy is critical in your field, a thesaurus can provide words and phrases you can play with, such as "tried and true," "tested" and "proven."
- Avoid made-up words. People shouldn't have to guess what your company name means. Take inspiration from 7-Eleven, whose convenience stores are open from 7 a.m. to 11 p.m. Also steer clear of names that are hard to pronounce, as well as names like Smith City Dry Cleaners, which tie you to a geographic region. That can be limiting if you move or expand into other areas.

- Consider your [business plan](#). Do you intend to eventually expand into new product or service categories? If so, pick a name that is broad enough to stay relevant.
- Ask business associates and friends to suggest names. If you have already hired employees, urge them to contribute ideas.
- Recognize that your name alone won't guarantee success. How do companies with names like Apple, which aren't self-explanatory, manage to establish a strong brand? Apple's name has been just one element of a marketing strategy that includes a memorable logo and ads that have conveyed the company has a savvy, creative rebel of the personal computer industry and beyond.

#### **After you've picked a name, it's confirmation time**

- Search the Web to make sure that another company hasn't already grabbed your name.
- Ideally, your Web site's URL should consist of your entire company name. Check domain registrars like [GoDaddy](#) or [Network Solutions](#), or a domain look-up service such as [AjaxWhois.com](#), to find out if your ideal domain name is available.
- Also confirm that when translated into other languages, your company name doesn't have any negative connotations.

If you're making a significant change to an existing company's name after a merger, an expansion or because the nature of your business is changing, be prepared for backlash from customers who have emotional ties to the original company name. Help soften the blow by

letting customers know in advance about the new name as well as any changes to the company that might affect them.

Trademark your name if your state requires it. Also find out if you're required to file a DBA (Doing Business As) with your state, county or city.

## Checklist for Starting a New Business

Experienced business owners agree that you can't do too much planning when starting a new business. The following checklist can help when preparing the foundation for a successful startup:

**Finances**. It's said that many new small businesses close in the first two years. To avoid this, follow these guidelines:

- Work with a financial consultant to create a realistic projection of cash flow and expenses for the initial two-year period.
- Have adequate funding on hand or secure lines of credit to cover at least two times the amount of any projected financial shortfall.
- Get to know your banker. Keep in touch even if you don't draw on your line of credit. By informing this person of the progress of your business, you will keep your line of credit open even if you don't use it at first.
- Meet with your financial consultant quarterly during the start-up phase to make sure your cash flow projections are on target. Cash-flow problems are best handled in advance. If you wait until they're on top of you, your banker will be disillusioned and you'll be playing catch-up. Don't borrow before you have to—but when you do, don't wait too long. If it's in your plan, your banker won't be surprised.

**Contracts.** Work with your business adviser to carve out the best arrangements involving:

- [Leases](#) for office space, manufacturing areas, equipment, business vehicles, etc.
- Suppliers
- Customers
- [Independent contractors](#).
- [Professionals](#) such as accountants, [lawyers](#) and others

**Insurance.** Work with an insurance agent familiar with companies of your size and your industry. Purchase adequate coverage, but don't overspend. You can always add more as your business grows. Consider the following coverage options:

- General business insurance and general liability coverage
- Professional liability coverage
- Errors and omissions
- Umbrella coverage
- Workers' compensation
- Accounting and bookkeeping

**Taxes.** Although you might like to think about owing and paying taxes once a year around April 15, that's just not smart business.

- Work with an accountant or CPA from inception of the company to set up systems for making estimated payments and/or saving for taxes.

- If using a bookkeeper or having a full time bookkeeping employee, decide which spreadsheet and accounting software you'll use. This should blend seamlessly all aspects of your accounting: payments from customers, leases to customers, debt payments, salaries, utilities and other expenses, lease payments, rent payments, insurance premiums, estimated taxes, workers' comp, etc.

### **Computers and phone systems.**

- Work with someone you trust to get the best deals on equipment that provides exactly what you need.
- In some cases, you may be able to save money by not buying the absolute latest equipment.
- Arrange backup for all your data. Then arrange redundancy.
- Backup can be on-site or online.
- Purchase the most professional voice mail system you can afford. Often, this is the first contact customers have with your company.
- When leasing computers and phone systems/phone plans, demand flexibility. If you outgrow what you initially purchased or need to make changes, you should be able to modify plans to expand without financial penalty.

### **Employees and employee relations.**

- Work with your financial advisor to determine how many employees you need and what initial [salaries you can pay](#).

- NFIB Business Resources [staffing articles](#) provide a wealth of information on hiring, interviewing, setting up employee handbooks, setting levels of benefits, etc.

**Researching your competitors.** Remember, every new customer you generate has been doing business with one of your competitors. Knowing your competitors will enable you to find a niche to attract customers from them and create new customers. Don't forget to research the following:

- Where competitors are located in relation to your business
- Their specialties and products/services
- Their prices on comparable products/services you will be offering
- Their customer service practices
- Their warranties and warranty work
- Their suppliers
- Their Web sites and online sales

**Learning tools.** Take advantage of the wealth of information available about making your new startup thrive.

- All major booksellers have shelves filled with books that can help entrepreneurs at any stage of a company's growth.
- These books give practical advice on all the fundamental needs of a new company, ranging from setting up a bookkeeping system to practical tips on establishing and running a home office. Books of this type are an absolute must for small business owners.

- [NFIB's Business Resources articles](#) provide to-the-point information on practically every subject a small business startup needs.
- Keep company with the wise. Find a mentor and establish an ongoing relationship. Seek out the advice of experienced business owners. Most successful people are willing to discuss their experiences.

## Make Unemployment Spur Your Own Business

If you have been laid off, you have joined the ranks of approximately 6.4 million unemployed Americans directly affected by this recession. Are you thinking about starting your own small businesses? Despite the recession, you can create your own business too, with some research, determination and a bit of good luck.

Among the key considerations for **transitioning from unemployment to self-employment**:

- A **[home-based business](#)**, as compared to one requiring the **[leasing of a small office](#)**, will minimize both your initial capital outlay and your ongoing monthly expenses.
- Consider **freelancing within your field of expertise**. An ideal first client, assuming you were downsized and left on positive terms, could be your former employer.
- **Determine if you qualify for a [small business loan](#)**. Another source of start-up monies could be a percentage of your severance package.
- If you are collecting unemployment and live in **[Delaware](#)**, **[Maine](#)**, **[New Jersey](#)**, **[New York](#)**, **[Oregon](#)** or **[Pennsylvania](#)**, you can **qualify for the federal Self-Employment Assistance Program**, which was designed to encourage dislocated unemployed workers to create their own jobs by starting small businesses.
- **Consult with sources** such as Business Advisor and Counselor Inc., SCORE or the U.S. Small Business Administration to

determine, for example, what type [business structure](#) (for example, an LLC or sole proprietorship) might be best.

Obviously, starting a small business requires paperwork and understanding regulations. Depending on various factors, you might need to register your business with county or state agencies.

Also, you may need to establish an employer identification number and deal with sales tax licensing, insurance, accounting and zoning permits, among others. Even a modestly cash-intensive start-up will require some initial capital outlay.

If you work as an "independent contractor," your clients will not deduct, for example, federal income taxes or social security payments. Being disciplined with setting aside money for Uncle Sam is critical in this case.

On a possibly fun note, you will have the opportunity to [name](#) and [market your business](#). Keep your business's moniker simple and direct. If it's catchy, that's even better.

Creating a blog, which can be done for no charge, is a fine way to start branding your business. Later, after you have generated some income and see that the business offers some long-term possibilities, you can hire a company to create an eye-catching Web site.

It's important to stay positive. Remember that there are millions of others like you, folks who have lost their jobs through no fault of their own. Sometimes referred to as "rebounders," these Americans can

serve as both motivation and – to an extent – competition (not a bad thing) as you start your small business.

Unemployment does not need to create stress and uncertainty. In fact, a loss of work could actually open doors to opportunities such as a career change or your return to school to learn new workplace skills.

Most importantly, being laid off might be exactly what is needed to spur you to take on the challenge of something you've always considered: starting a small business.



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## Starting a Home-Based Business

**Q: Could you give me a basic outline for the fundamentals of how to start my own home-based business?**

**A:** Sure. Starting a business from home is a great way to go for a couple of reasons:

- It's less expensive. Since keeping your overhead low is a key to business start-up success, a home-based business is smart because you have no rent to pay and no commuting expenses.
- It's fun. Working at home works because you can easily make your own schedule, and you get to see your family more.

Here are seven steps to starting your own home-based business:

### **Step 1: Personal evaluation.**

Begin by taking stock of yourself and your situation. Why do you want to start a business? Is it the money, freedom, creativity or some other reason? What skills do you have? What industries do you know well? Would you want to provide a service or a product? What do you like to do? How much capital do you have to risk? Does your business idea translate into a suitable home-based business? Your answers to these types of questions will help you narrow your focus and pick a business.

Maybe you don't know what kind of business to start. If that's the case, you can find ideas in many places. Look through the Yellow Pages. Go to trade shows. Buy industry magazines. Check in with the

Small Business Association. Read the business section of the newspaper.

**Step 2: Analyze the plan**

Once you decide on a home-based business that fits your goals and lifestyle, you need to evaluate your idea. Who will buy your product or service? Who would be your competitors? What do your spouse and friends think of your idea?

**Step 3: Draft a [business plan](#)**

If, as is likely, you will be financing your new business yourself, you still need a business plan. A business plan will help you figure out how much money you will need to get started, what needs to get done when, where you are headed, and how you will get there.

**Step 4: Make it legal**

There are several ways to form your business – it could be a sole proprietorship, a partnership or a corporation. Although incorporating can be expensive, it's usually worth the money. A corporation becomes a separate entity that is legally responsible for the business. If something goes wrong, you cannot be held personally liable.

You also need to get the proper business licenses and permits. Depending upon the business, you may have city, county, or state regulations, as well as permits and licenses to deal with. You must be sure that the type of business you want to start is legal as a home-based business in your area. This is also the time to check into any insurance you may need for the business and to find a good accountant.

**Step 5: Get the money**

Most home-based businesses begin with private financing from credit cards, personal loans, help from family, etc. As a rule of thumb, you should also have at least six months' worth of your family's budget in the bank, in addition to your start-up costs.

**Step 6: Set up shop**

Pick a room to set up the business and get it ready. Get a separate phone line installed. Have stationery printed. Set your prices. Throw a "grand opening" party.

**Step 7: Trial and error**

It will take awhile to figure out what works, and what doesn't. Follow your business plan, but be open and creative. Advertise! Don't be afraid to make a mistake. And above all, have a ball--running your own home-based business is one of the great joys in life!

🔗 [More \*Start-up Help on NFIB.com\*](#)

## FINANCE AND FUND MY BUSINESS

### 5 Unique Loan Sources

You wrote a great [business plan](#) and took it down to the local branch of a big corporate bank in hopes of getting a loan. The loan officer said you were too young and too inexperienced for them to take a risk on you. So what is a budding entrepreneur to do? Look for alternative loan sources, of course! Here are five places to start:

#### 1. Peer-to-peer lending

If you find a bank uninterested in your business plan, perhaps it would be a good idea to turn to your fellow entrepreneurs instead. While there are a number of web sites dedicated to matching applicants with peer lenders, you can also turn to members of your own community. Talk to established business owners and find out if they have any interest in financing your business or can recommend other potential peer sources to pursue.

#### 2. University credit union

If you're not a member of your alma mater's credit union, become one now. Credit unions have long been good alternatives to larger banks for acquiring small business loans. Because members essentially own the credit union to which they belong, you'll likely find credit unions more accommodating than traditional banks.

#### 3. Vendor financing

While vendor financing isn't a solution for raising all of your capital to start your business, it is a good method of procuring the big-ticket items you'll need to run your operations. Depending on your industry, you may also be able to turn to vendor financing in order to stock your inventory. Talk to your potential suppliers and find out if vendor financing is an option for you.

#### **4. Borrow against assets**

Many entrepreneurs take out second mortgages or borrow against their life insurance policies in order to gather funds for a start-up. While this isn't a viable option for the majority of young entrepreneurs who likely haven't built up many personal assets, it is still worth taking inventory of any personal items you could sell or borrow against in order to make a go of your business.

#### **5. Grants**

You may be so busy looking for money to borrow that you're overlooking sources that would be willing to simply give you the money you need to start your business. While grants aren't often easy to come by, they are out there and worth investigating. You will have a better chance of procuring a grant if you are starting your business in an economically depressed area; many states also have grants available for women and minority business owners. [Business.gov](http://Business.gov) may be able to match you with state grants (and other funding sources) for which you qualify.

While it can be disheartening to be turned down for a loan, many small business owners must try multiple sources before they receive funding. If you have a few unsuccessful attempts, make sure to use

them to your advantage. Don't be shy about asking those who turn you down if there were any areas in your business plan or your pitch that need improving. Take any feedback into consideration and work on some revisions to your plan. The good news is, with so many different types of funding out there, you can keep trying until you get it right.



### **Bank of America Accounts**

**Business Products** – NFIB business checking accounts and business credit cards with rewards, including Fuel Plus<sup>SM</sup> for auto-related expenses.

**Personal Products** – NFIB checking accounts, savings accounts, and rewards credit cards.

## How to Fund Your Small Business With Venture Capital

Because of the complexities and variations of the venture capital industry, understanding how it works can be a bit daunting for those small business owners looking to capitalize through this method. But with a bit of research and patience, you can learn the basics of venture capital and, in the process, **improve your chances of securing funding for your business.**

To secure venture capital, follow these five tips:

**1. Look at small business investment companies.** SBICs are for-profit investment firms licensed and regulated by the U.S. Small Business

### Key Elements of Venture Capitalists

- **Typically prefer investing in new and innovative companies** that are less likely to land a bank loan or undertake a debt offering. The small company will give **major ownership and management control to the VC** as an incentive for the VC to invest. The earlier in the investment stage, the more equity in your company you'll have to give.
- In the most common form, **tend to be firms rather than individuals** (who are often called "angel investors"). So depending on your level of business acumen, communication strength and interpersonal comfort level, this must be considered if you approach a VC for support.

Administration. To qualify, your small business must have a net worth of no more than \$18 million and have averaged a net income of no more than \$6 million during the previous two years of operation.

**2. Be prepared to explain why your company is poised to hit the big time — and soon.** Expect to be asked questions as to the long-term viability of your company and, possibly, if you have a timetable to take the company public. Venture capitalists focus on the future. You must too.

**3. Have connections.** If you can leverage existing relationships, you have won half the battle of landing funding.

**4. Prior to meeting with a venture capitalist, devise both a well-structured executive summary and a precise verbal presentation strategy to minimize the stress that could come with the effort.** Have all of your official documents and financial forms in order. This is not a game. Venture capitalists are seriously driven professionals who operate in high stakes environments and expect the small companies in which they invest to be run by competent individuals.

**5. Ideally, approach a venture capitalist with experience** investing in your small company's industry sector.

Note that although working with a VC can be very attractive, most small businesses are capitalized through family, friends and/or angel investors.

Landing venture capital for your small business is not easy. However, having a focused plan, helpful connections, strong communication skills and a long-term focus will improve your chances of doing so.



### [Solveras Credit Card and Other Payment Processing](#)

Solveras Payment Solutions is the NFIB's endorsed member benefit for electronic payment processing. We are ranked #1 for customer service, NFIB members save on average \$1,352\* annually by using Solveras' payment solutions – credit card processing, virtual terminal and check services.

\*Represents the average amount of annual savings that were found for NFIB members who have switched to Solveras.

## 5 Additional Revenue Sources for Small Business Owners

If you need to sock a little money away during tough times, here are a few moonlighting options for small business owners to consider.

### 1. Teaching a night class or seminar

Who would be better to teach others about running a small business than someone who has done it successfully? If teaching appeals to you, you have several options for pursuing this gig. You can apply to teach existing evening business classes at a local community college; this, however, may be more of a commitment than many small business owners can make. If you're looking for a short-term teaching option and are interested in designing your own curriculum, talk to professional development organizations that run short-term classes or seminars. Continuing education classes may meet once a week for four to six weeks, whereas seminars typically run one or two nights.

### 2. Tutoring

If you like the idea of working with students but aren't able to take on the commitment of running a class, tutoring might be a good option. Business owners are natural fits for tutoring economics and math, but you might have other areas of expertise to offer as well. If you have an English or chemistry degree that you never use, this might be your chance. There are many tutoring companies who will match you with students, or you could advertise on your own. While you can make more money going it alone, you might have difficulty finding students, at least initially, without the help of an established tutoring company.

### **3. Writing a column for your local paper**

Are you opinionated about life on Main Street? Do you enjoy writing customer correspondence or advertising materials? Perhaps writing a small business column for a local paper or Web site might be an enjoyable side gig. While doing so may not bring in a lot of extra revenue, it can be an invaluable source of publicity for your business and a great way to improve your name recognition in the community.

### **4. Consulting for other small businesses**

Consultants can command impressive hourly rates, and you may find it satisfying to use your expertise to help other entrepreneurs grow their businesses. Consultants, much like small business owners, are often "jacks of all trades:" They are called in to help with everything from hiring to marketing to streamlining operations. Becoming a consultant will take more start-up revenue than the other options discussed here, as you will need to design marketing materials and spend time promoting yourself. While this may be a time-consuming endeavor, it could also be a lucrative one.

### **5. Preparing taxes**

If you prepare your own taxes and know the ins and outs of getting the most out of your deductions, you could extend this service to other small business owners. You don't need a special certification to prepare other people's taxes, unless you live in a state that has a special license requirement. However, many people choose to complete a certification course in order to attract potential clients. This would be an especially good fit for someone who wants a seasonal position rather than year-round moonlighting job.

## Use Your House to Finance Your Business

Despite the downturn, Brandon Ansel's business, Mid-Michigan XL Energy Drink, is on the upswing. He's growing his energy drink distribution business by working on a new Web site, handing out promotional products at stores and sponsoring outdoor music festivals. "I'm trying to make XL Energy Drink the energy drink of choice in Michigan, and in order to compete with the bigger names like Red Bull and Monster, I needed to make these investments to build the brand," says Ansel.

But none of the bankers he talked to would approve him for a loan. "They told me they weren't lending people money unless they didn't need it," he says.

That's when Ansel thought about a home equity line of credit. "It's never exciting to tap the equity in your home, but it was an appropriate decision for me to make."

Home equity loans and home equity lines of credit are secured loans (using the equity in your home as collateral), which translate into a lower risk for banks and a lower interest rate for you. But that doesn't mean you can max out the value of your home. Banks are being conservative with tighter loan-to-debt ratios. And thanks to declining home prices, the bank might surprise you with a drastically lower credit line, based on your home's appraisal.

Ansel has used a portion of his credit line on marketing efforts and

plans to use another chunk to hire sales reps to help him expand into other territories. He plans to sit on the rest for a rainy day.

"In uncertain times you need to prepare for the worst," he says. "If I lose a big client or should sales fall, I'll still be able to promote my products and pay my independent contractors."

### **Secured Funding is No Guarantee**

But even secured funding is not a sure thing, as Marcia Blackwell knows. The owner of Blackwell's Organic in Long Branch, N.J., started up her gelato and sorbet business with a home equity line of credit. Despite a stellar payment record and excellent credit, her bank called her last fall to tell her the line was being revoked. Blackwell's house had lost value and therefore equity, the bank claimed. "I did not see it coming," she says. "I definitely think you should always have a backup plan. Don't think it can't happen to you."

Today, Blackwell is searching for other funding alternatives, including peer-to-peer lending options as well as angel investors.

As with any loan, the key to borrowing against your home is to do it responsibly and to take small, calculated steps as you grow your business. "Can you work from home?" Blackwell asks. "Can you share an office? Can you use contractors instead of hiring? Operate on a shoestring, and spend the money where it counts."

 [More \*Small Business Financing\* on NFIB.com](#)

## TAX HELP FOR MY BUSINESS

### Key Tax Tips When Starting a New Business

Starting a new business? While you're focusing on customers and profits, remember your federal tax responsibilities with these tips from the IRS.

1. The **tax form** you must file is based on the **type of business** you're starting, such as
  - Sole proprietorship
  - Partnership
  - Corporation
  - S corporation
2. Your **business type** determines what taxes you must pay and how you pay them. The **four general types of business taxes** are:
  - Income tax
  - Self-employment tax
  - Employment tax
  - Excise tax
3. You'll likely need an **Employer Identification Number (EIN)** to identify your business, which you can apply for at IRS.gov.
4. **Keep good records** that clearly show your income and expenses.
5. Your business must calculate taxable income on an annual accounting period called a **tax year**, such as the calendar year

(January – December) or fiscal year (any recurring 12-month period for calculating financial statements).

6. Use a consistent **accounting method**, which is a set of rules for determining when to report income and expenses. Popular ones are:
  - **Cash method:** generally report income in the tax year you receive it and deduct expenses in the tax year you pay them
  - **Accrual method:** report income in the tax year you earn it and deduct expenses in the tax year you incur them

## How to Barter for Your Business without Defying the Tax Code

A down economy can put a lot of small businesses in a money squeeze, but **you don't always need cash to get the products and services you need to run your business. Bartering is another option.** "In a time of tight cash flow, bartering can be extremely useful for a small business," says Max Barger, an attorney with Paley Rothman in Bethesda, Md. "You may find a larger economy and selection of goods and services."

But **bartering is more complicated than simply trading services** with another small business. Take care to **adhere to the tax guidelines**, says Barger, who has many clients who don't realize that **exchanging goods and services is taxable**—even when no actual money is exchanged. "You report barter transactions on your income tax return just like you report income," he says. "A barter transaction that involves an exchange of services is generally reported on Schedule C or C-EZ of form 1040. However, reporting barter transactions is case-specific."

Before you barter, make sure you research how your transaction will be taxed. For example, the owner of an apartment building who exchanges free rent for goods received should report the barter as rental income on Schedule E, which is different from other types of bartering, Barger says.

If you're not sure how to barter for business, sign up with a bartering organization that can connect you to other businesses that might need your goods or services. "But above all, **keep good records, and report any barter transactions on your income tax return,**" he says. "If you don't, you may be guilty of tax evasion, and nobody wants to find themselves in that mess."

### **What is Bartering?**

Bartering is simply the exchanges of goods or services for like goods or services. No cash or credit involved. According to [Barter News](#), barter activity through the 450 organized trade exchanges in the U.S. is growing at 12 to 15% per year. This translates into millions of entrepreneurial business owners, multinational corporations, and even governments participating in bartering for goods and services such as media advertising, travel and entertainment, office products and equipment, printing and Web site development, remodeling and construction, healthcare services and more – without a single dollar being exchanged.

Bartering can help businesses improve cash flow, prevent debt, free up excess inventory (by moving goods in exchange for something you need in your business), and even help boost your advertising/public relations efforts during slow times when a business needs it the most by bartering with media companies.

But before wheeling and dealing with bartering partners, there are **steps to take to ensure a good bartering experience:**

### 1. Exchange equal goods and services

- **Attach a monetary figure to your service/goods.** What's 10 hours of your consulting practice worth? If you charge \$100/hour seek out \$1000 worth of services or product in your bartering arrangement – although it doesn't necessarily have to add up to the penny.
- **Find a bartering partner.** Sometimes these bartering opportunities will fall on your lap when you talk to your customer and find out that they may be in a tight cash squeeze, but do have valuable business skills or products to offer you for your product or services. Remember, most businesses won't think of bartering unless you ask.
- **Put it in writing.** As in any business deal, make sure that you have a contract outlining what is being exchanged and its cash value, to avoid misunderstandings later on.

### 2. Join a barter exchange

Seeking out the right bartering partners can be difficult and time consuming, particularly if you have niche products or services. Instead, you might want to consider a barter exchange group – a fee-based barter matchmaking service – to widen your potential bartering partners.

- Visit these non-profits. You can get more information about barter exchanges by visiting one of two non-profit organizations that promote bartering: The [International Reciprocal Trade Association](#) and the [National Association of Trade Exchanges](#).
- **Understand how exchanges work.** Barter exchanges work by "barter dollars" that are traded when one member barter with another member; some exchanges offer a line of credit that can be used to "buy" items on the exchange. Low margin businesses may not want to join these exchanges since it does cost money (in fees, and/or commissions to the bartering network). One caveat about barter exchange groups: They are often for-profit, so make sure you get a referral from a business associate or contact the Better Business Bureau before you sign up.

### 3. Remember the tax implications.

- Know the rules. The IRS tax Web site has [specific rules for bartering](#). You must report the fair market value of the goods and services received in exchange for the goods and services provided in the year the exchange was made according to the IRS Web site.
- Fill out the right forms. Barter arrangements should be reported on Form 1040, Schedule C, Profit or Loss from Business. This should be done even if the barter is done on an informal one-on-one basis or through a barter exchange company. Barter exchange companies are also required to issue a form (Form 1099-B, Proceeds from Broker and Barter Exchange Transactions) annually to clients, members and the IRS.

### **More Bartering Information**

To find a local bartering exchange service in your state, visit <http://barternews.com/mappage/>.

While most bartering exchanges are local, national and international exchanges can be found on: [International Barter Alliance](#), [Ormita Commerce Network](#), and [ITEX](#).

A list of worldwide barter companies can also be found at <http://barternews.com/mappage/worldwide.htm>.

## What the 2011 Payroll Tax Holiday Means for Your Business

As part of the tax deal Congress reached in December 2010, payroll taxes have changed for 2011. As an employer, here's what you need to know about the payroll tax holiday:

1. The "payroll tax holiday" **applies to an employee's portion** of Social Security taxes—**not an employer's portion**. Employers and employees normally each pay 6.2% of wages to Social Security, but in 2011 employees are only required to contribute 4.2%. Employers are still required to contribute 6.2%.
2. As an employer, **you must start withholding less** from your employees' paychecks to reflect this change. The change was effective Jan. 31, 2011.
3. Because of this reduction in payroll taxes, the **Making Work Pay credit does not apply in 2011**. That means the income tax withholding tables for 2011 are not adjusted for the Making Work Pay credit and have changed.
4. For any Social Security tax over-withheld in January (or subsequent months, if you have not changed your process yet), **employers are required to make offsetting adjustments** in workers' checks as soon as possible, but **no later than March 31, 2011**.

5. **This payroll tax holiday lasts for one year only:** It should be applied only to wages earned in 2011.
6. **Self-employed persons, who pay both portions of social security tax, are only required to pay 10.4% instead of the usual 12.4%.**
7. **The Social Security tax is still capped at \$106,800.** Employers should not withhold (or contribute) any Social Security taxes on wages above this threshold.
8. **Medicare taxes have not changed.** Employers and employees are still required to pay 1.45% each.

NFIB fights for small business tax relief at the state and federal levels because we know that a complex tax code and burdensome taxes are among the biggest challenges facing small business owners.

NFIB has achieved significant victories for small business, including the reduction of federal income-tax rates and an increase in the expensing limit for small businesses. NFIB is committed to making these changes permanent and securing more tax relief for small businesses. Read more about [NFIB's positions on tax policy](#).

## **Tax-Saving Moves That Will Pay Off Next Filing Season**

April 15 may seem light years away, but if you want to make sure your business doesn't overpay its tax bill next filing season, you need to do some tax planning now.

One of the easiest things to do between now and the end of the tax year is maximize business deductions. You also should take some time to look at your company's structure, think about retirement and clean up your office filing system.

A little attention in each of these areas could cut what your company will ultimately owe Uncle Sam.

### **Search for Section 179 expenses**

This part of the tax code allows a business to take an immediate write-off for equipment outlays, rather than spreading the deduction (via depreciation) over several years.

### **Determine whether to depreciate**

If you decide you want to depreciate equipment rather than expense it, do some homework. Buying depreciable business property at the end of a tax year can work for or against your business.

On the plus side, you're generally allowed to claim six months' worth of the depreciation in the year you put the property to business use, regardless of how late in the year you purchase it. However, if you buy too much business property at yearend you could run into tax trouble.

If the assets you buy in the last quarter account for more than 40 percent of your company's annual business property purchases, you must use a different depreciation schedule, known as the midquarter convention. Basically, this means a yearend purchase will net you just six weeks' worth of depreciation instead of the normal six months.

### **Tally your travel**

If you've been putting off visits to clients, existing or potential, taking a few business trips now might pay off. You can add to your business and write off 100 percent of the travel costs. Remember, though, that meals are only 50 percent deductible and in most cases you must dine with a client to get even that much of a deduction.

### **Don't overlook local travel**

Although the IRS no longer requires a contemporaneous travel log, keeping a notepad in your car to jot down all your business-related trips will help ensure you don't forget any at tax time. More electronically inclined? Then use the recorder feature on your cell phone or buy a mini-recorder to tape your travel details, making it a tax-deductible purchase, too.

In addition to deductions, there are several steps you can take now to help lower your coming tax bill.

### **[Plan for retirement](#)**

If you have a company retirement plan, make payments to it. If you don't have one, set it up now. Sept. 30 is the deadline to establish a SIMPLE plan; a Keogh must be opened by Dec. 31. Regardless of what type of retirement plan your business has, it's doubly worthwhile. Your

contributions will pay off in your golden years and are a great way to reduce today's taxable income.

### **Reevaluate your business structure**

As your business has grown, your original choice of legal entity might no longer be appropriate. Did you begin as a sole proprietor? Perhaps it's time to investigate an LLC arrangement. Or maybe incorporation with its potential tax savings is now the correct entity for your company.

### **Meet with your tax adviser**

If you don't have a tax adviser or accountant, [consider hiring one](#). If you wait until tax season to do so, it'll be too late to implement effective business and tax strategies. Plus, the cost is a tax-deductible business expense and the personalized planning tips you'll get should help pay for the cost.

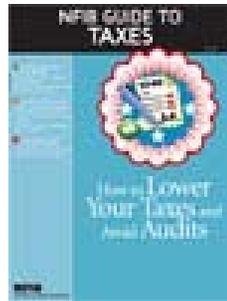
### **Get organized**

You don't need a professional to know that better recordkeeping will help you substantiate your business deductions. It's never too late to get your financial and operational paperwork in order. When you do hire a tax pro or accountant, they'll thank you for it and won't have to charge you for their time to set up a system.

### **Defer income**

Your organization effort also will give you a better idea of where you stand as the end of the year approaches. If it's been a good one, that's great. But it's also great for the IRS. So if you can afford it, consider postponing collection of some of your receipts until next year to push

that income into a new tax year. And your customers also might appreciate your thoughtfulness in sparing them a pre-holiday bill.



### [NFIB Guide to Taxes](#)

This Small Business Legal Center guide was created to assist small business owners like yourself lowering your taxes and avoid audits. Get tips on calculating the Alternative Minimum Tax, find out 12 ways to avoid an audit and learn more about common small business deductions that could save you money.

**NFIB Members:** [Download Now](#)

## 4 IRS Red Flags to Avoid

Hoping to avoid a visit from an IRS auditor next year? If any of the following red flags apply to you, reconcile them before tax time rolls around.

- 1. Classifying employees as independent contractors.** A growing class of employee is the permalancer: someone classified as a 1099 contractor, who actually does the majority of his work for one employer. Having permalancers on board makes it seem to the IRS that the employer is trying to avoid payroll taxes, which is one of the more surefire ways to get your business audited.

How can you tell if your independent contractors should be classified as employees? If they draw full-time incomes from you, work on an on-going rather than contract-to-contract basis and regularly work in house for you, then you have an employee who should have a W-2 form with your company.

- 2. Questionable write-offs.** Sometimes the line between business and personal expenses might seem a little blurry. For example, you take your family along for a weekend conference. Can you write off their portion of the plane tickets, meals and hotel bill? Unless they were working your conference booth, the answer is no. Even if they did put in some work hours, you still can't write off any leisure expenses for the weekend. If a write-off is questionable as a genuine business expense, then it's best not to try it.

3. **Miscellaneous expenses.** According to the [Wall Street Journal](#), a Schedule C with a sum total of miscellaneous expenses in the thousands will make the IRS suspicious. Keeping track of your receipts and classifying expenses throughout the year should keep you from dumping too many write-offs into this catch-all category.
4. **Home office deduction.** Taking a deduction for a home office is a widely known audit trigger. Yet some home office deductions are bigger red flags than others. If you take deductions for a commercial workspace as well as a home office, this may catch the attention of the IRS. Even home-based businesses should be careful about accurately claiming the portion of the home used for business, and the subsequent amount of rent or mortgage being deducted. Also be careful about the in-home expenses you write off. For example, your home phone line can't be written off, though a second line installed especially for your business could be.

The best way to ensure you don't raise any red flags with the IRS is to hire a trustworthy accountant. If the accountant you work with encourages you to cheat your write-offs, seems unconcerned with the possibility of audits or simply gives you advice that doesn't sound right, look into hiring someone new. Given the time and expense that an audit would cost, an honest accountant is one person you can't afford not to hire.

🔗 *More [Small Business Tax Help](#) on NFIB.com*

## STAFF MY BUSINESS

### How to Keep Your Employment Application Legal

There's a good chance that **any employment application more than four or five years old asks for information that can no longer legally be requested**. Whether you designed your own application or purchased a generic form, if it's a few years old its use is risky. Yet it's not uncommon to find, especially in smaller companies that don't recruit often, that the same application has been in use for a decade or longer.

Among the more obvious application prohibitions, you're forbidden to ask about:

- race or national origin
- religion
- marital or family status
- age

It may seem easy enough to avoid direct inquiries about these few categories of personal information. However, also forbidden are indirect inquiries that could reveal such information or suggest its presence. For example, don't ask applicants to list the organizations they belong to; by their very names, some organizations strongly suggest religious affiliation or ethnic background. This prohibition also extends to asking about involvement with labor unions.

Because labor laws prohibit the employment of minors in particular settings, there is one age-related question that can be asked: Are you at least 18 years of age? Except in a very limited number of instances, questions about age are illegal.

Any request for information about marital or family status is strictly off limits. A great deal of employment discrimination regularly occurs in this area; some employers tend to avoid hiring single parents who have child care responsibilities.

Application prohibitions initially arose from Title VII of the Civil Rights Act of 1964 and have been supplemented over the years by more legislation intended to protect personal information and individual privacy.

To highlight some of the inquiries that still appear on some applications:

- You can ask for a home address, but a once common follow-up question—Do you rent or own?—is prohibited because it inquires into economic status.
- The former practice of asking about garnishment of wages is now similarly forbidden on the grounds of privacy.
- The simple question "Where were you born?" is no longer allowed as it solicits information about national origin.
- You can't ask the country of a person's citizenship. Instead, ask: Are you a citizen of the United States or otherwise legally eligible for employment in the U. S.?

- An occasional application still asks for "Next of kin" or "Person to notify in case of emergency." This can no longer appear on an application. Such necessary personal information can't be requested until the individual has accepted an offer of employment.
- Concerning military service, you can ask if an applicant served in the military but you can't ask the character of one's discharge (honorable, general, etc.).
- In the past one of the most common application questions was: Have you ever been arrested? This is now prohibited; you can ask about convictions but never about arrests not followed by conviction.

A comprehensive list of what can't be requested on an employment application is not possible in this brief space. But there's a simple rule that can help keep your application inquiries legal: Pay no attention to what the person is and concentrate on learning what the person knows and can do. Personal information not related to one's qualifications and experience is irrelevant.

If you're in doubt about the legality of your application, consider consulting an attorney to review it in light of current employment law.

NFIB members with additional questions can also contact the [NFIB Employment Law Hotline](#), a free service available to NFIB members.

## 5 Tips for Hiring a Virtual Assistant

If your small business is in need of administrative help but you don't want to hire a full-time employee in challenging economic times, consider hiring a virtual assistant—an administrative professional who works remotely on a contract basis. Since virtual assistants are not employees, your use of one is no different from other business partnerships you enter into. Here are five tips to find a virtual assistant and make sure he or she is the best one to handle your business's needs.

**Know what to expect.** Before you hire the first person you come across, understand that the skills, backgrounds and experience levels of virtual assistants vary significantly. For example, some may have financial experience while others may know Web design and others may have a technology background. The one thing that they have in common is a proficiency for performing administrative duties, but in order to decipher whether those past duties are compatible with your company's needs, you'll need to ask for details from every person you speak with. This is one profession where one size does not fit all, so be clear about what services you need and look for someone who already has a track record in those areas.

**Check virtual assistant groups.** A good way to find potential candidates is to go through associations for virtual assistants. The Virtual Assistance Chamber of Commerce has a directory of virtual assistants broken down by country and state. The International Virtual Assistants Association lets you search for assistants based on the skills

they possess. Also, the Virtual Assistant Networking Association Forum lets you post a Request for Proposal that goes to its members who can then get back to you with a bid.

**Consider distance.** Since virtual assistants work remotely, they don't have to be in the same city or state as you to get the job done. However, depending upon what tasks you'll be asking of this person, you might want to meet with him or her face to face every so often. If so, consider location when making your selection or build into your budget enough money for occasional travel expenses.

**Make sure working styles are in sync.** Since your virtual assistant won't be on the premises, you have to make sure he or she is available at times that work for your business, particularly in cases where that person is in another time zone. If you'll need the person to be available for teleconferences or to answer an email immediately, it's important to make sure that he or she will be accessible during your work hours. The virtual assistant won't be working 40 hours a week for you; he or she likely will have other clients. But you want to make sure that crucial tasks will be able to get done in a timeframe that works for you.

**Find a payment structure that's right for you.** Virtual assistants often charge by the hour. According to the Virtual Assistance Chamber of Commerce's 2008 industry survey, most charged a base hourly rate of between \$30 and \$39 per hour last year. However, some virtual assistants charge on a retainer basis, meaning they'll work so many hours per week or month for a set amount. Think about your business'

cashflow: Do you want to pay as you go or do you want to have a certain number of hours (and dollars) allotted for your virtual assistant each month? Once you determine the best use of your money, find someone who agrees to those terms.



### [Workplace Posters](#)

Find the locations of the latest state and federal posting requirements, including links to government sites with complimentary downloadable individual posters. NFIB members can purchase state and federal workplace posters from Federal Wage and Labor Law Institute (FWLLI) at a discount or enroll in a special auto-compliance program.

## Should You Cut Costs by Cutting Hours?

In a tough economy, the possibility of layoffs becomes a harsh reality for many businesses. News of layoffs are difficult for business owners to deliver and even more difficult for employees to receive. Layoffs may not, however, provide the "out" that many owners want. Businesses may overlook the following layoff costs:

- Severance pay
- Payments on accruals of vacation time
- Unemployment benefits
- Hiring and training new employees when the economy recovers

### Cutting Hours

Consider a secondary solution that may be more beneficial to your business and employees. Cutting back on the number of hours that current employees work has become an increasingly common way to cut costs and avoid layoffs. Between June 2006 and November 2008, the number of involuntary part-time workers in the United States nearly doubled, increasing 2.4 percentage points to 5.1% of the workforce. By November 2008, 7.3 million people were working 35 hours or less a week due to the declining economy.

How can a business reduce employee hours worked to cut costs?

- Reduce the workweek, hence reducing wages.
- Require employees to take a set amount of leave without pay.
- Disallow overtime.

## Potential Legal Implications

Employers who cut hours may face lawsuits from affected employees. To avoid lawsuits do the following:

- Demonstrate that cuts were made objectively by providing selection criteria.
- Discuss changes with your workers' compensation insurer.
- Avoid employee contracts that state an annual salary.
- Ask for volunteers who want to work part-time or make all employees take cuts.
- Avoid cutting the hours of a single class of employees, e.g., just women or older employees.
- Provide advanced written notice to employees.
- Make sure you do not turn exempt employees into nonexempt, and hence subject to overtime requirements. Under the Fair Labor Standards Act white-collar exemption, an employee must receive a salary of at least \$455 a week. If the employee's salary is cut below \$455, he or she is no longer exempt.
- For union workers:
  - Bargain for changes in hours, even if no labor contract exists or if the contract does not address the issue.
  - Consent may be required from the union and contractual notice requirements might be implicated.
- Take special precautions for employees who previously filed a complaint for discrimination or harassment, or requested accommodations such as time off under the Family and Medical Leave Act. Such employees may sue on possible retaliation grounds if they engaged in protected activity shortly before their

hours were cut. The [Equal Employment Opportunity Commission](#) provides additional information.

### **Avoiding Overtime Costs**

Many employers have policies that prohibit unauthorized overtime. Such policies are fine, but employees must be paid for all time worked. As an employer you can warn, suspend and even terminate an employee who works unauthorized overtime, although you must still pay for all time worked. Make sure all your supervisors are aware of your company's overtime policies and don't allow employees to work OT. The Dept. of Labor has more [information on wage and hour laws](#).

Before implementing a new employment policy, it is wise to speak with an employment lawyer licensed to practice law in your state.

*Information provided is intended to be accurate, but should not be considered legal advice. NFIB and the [NFIB Small Business Legal Center](#) cannot be held responsible for any errors or omissions.*

## How to Boost Employee Morale in Tough Times

When your business is struggling, keeping employee morale strong can be one of the keys to getting through a rough period. Yet many small businesses currently do not have the most time-tested of morale boosters – bonuses and raises – at their disposal. Luckily, there are several non-monetary ways to boost staff confidence. Here are a few to get you started.

### **1. Implement an open and honest communication policy.**

The more secretive you are about any trouble your company faces, the more your employees will be left to speculate, allowing an environment of gossip and anxiety to permeate the office. Needless to say, this will not help morale.

Instead, tackle unpleasant issues like layoffs and cutbacks head on. While your staff won't appreciate the bad news, they will value being dealt with in a straightforward manner.

### **2. Affirm the worth of your employees.**

A heartfelt "thank you" for a job well done can do much to improve an employee's morale. This is not to say you should start giving praise when none is due; your staff will see through this and your compliments will have little value. Instead, make an effort to notice when employees are really pulling their weight and take the time to commend them.

### **3. Empower employees by challenging them.**

When the future jobs outlook is uncertain, employees may experience anxiety due to their lack of control over the situation. While you can't necessarily promise them a rosy future, you can help them feel in charge of things they can control. Assign employees challenging jobs (that you're confident they can handle, of course) and give them the autonomy to do their work.

### **4. Help employees see beyond the present.**

As a small business owner, you've probably pulled through your share of difficulties. Share these stories with employees to help put current problems in perspective. Looking not only to the past, but also to the future can be a powerful morale booster. Share long-term company goals with your staff, or better yet, let them have a hand in creating these goals.

It should be noted that no two employees are alike. One of the most important things you can do to improve morale among individual staff members is listen to them. Let them know that your door is open and encourage them to bring their concerns to you. Depending on what they tell you, you can take the steps and assign them tasks that will help them get through a difficult period with their morale intact.

## Where to Find Affordable Interns to Supplement Your Staff

Is an unsure economy making you question the expense of hiring more staff? One solution is college interns. Whether your company specializes in finance or fundraising, you're sure to find a student that fits your needs.

Here are five tips for finding interns on campus:

1. **Search at several kinds of schools.** Four-year universities are a great source for interns. But you're not out of luck if there's no state university or Ivy League school in your backyard. Consider community colleges and technical and trade schools. You may discover the ideal intern for your restaurant at a culinary institute or someone to help redesign your Web site at an art institute.
2. **Contact the career center.** Every college has a career center to help students and alumni find jobs and internships. They also assist employers. Call the career center for help posting your internship online, participating in an internship fair and other services.
3. **Build relationships with department chairs.** If you plan to hire interns every year, meet with the head of the department in the discipline you seek, whether it's accounting or architecture. They can guide you to the best students in their programs.
4. **Approach academic clubs.** Students join a variety of clubs on campus to advance their knowledge in areas ranging from

economics to physics. They also participate in student affiliates of national organizations, such as the American Chemical Society and the American Institute of Graphic Arts. Offer to help these clubs or serve as a guest speaker at a meeting: You can network with potential interns and future employees and promote your company.

5. **Opt for an online search.** There are lots of Web sites where you can list your internship position, including [InternshipPrograms.com](http://InternshipPrograms.com), [Internships.com](http://Internships.com), [Rising Star Internships](http://RisingStarInternships.com) and [InternJobs.com](http://InternJobs.com).

Of course, finding the right intern is only the beginning. Rich Bottner, president of Intern Bridge Inc., a college recruiting consulting firm in Acton, Mass., encourages employers to consider three critical issues when developing an internship:

- **Structure:** Have work that is meaningful, not just menial. Bottner says 20 percent of the job can be copying, collating, etc. But students "want to take classroom theory and apply it to real world situations," he says. "They want experience."
- **Supervisor selection:** Select someone within your company who can not only supervise the intern, but educate and instruct them as well. "You have the opportunity to mold a future employee," says Bottner.
- **Orientation:** Take a couple hours to introduce the intern to other employees, tour your facility, answer questions about policies, etc. "If you don't do it correctly, the student is kind of lost for a couple weeks before they feel comfortable, so you're not getting much productivity out of your intern," says Bottner.



### **Federal Employment Law Handbook**

The NFIB Small Business Legal Center and the Atlantic Legal Foundation created the Federal Employment Law Handbook as a resource for small-business owners.

NFIB Members *and* Non-members:  
[Download Now](#)

 *More [HR Help for Small Business](#) on NFIB.com*

## MARKET MY BUSINESS IN THIS ENVIRONMENT

### 5 In-store Events to Boost Your Business

Hosting special events at your business can be a great way to gain foot traffic and introduce yourself to new customers. With consumers holding on tightly to their wallets these days, you need to think creatively about the sorts of events that will appeal to your target audience and will be well suited for your business.

#### 1. Open houses

Open houses are the most tried-and-true in-store event, and they take little effort to pull off. Simply pick a date and time, prepare refreshments, raffle off a few prizes, and you have your open house. Open houses tend to work best when they are tied to a specific event, such as your business' anniversary or an upcoming holiday. Many businesses like to hold their open houses after regular store hours, in order to make the experience more unique and heighten the festive atmosphere.

#### 2. Readings

When publicized, readings can draw a great crowd, and they need not be confined to book stores. Contact any local or regional writer of interest; most will be grateful for opportunities to read from and publicize their work. While a few may charge speaking fees, most will probably be satisfied with the opportunity to sell some book copies. (Authors will bring their own books to sell.) Try to match the readings

to the interests of your customers. For example, a beauty shop might invite a "chick lit" novelist, and a hardware store could host an author who has written a book on wood-working techniques.

### **3. Gallery events**

If you have any empty wall space around your business, ask local artists to contribute artwork. Some businesses feature a variety of artists, while others display the work of a single artist for a specified period. Either way, debuting new art is a perfect occasion to host a special in-store event. Invite the artists and serve refreshments. This is the sort of event that will keep on giving, as those who don't make it to the opening may still be inclined to come look at the artwork over the next couple months.

### **4. Demonstrations**

New product demonstrations can be very useful to customers and give them an incentive to stop by. Demonstrations can also be less literally about your products. For example, if you own an appliance store, invite a chef to give a cooking demonstration. The audience will gain knowledge and information – and some of them may even buy a blender or food processor afterwards.

### **5. Seminars and lectures**

Hosting a seminar or lecture is perfect for consultants and other businesses offering services instead of products. If you give the lecture yourself, design one with quality content. Attendees will be alienated if the seminar amounts to nothing more than a thinly disguised sales pitch. Let's say that you run an accounting firm and give a lecture titled "Five Ways Throughout the Year to Make Tax Time Easier." While

this wouldn't be a direct advertisement for your business, your expertise would still come across, and you might pick up a few new customers before the end of the evening.

Finally, the more you promote your in-store event, the more successful it will be. Announce the event well in advance and post information prominently around the store. Invite other business owners and ask if you can leave postcards publicizing the occasion in their shops. Email your customers once to announce the event and once to remind them a day or two before it happens. Holding events a few times a year is a great way to show your thanks to your customers and boost their loyalty toward your business.

## Forget Name Recognition, Increase Image Recognition of Your Business

*Embrace the public's perception of your business when they can't recall your company name*

Remembering names is difficult. Not just the names of people we meet, but of businesses around town. So then, how do people tell others about a business when they can't recall the name? **They describe it.** You know this, but are you using it to your advantage?

### **Examples of marketing your public image**

A storeowner had a small-town shop that sold all things Italian – from unique children's toys to fine tableware and cookbooks, linens and large furniture. The store name was simple and matched the Italian theme, but what did locals call the shop even years after it opened? "The store with all the lavender." It was the Italian products that were unique to this store, not the lavender. However, the owner saw that the public recognized her shop for her lavender products and capitalized on that. She kept the store's Italian name and theme, but moving forward, she always had lavender and lavender-colored products displayed in her window and advertisements.

Even large companies find it helpful to embrace the public image. Take UPS: They nearly got rid of their signature brown when independent studies named brown as one of the worst corporate colors. However, upon their own studies, UPS realized the public had come to relate the company with the brown trucks and uniforms. Embracing this, the company let their official name take a back seat to public perception

and launched the "what can brown do for you" campaign.

Unfortunately, the public does not always remember a business by its corporate colors; it may be a portion of inventory, a successful ad campaign, the way employees say hello or even the personality of a single employee. The good news is to find it, all you have to do is ask.

### **How to uncover your public image**

If you've been in business for any length of time, it is likely that the public has already formed a perception of your company. Simply ask them what they would say to jog someone's memory about your business or what they think of when they think of your store.

Use all the tools at your disposal to gather a thorough sampling of the public's perception – casual, in-person inquiry; a survey; a comments section on your Web site or a post on your social networking site. Just be sure you are asking your current, former and potential customers; otherwise the information is useless. A word of caution: Be prepared for unexpected answers and do not challenge them – you want people to feel they can be honest.

**Once you know how people perceive your company, harness the power of it** – use it as a tool to bolster future marketing. Even if it does not describe the core of your business, when used in conjunction with other marketing tactics, it should help to create instant recognition.

## How to Make Networking Work for You

Do networking events feel phony, self-serving and even a bit predatory? Is it worse during a recession?

Guess what: There's more to face-to-face networking than handing out your business card, talking to powerful people or trying to manipulate casual chit chat into a sales pitch.

Genuine networking is more than that: It is about building real relationships that are based on mutual respect, curiosity and connection. These genuine networking contacts are the ones who will, in the long run, help you build and sustain your business.

So how do you go about shedding those phony networking techniques that focus only on superficialities such talking to the "right" people, image-building and sealing a deal?

Here's how:

1. **Do more listening than talking.** Most of us will attend a networking event with the idea that we must give our "pitch" and hand out as many cards as possible. Instead, focus more on listening than talking. This will ease your nervousness and put you in a different mindset, and will result in a more genuine experience.
2. **Ask open-ended questions.** Even businesses that are "dry" have interesting challenges. If you don't understand a person's business, ask questions about it. Approach the conversation with

an open and curious mind. You will be surprised at how much people will reveal when talking to someone who listens.

3. **Look for common ground.** Find out not only people does for a living, but what they do for fun. Some of the liveliest connections are made through common interests such as gardening, golfing, cooking or other activities.
4. **Listen for an opportunity for to offer help.** Is the person you are talking to looking to buy a new house and your aunt is a real estate agent? Or is that person looking for a connection in a local firm and you know the boss? Offer to help or make an introduction and people will not forget you – and they may be willing to help you when you need it.
5. **Ask for help.** Asking for advice is not usually seen as a burden, but is often viewed as flattering. Be brave and ask for help or even for an introduction to someone you want to make a business connection with.
6. **Realize that not every networking experience will be genuine.** Not everyone will respond to this kind of networking, particularly those who do not see you as someone "worth" networking with and are constantly looking over your shoulder for their next networking "victim." Don't take it personally. Politely excuse yourself and move on.
7. **Get contact information.** If you meet someone you would like to keep in contact with, ask to exchange cards. Then mention to what purpose you'd like to use the card. "Can I e-mail you?" or "Do you want to have coffee/lunch sometime?"
8. **Take notes.** With each meaningful contact you make, write down the salient points of the conversation on the back of the

business card after the event. This will help jog your memory when you follow up.

9. **Follow up.** Only ask for someone's business card if you have the intention to follow up. If you said that you'd send along a helpful article, send it within a few days of the networking event. If you said you'd like to have lunch, call the person within the next week or two to invite them. Or simply call or e-mail them with a quick question or interesting web link about something in their area of expertise (business or hobby/interest).

If all this sounds a lot like friendship-building, it is. Like friendships, good business connections are not about having a hidden agenda, but about genuine caring, giving and receiving. And those connections and friendships will be there for you in any economy.

## Should You Discount? The Pros and Cons

Customers will ask for discounts for reasons ranging from paying cash to placing a large order to seeing the product cheaper elsewhere. So is it a good idea to give into their demands or not? Take a look at the pros and cons before you decide.

### **Pro: Making the sale when you wouldn't otherwise**

In some circumstances, making a discounted sale is better than making no sale at all. If it seems clear that a customer will go elsewhere unless you give in to a request for a discount, ask yourself how badly you need that particular sale. One large sale, even when discounted, can sometimes be the difference between a profitable month and an unprofitable one.

### **Con: Cutting profit margins**

Any time you sell your product or service for lower than your asking price, your profit margin goes down. If you can hold out, you might be better off waiting for a customer who is willing to pay full price.

### **Pro: Building stronger client relationships**

Granting your customers the discount they request will certainly improve their loyalty to your store, and next time they want to make a purchase they'll hopefully return. Not only can giving discounts create return business, it can also generate positive word of mouth and build your reputation as a community-minded business owner.

**Con: Setting up a harmful precedent**

Even if you tell customers the discount is a one-time occurrence, they may ask for one the next time, too. If you refuse, their loyalty to your business might prove fleeting. Only give a discount if you don't mind being asked for more deals in the future.

**Pro: A few discounts won't hurt the bottom line**

Rewarding loyal customers here and there certainly won't cut that deeply into your bottom line. In fact, giving discounts could even strengthen it by promoting returning business and sending new clients your way.

**Con: Customers may compare prices**

If some of your loyal customers who aren't getting a discount talk to a customer who is, they will wonder why they haven't received the same courtesy. These clients might demand a concession the next time you see them, and you will be forced to comply or else risk losing their business. Many people enjoy sharing the news when they get a good deal – don't imagine that your clients will be an exception.

One of the best ways for business owners to solve the discount dilemma is to set up a unified discount program. For example, you could give all customers 10% off on orders totaling more than X amount of dollars. Having a pre-existing discount program allows you to treat all customers fairly and saves you from having to make markdown decisions on a case-by-case basis.

## Viral Marketing Musts for Small Business

### *10 buzz-finding questions to ask yourself*

Viral marketing is all about creating buzz. Viral marketing facilitates and encourages people to pass along a marketing message using pre-existing social networks. Messages can be spread through a reputable blogger, or sent in the form of a text message, image, email, video clip, advergame, brandable software, etc.

A message goes viral when the transfer of that message explodes exponentially, allowing millions of people to see the message. When this happens, it can mean big things for the message originator. Unfortunately, viral status can only be achieved through public response; therefore, it is impossible to guarantee a message will go viral. However, it is possible – and essential – that your message is viral-ready when you send it.

**For a message to be viral-ready, it must be:**

1. **Relevant** to the audience, as well as your product, service or promotion.
2. **Focused on only one thing** (e.g. focus on discount, rather than listing every item discounted).
3. **Short** and to the point.
4. **Formatted for easy forwarding** via many social networks and channels (e.g. [Facebook](#), [Twitter](#), text message). Providing the

links to forward the message through these channels is a plus.

Example: [Send this article to Twitter](#)

5. **Risk-free** for the reputation of the forwarder.

Also, the customer must stand to gain something by passing along the message, even if it is just the satisfaction of sharing a discount or a laugh.

### 10 Questions That Will Help You Find Your Buzz-Worthy Message

1. What gets people talking?
2. What do customers say about you? What do you want them to say about you?
3. Do you have an interesting story to tell?
4. What motivates your customers?
5. Does your message exploit a common behavior or motivation?
6. Can you relate your promotions to a holiday or news event?
7. Can you sell your product or service by doing something outrageous or hilarious?
8. Can your business withstand and even thrive on controversy? Can you create controversy?
9. Which social media influencers would be a good match for your product or service?
10. Can your business support a viral promotion, no matter how large it gets? (Competitors can get great press by honoring your promotion if you run out of product.)

Your first, or even your 10th, buzz-worthy message may not go viral – and that's okay. Do not give up on other marketing methods, and then

simply try going viral again. Just be sure to wait until you have what you believe is a truly buzz-worthy message; you don't want to overwhelm your customers. Remember, customers, like viral marketing, are unpredictable.

## 10 Steps for Avoiding Bad Check Headaches

A tough economy presents many problems, including the potential for an increase in bad checks. There are some simple steps that you can take to make sure that customers don't write bad checks to your small business. Some of the same steps may make it easier for you to collect payment later on.

### How do you avoid bad checks?

**Step 1. Get an address.** First, have the customer sign the check in your presence and make sure that the customer's phone number and address appear somewhere on the check. If the customer has an address that does not appear permanent or that would make it difficult to trace her later on – e.g. a hotel room or a post office box – think carefully before accepting the check.

**Step 2. Avoid post-dated checks.** Next, examine the check carefully before accepting it. Beware of checks with crossed out or rewritten marks. Check the date to see if it is accurate. Also, be extra careful about accepting post-dated checks (checks that cannot be deposited immediately). In some states, the writer of a post-dated check cannot be held liable for writing a bad check.

**Step 3. Confirm identity.** Collect identification—for examples, drivers' licenses—when taking checks. You may wish to write down the customer's driver license number on the check.

Remember that you do not have to accept checks, and that you may always require customers to pay with cash. To avoid a discrimination claim, you must apply your check policy consistently to all customers.

### **How do you collect on a bad check?**

**Step 1.** Call the customer. First, call the customer and ask that he or she either write a new check for the amount owed or send you a cash payment. (This is why it is helpful to collect a customer's phone number and other contact information in advance!)

That said, be careful about when and how often you call the customer. To avoid problems, call during normal business hours, do not discuss the debt with the customer's employer, and make sure your tone of voice remains polite throughout your conversation with the debtor. Do not threaten to publicize the debtor's name or notify the debtor's employer of the debt. Threats during such a conversation could constitute harassment or extortion and are illegal.

**Step 2. Write a letter.** Send a certified letter, return receipt requested, making the same request that you made over the telephone. (Again, this is why you should collect customers' addresses when you receive the check!) Also, keep a copy of the letter for your files, as this document may set the stage for a criminal prosecution if the check-writer intentionally attempted to defraud you.

**Step 3. Contact the customer's bank.** If the customer's bank account is still active, wait a few days and then call the bank to determine if there are sufficient funds.

Explain that you have a check for a certain amount and ask if there are enough funds in the account to cover it; normally, banks are able to provide you with this information. If there are now sufficient funds to cover the check, take the returned check to the bank and draw out the cash.

On the other hand, you can also ask the customer's bank for "enforced collection." If the bank offers this service, the bank will make sure that the next deposit in the customer's account is transferred to you. The procedures and costs of using such services vary. Obtain details from the bank directly.

**Step 4. Request prosecution.** Intentionally writing a bad check is a crime. Note, however, that many states require you to send a written notice to the debtor before he or she may be prosecuted. Thus Step 2 on this list.

The police department or district attorney in your area should be able to tell you if written notice is required, and also what information the written notice should contain.

You should take all of the above steps quickly, as many states have a two-year statute of limitations to collect on debts for bad checks.

**Step 5.** Use Small Claims Court. Contact your county or municipal court for more information.

**Step 6.** Seek additional damages for the bad-check writer's failure to pay you post-judgment. If the check writer fails to pay you after you

have won a judgment in small claims court, you may be able to obtain additional damages. Under some state laws, after you have obtained a judgment against the bad-check writer and made written demand for the amount due, you are entitled to an amount equal to \$100 or treble the amount for which the check was drawn, whichever is greater, not to exceed by more than \$500 the value of the original check.

**Step 7.** Investigate remedies that will protect other merchants from the bad-check writer. You also have the right to choose not to accept checks in the future from someone who has written you bad checks in the past and to report the bad-check writer to a database like TeleCheck, Shared Check Authorization Network or Chex Systems. Other merchants can use these databases to decide whether to accept checks from the writer in the future. Banks sometimes also use these databases in deciding whether to allow someone to open a checking account. Whether these remedies are appropriate, though, may depend on your relationship with the customer and what your goals are in seeking payment.

## Co-op Purchasing Plan Links Small Business with Local Governments

Looking for a way to expand your IT business? The Federal Cooperative Purchasing Program is an easy and stress-free way for entrepreneurs who specialize in information technology to readily offer some of their products and/or services to state and local governments.

General Services Administration manages the popular match program which links state and local governments to vendors across the country. The caveat is that **vendors must specialize in providing IT services**. To participate in the program, vendors must first register for the program via a form called the [Information Technology Schedule 70](#).

According to published reports and government statistics, state and local government IT spending is expected to increase to \$77 billion by 2012, up from about \$55 in 2007, representing a compound yearly growth rate of 6.6 percent.

Signing up for the Federal Cooperative Purchasing Program is relatively easy: IT vendors interested in becoming part of the program must first [register online](#). The site walks potential vendors through the process. Once completed, vendors will have access to a detailed list of what specific IT products and services are needed at the state and local level in all 50 states.

Here's how the process generally works for business interested in selling to local and state government:

**Eligibility:** Participation in the program is voluntary by both the government entities and the business owner. Once registered, a vendor will be able to sell to state and local agencies in all 50 states and various counties and municipalities. Each state has its own procurement regulations and guidelines that may or may not affect it from being able to do business with vendors. It's a good idea to check with the government Web site in your state or county to learn more.

**Benefits:** Perhaps one of the best benefits of becoming an Information Technology Schedule 70 vendor is that all information related to your business – size and socioeconomic category – is readily available to the state and local governments, and it's easy for them to identify specific vendors who meet their procurement criteria.

A comprehensive Web site allows local and state governments to view potential contractors based on a specified geographical area or region. Potential contractors can even be divided into categories based on ethnicity, gender or socioeconomic status. For example, the [GSA's E-Library](#) has unique features that enable state and local government agencies to categorize potential vendors in a variety of ways.

On the flip side, when a state or local government agency has a need for a specific kind of IT service or product, the entity will issue an order via instructions in the [Federal Acquisition Regulation](#) (including amendments effective Sept. 10, 2009). The agency will:

- Research the acquisition using [GSA's online tools](#)
- Solicit orders from selected contractors
- Evaluate the options and make a selection in accordance with stated criteria
- Issue or make the order
- Receive the products or services from the contractor
- Pay the contractor/vendor per the contract agreement

Based on projected government figures and consumer research, IT spending is expecting to bounce back in 2010. If you have a niche for IT products and services, you may want to consider becoming a part of the Federal Cooperative Purchasing program as a way to increase your bottom line.

## 5 Ways to Reward Referrals and Grow Your Business

In a slow economy, many businesses will grow only by word of mouth. If you want yours to be one of them, consider giving people incentives to get the word out about your company. Whether you're seeking referrals by friends, customers or competitors, here are five ways to motivate people to keep the kind words—and business—coming.

**Offer a personal gift.** Even if you expect friends, family members and colleagues to send clients your way, let them know that you appreciate their efforts by giving them a small token of gratitude, such as a gift certificate for a dinner out or a free service at a spa. The gesture need not be repeated every time they refer someone; if they make several referrals let them know that the gift is to thank them for their ongoing support. At the very least, send a thank-you card to acknowledge the gestures they've made.

**Create a referral discount system.** One way to get customers to spread the word about your business is to give them a discount on products or services in return. For example, you might offer a one-time five% off for each referral that is made. This type of promotion works best with customers who are buying a frequent service since those who buy a product or service one time won't see as much benefit from a discount on future purchases. One of the additional benefits of such a promotion is that customers can be particularly convincing since they already buy your product or service. To encourage referred customers to make a purchase, you may want to extend the one-time discount to them, as well.

**Create a cross-promotion.** It might seem counterintuitive that competitors would refer customers your way, but if you offer some services that competitors do not or if you're in a different regional area, consider coming up with a cross-promotional agreement. For example, if customers go to the competitor looking for a service that they don't provide, have them refer the customers to you. Likewise, you refer customers to them when they ask you to provide services you don't or can't provide. Don't fear that you'll lose potential customers in the process. You may, in fact, cement your relationship with customers because by making the referral, you're still helping them get what they want.

**Exchange cash for clients.** Consider offering an old-fashioned finder's fee. Let people know that you'll give them a monetary amount for any referrals that lead to business for your company. The amount you give for referrals should depend upon the average amount new customers spend. The more money customers tend to spend on your business, the more valuable each referral is and the more money you may consider offering as payment.

**Give referrals.** Sometimes, you have to give to get. By sending your customers to other local businesses (and letting those businesses know you did so), you're making a favorable impression on those businesses. They're likely to remember your generosity and do the same when they come across potential customers for you.

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