



CONNECTIONS

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Spring 2002

THE SEARCH FOR TALENT *Why Employees Come and Why They Stay*

By Elaine Johnson, SPHR • Human Resources Consultant

Great people alone don't guarantee corporate success, but no company succeeds without individual talent.

The goal of potential employees, possessing talent and desiring a beneficial career, is to work with the right company, in the right role, doing the right things, today and tomorrow. When a decision is made to join and stay with a company, several thought processes begin to determine what the best "fit" actually is.

A new work environment exists today—employees are more loyal to work and relationships than employers; there's no stigma on job-hopping, and value is placed on quality of work life. The Saratoga Institute cited "job issues" as the main reason people voluntarily quit jobs. The Lou Harris Poll indicates 53% of workers expect to voluntarily quit within the next five years.

Right Management Consultants recently completed PeopleBrand, a

study of organizations and employees examining retention factors for top talent. PeopleBrand highlighted several aspects of employment directly related to why employees come and stay with a company.

Compensation

Compensation includes pay,

benefits, professional development and work/life balance. Pay and benefits are valued most when linked to performance. Companies should encourage professional development, providing opportunities to learn and grow. Work/life balance is defined as what employees need to satisfy their individual situations.

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Con-nect-ions

1. The act of connecting, or the state of being connected.
2. That which joins or relates, a bond or link.
3. Group of associates, often considered influential in some way.
4. **Small Business Resource Network.**

Dear Reader,



The last 30 months in America have been fairly stressful.

At the end of 1999, we were paranoid over the possible Y2K crisis, unconfident our technology could defend itself. Early last year and in 2000, we experienced a drastic stock market slide, hoping for the confidence to outlast the plunge. Then the fall of the World Trade Center marked the latter portion of 2001 and eroded our confidence in our physical security. Barely had the dust settled on that catastrophe, when Enron and Arthur Andersen shredded the confidence we've taken for granted in our accounting and auditing standards.

Confidence. It's a fragile characteristic taking a long while to develop, but lost almost immediately by an unexpected event or misstep. After a period of healing, we regain confidence. We again trust our electronics after Y2K. Our feeling of security has returned to some degree. And eventually, we'll again invest with enthusiasm. But will we ever believe a financial statement after the Enron scandal?

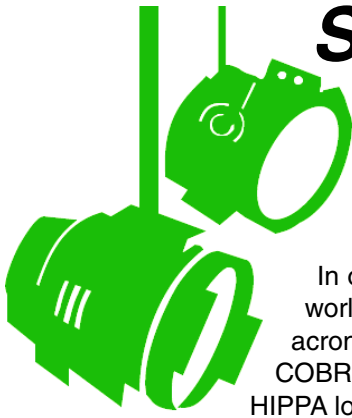
Properly done, financial statements are a logical presentation of facts interpreted by an experienced person with wisdom and good judgement. The relationship between client and CPA must be mutual trust. If the trust is broken, everyone shares in the guilt. Confidence then depends on the balance of a client's expectations from their accountant and what an accountant can fairly report in a financial statement.

So as in accounting, and all business, a successful engagement depends on the integrity of both the professional and the client. If either party senses a lack of integrity, it's time to terminate the relationship. It's essential that clients and investors trust SBRN's professional advisors and services. The continuing confidence in our economy depends on it.

Mark Patrick, CPA
2002 SBRN President



SBRN is a joint project of: UNF Small Business Development Center and the City of Jacksonville.



Spotlight on...

There is Life After COBRA

By *Kenneth L. Smith, CLU, FLM* • Insurance Consultant

In our world of acronyms, COBRA and HIPAA loom large for business and individuals needing health insurance coverage.

COBRA (Consolidated Omnibus Budget Reconciliation Act of 1985) and HIPAA (Health Insurance Portability and Accountability Act of 1996) contain provisions creating a safety net for insured employees who leave their employers in good standing.

Certain provisions in COBRA make it possible for qualifying former employees to continue receiving group health insurance benefits for specified periods of time (most commonly up to 18 months, with exceptions.) Florida has a form of "Mini-COBRA" applicable to small business employers. Federal COBRA, on the other hand, applies to businesses having a minimum 20 employees on the payroll during the year.

COBRA continuation provisions are a blessing to the former employee not able to qualify for individual health insurance because of health history or other underwriting considerations. However, before HIPAA, those insured under COBRA had a roadblock waiting at the end of their coverage periods.

Once COBRA coverage expires, the uninsurable former employee must convert his or her insurance to individual insurance under the former employer's plan. Group conversion policies, if a plan provides for them at all, are expensive and benefits are

limited. That presents a dilemma: take food off the table to pay for limited benefits, or join the ranks of the uninsured. Fortunately, HIPAA contains provisions that provide relief.

For qualifying individuals, HIPAA offers portability of health insurance, which means the individual can switch to a new insurer and obtain comprehensive coverage without preexisting condition limitations.



To be eligible for HIPAA:

- ▲ The individual must have no other health insurance coverage or be covered by health insurance due to terminate for reasons not within his or her control.
- ▲ The individual must have been insured with "creditable coverage" for the past 18 months with no lapse in coverage of more than 63 days.

- ▲ The individual must have been insured by a group, governmental or church plan, or an individual plan that terminated from insurer's insolvency, insurer's withdrawal from the state, or the individual must have moved out of the insurer's service area.
- ▲ The most recent coverage cannot have been terminated by nonpayment, fraud or misrepresentations.
- ▲ The individual must not be eligible for other group health plans, Medicare or Medicaid.
- ▲ And group continuation or COBRA continuation benefits must be exhausted (if neither was offered by your employer, contact your health insurance advisor for a full set of HIPAA rules.)

Small business owners don't have the time or resources to stay informed about employer-sponsored health insurance issues such as COBRA and HIPAA. Start up entrepreneurs may be covered by COBRA benefits right now, but most are unaware of the available options once COBRA coverage runs out. As members of SBRN, it's our duty to maintain the integrity of our businesses and stay up to speed on conditions that ultimately affect our clients. COBRA and HIPAA are important considerations in that mix.

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Franchising Trends for the 21st Century

By Marshall Reddy • Franchise Consultant

Since the Federal Trade Commission took over regulation in 1979, the franchise industry has enjoyed steady growth. And, as we move further into the 21st century, all indications point to continued growth at a healthy pace. Franchising is growing not just in the U.S., but internationally also.

The pool from which new franchisees are drawn is growing simultaneously. In the upcoming years, potential franchise business owners will be generated in several ways.

Corporate downsizing remains the number one source of new entrepreneurs. As companies cut back to increase the bottom line, more out-placed candidates appear. Many of these candidates, disillusioned with the corporate world and a tidy severance package in hand, are ready to put their hard efforts to work for themselves.

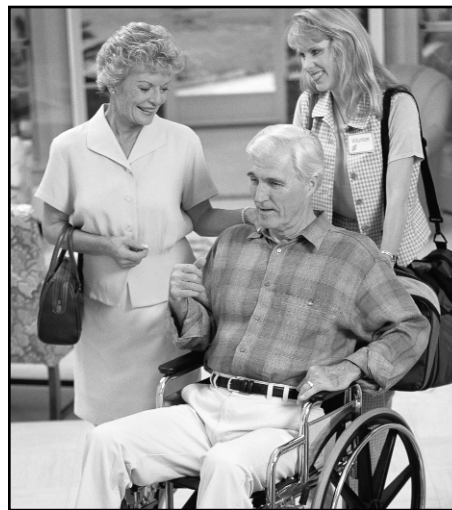
Women and minorities will continue growing in the population of small business owners.

Investors looking for alternative means from the stock market will also become good franchise ownership candidates.

Of the five major franchise business categories—food, retail, automotive, personal service, and business service—several niches within each industry stand out with exceptional growth predictions in the coming years.

Among the nominees with outstanding future growth predictions are children's educational services, senior care services and healthy fast food. According to a Newsweek poll, the worth of the children's educational services industry has

more than doubled in the last few years. Supplemental education, computer training, and basic tutoring services are now in demand in every community. And, senior care services will continue to grow as the senior population escalates. These services range from administering medications, light housekeeping or simple companionship.



Although there's much more to franchising than french fries, the food sector remains the franchise industry's largest and has the most recognizable companies. The trend is toward more healthy food such as fruit smoothies, wraps, soups, and salads. Healthy eating is not a fad—it's here to stay and many franchises are offering lighter selections instead of the traditional heavy or fried fare. Food franchises are also leading the way to higher profit margins by mastering the concept of co-branding—combining complimentary franchises in a single location. For example, subs and frozen yogurt, or smoothies and pretzels. This offers a tremendous benefit for the franchisee, allowing multiple concepts under one roof with the expenses of a single business. The food industry

is also leading the way in establishing non-traditional locations such as airports, gas stations and convenience stores.

In addition to the hot growth trends, are the old favorites—franchise concepts that have enjoyed strong, steady growth in the past and are still safe bets. Among these are sign companies, check cashing, dry cleaning, hair care, commercial/residential cleaning and janitorial companies; generally speaking, the service industry.

The service industry experienced growth in the past decade and indications for the future continue that pattern. Quite simply, we live in a society willing to pay for convenience. Whether it's a personal service (dry cleaning, hair salons) or a business-to-business service (sign companies, commercial janitorial), the concepts are strong and demand is high. Two other bonuses in the service industry are the typical lower investment requirements, based on small inventory needs, and inexpensive build-out for locations.

The automotive industry is another solid franchise industry that's enjoyed steady growth predicted to continue. Automobiles are more expensive, we drive them longer (an average of nine years), and our commutes are farther than ever. A huge benefit to franchisees in the automotive industry is the view that they're weather-proof and recession-proof: it doesn't matter if Mother Nature is having a bad day or if the economy is weak, our cars are necessities and if they break down we must have them fixed.

Finally we come to retail. Like the

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Financing the Sale of a Business

By Nancy Cofield • Business Broker

Only a limited number of methods exist to finance the purchase of a business, and few business sales are handled on an all-cash basis.

So it may not be easy, but there are some major, proven means under which a small business can be financed. Keep in mind that a professional business broker can answer your questions about financing the sale of a business.

Buyer financing - Buyers may have cash available to purchase a business. Some may elect to use equity in their home or other real estate. Others may sell or borrow against assets. However, the number of all cash transactions on businesses priced over \$100,000 is minimal. A certain amount paid and a certain amount per month is part of the American tradition. And buyers like to know a business can support them and pay itself off with profits.

Banks - Banks may lend against the buyer's assets. They may also lend against the assets of the business, assuming they're sufficient to support the loan. The business will also have to make sense to the bank, regardless of the asset value. In fairness to the banking system, many of the figures supplied by sellers have little relationship to the business' earning power. If the business isn't successful, the bank would be left only with hard assets and no way, except by auction, to

liquidate them, and banks aren't in business to liquidate furniture, fixtures and equipment (FF&E) of businesses.

Venture Capital Firms - As a practice, these firms don't lend to small or mid-size businesses unless tremendous growth is expected. They also expect a piece of business ownership.

SBA Loans - SBA loans have been gaining popularity and now competition exists among lenders for these loans. Many banks offer them, but large non-bank companies have the upper hand in service and acceptance rates. But still, less than 5% of businesses sold are financed by the SBA, either directly or on an SBA-guaranteed basis.

Other Sources - This category consists of family, friends, credit cards, leasing companies, etc. Credit cards (surprise!) are the biggest source of small business financing.

Seller Financing - Seller financing is the largest source of available financing for purchasing a business. Industry experts report at least 90% of small businesses sell with, or perhaps because of, the seller financing as a good portion of the sale price. This portion is usually 50% or more, financed over 5 to 10 years.

Buyers want their purchased business to pay for itself. Sellers



demanding all cash alerts them to possible trouble. Is the seller saying the business can't support debt or does he or she just want to get out of a bad business? The financing process slows the transaction down and provides time for buyers to feel confident that a good decision is being made.

As a potential seller, don't discount the value of a business broker's services. Brokers stay educated on buyer-seller issues and they're the best source of information on financing the sale of a business.

Nancy Cofield is president/broker with Corporate Investment International of North Florida, Inc. She can be reached at 996-1666 or ncofield@corporateinvestment.org.

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A Good Plan Just Got Better

By K. Kenneth Wu • Insurance Consultant

College education costs can be staggering.

Expenses at private universities average more than \$22,000 a year. The annual cost for state colleges averages about \$10,000. For many families, qualified tuition programs—also called Section 529 plans—are an attractive way to meet future education expenses. Now, the Economic Growth and Tax Relief Reconciliation Act of 2001 has made them even more appealing by allowing tax-free withdrawals.

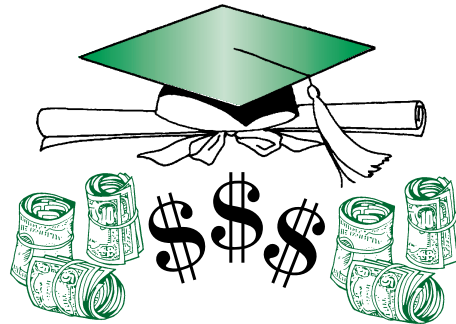
How Section 529 Plans Work

Section 529 plans are college investment programs sponsored by most states under Section 529 of the Internal Revenue Code. Beginning in 2002, private educational institutions will be able to sponsor prepaid tuition programs. You can contribute to a Section 529 plan regardless of your annual income or age, and your contributions can be for the benefit of a grandchild, niece, or nephew, as well as your own child.

With a 529 plan, you either invest a lump sum or make periodic contributions to an account set up for a designated child. While different programs place limits on lifetime contributions, most limits are in excess of \$100,000, and some are greater than \$200,000. The plan account is professionally managed according to an investment program set up when you make your initial contribution. When the child is ready for college, generally you—not the child—withdraw the amount needed to pay qualified education expenses, such as tuition, room and board, supplies, and equipment.

Tax Advantages

Money invested in a Section 529 plan grows free of federal income tax and state income tax in many states. Some states also allow you to deduct investments in Section 529 plans for state income-tax purposes, up to certain limits. In addition, investment managers can move money between different investments as needed with no capital gains tax consequences, something you can't do with a regular investment account.



Starting in 2002, pay-outs from state plans are tax free, and in 2004 pay-outs from all (state and private qualified) Section 529 plans will be excludable from income. But tax-free withdrawals can't be used for the same expenses for which HOPE or Lifetime Learning Credits are claimed.

Investments in Section 529 plans qualify for the federal gift-tax annual exclusion. This exclusion lets you make tax-free gifts of up to \$10,000 a year (\$20,000 if your spouse agrees to join in your gifts) to each of as many people as you choose. A special tax provision allows you to contribute up to \$50,000 in one year and treat the contribution as if it were made over five years so it qualifies for the exclusion. So you and your spouse could contribute as much as \$100,000 in one year for each of your children or grandchildren, free of gift tax.

The money you invest in a 529 plan, as well as all future appreciation on that money, generally is removed from your estate for estate-tax purposes. However, if you make the five-year/\$50,000 election, and die within five years of the election, a pro-rated portion of the contribution will be included in your estate. Using the annual exclusion to make gifts to grandchildren has generation-skipping transfer (GST) tax advantages, too. No GST tax will be applied to contributions that qualify for the annual exclusion.

Portability

Starting in 2002, money can be transferred tax free from one qualified tuition program to another for the same beneficiary. Other transfer rules vary from state to state. In case the designated child decides not to attend college, you may change the account beneficiary to another family member. Family members include the beneficiary's spouse, siblings, first cousins, children, nieces, nephews, and their spouses. Take care, though, when changing beneficiaries. Gift and GST taxes could apply if the new beneficiary is a generation below the old beneficiary.

Financial Aid

On the minus side, a Section 529 plan account may adversely affect your child's ability to qualify for need-based financial aid. Withdrawals from Section 529 plan accounts generally are counted as student income. Many aid formulas consider up to 50% of student income available for tuition. However, aid is often granted as loans, which you may want to avoid. Most families earning \$100,000 or

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Attract and Keep the Best

(continued from page 1)

Work Environment

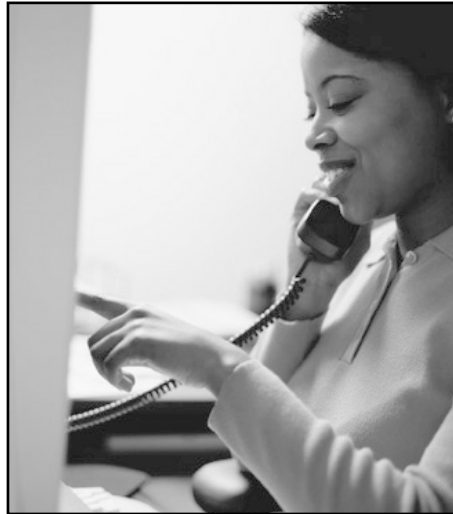
Treat employees like partners and educate them on the company's current status. Provide opportunities for talent to do what they do best and let them direct problem solving in their areas of expertise. Make sure performance expectations are clear and materials needed to do the work properly are provided.

Leadership

Leaders should be creative visionaries with innovative ideas and a tolerance for risk. The senior leadership team should be composed of quality individuals with personal and professional integrity. The company's mission should be easily understood and convey a feeling of importance to the employees. The leadership team must effectively communicate with employees.

Culture

A team-focused culture is optimal, emphasizing excellence. Creativity and innovation among employees should mirror that reflected by the leadership team. Employees should feel welcomed with caring relationships among them and their supervisors.



The Company

The company should have a positive market reputation as a place where talented people are committed to superior quality.

Businesses should be careful to perfect these parameters to please employees, but likewise, employers should expect return-performance from employees, defined by their skills, knowledge, experience and competencies. No employer hires talentless bodies and then operates successfully for long. After all, business is powered by people and their skills completing assigned jobs. Deliver value to the key talent crucial for your company's success, and your business will reap the benefits.

Elaine Johnson, SPHR, is senior vice president with Right Management Consultants in Jacksonville. She can be reached at (904) 296-2233 or elainej@rightflorida.com.

Planning Tuition Finance

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more qualify for very little need-based aid.

Choosing the Right Plan

To find out which states offer qualified tuition programs and get general information about them, check www.collegesavings.org/state-table.htm or www.money.com/money/depts/planning/college/529/index/html.

Note that your choice isn't limited to the program offered by your home state. Money magazine currently ranks the Iowa, Michigan, New York, and Utah plans as the best. However before choosing a plan, you should talk with a professional financial planner. He or she can help you evaluate the available programs.

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Public Relations: Getting Your Money's Worth

By Steve Kaufman • Marketing Communications Consultant

It's easy for you to measure the value of your production costs, employee costs and capital costs, but how can you evaluate the effectiveness of money spent on marketing communications and public relations? First, make sure you fully understand the difference between advertising and public relations.

The typical advertisement comes in a 30-second radio commercial, or a 60-second TV spot, or maybe a 3X4 print ad in your local newspaper. It has its moment in the sun for one quick shot, or up to a month or two at most in the case of a magazine ad, then it fades out of existence. Good advertising, although fleeting, should result in a direct improvement in sales if it's repeated often enough. Public relations, on the other hand, serves a different, complementary mission.

Rather than being linked directly with sales, PR is a long-term process that involves educating the public, earning credibility and setting your company apart from the competition.

PR uses more subtle, and often more time-consuming, techniques than advertising, but in the end, could have greater and longer-lasting influences on attitudes and beliefs. A recent national survey of almost 500 marketing and communications professionals revealed their most common PR communication tools:

- ▶ 95 percent use media or news releases
- ▶ 88 percent use websites
- ▶ 85 percent create marketing pieces, such as brochures, presentation folders, etc.



- ▶ 77 percent send out direct mail pieces, including newsletters
- ▶ 76 percent market at trade shows and conferences

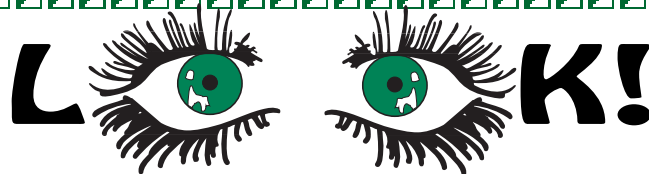
Other methods included specialty advertising, trade magazine by-line article placement and marketing partnerships.

When your business decides to launch a PR campaign, the best way to ensure it will produce tangible benefits is to maintain a smooth line of communication with your PR staff or marketing communications company. Understand and familiarize yourself with the techniques being used, and then go back and evaluate the effectiveness of what has been done. Though bigger companies can afford costly "baseline" surveys and

follow-up studies to measure PR results, the small business person isn't helpless.

Look for increased understanding of your company from those with whom you network (Are they giving you valuable referrals?), new respect (Are you invited to join a board or speak on your expertise?), and media interest (Are you quoted when news occurs in your industry?). As these events occur, you'll see your PR investments paying the bottom line dividends you wanted, and you'll value good PR as a credibility builder that gives you the competitive advantage advertising can't buy.

Steve Kaufman owns Stephen J. Kaufman Public Relations. He can be reached at (904) 448-4492 or results@sjkpr.com.



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The New Direction of Franchising (continued from page 3)

others, it too has remained steady and should see more growth. Some of the newest trends in retail are franchise companies selling new and recycled (used) goods, such as sporting goods, tools, games etc. Medical concepts and children's furniture and accessories are also hot areas in the retail sector. Other popular concepts include home

décor and artwork.

No matter what the industry, or the niche, the decision to buy a franchise business should be based on more than the fact it's a hot trend. Before a decision is made, ask yourself a few simple questions: Can I see myself doing this business? Will I enjoy it? Will this type of business allow me to

reach my financial and career goals? Am I comfortable with the investment? The bottom line is to find the business that's right for you!

Marshall Reddy is a franchise consultant with Franchise Network in Jacksonville. Franchise Network can be reached at (904) 280-1949 or via e-mail at Mreddy@frannet.com.

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