



# CONNECTIONS

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Summer 2004

## Summer's a Cool Time to Talk Taxes

By **Mark Patrick, CPA**

As we enter mid-year, we find ourselves forgetting the pain of income taxes paid and not yet ready to worry about taxes of the future. It's summertime and we're enjoying our families and vacations. Nevertheless, now is the perfect time to seriously consider how to lower your taxes for 2004.

Several of the "gifts" we received from Uncle Sam in the form of lower taxes will expire this year. Let's get busy opening those packages before we must return them unused.

If you're considering buying any equipment for your business in the near future, this may be the best time to do so for a while. While we'll continue to have our beloved section 179 deduction for the foreseeable future, we'll see the limit drop from \$100,000 to \$25,000 at the end of 2005. We'll also lose the 50 percent bonus depreciation provision at the end of this year, if that method better fits your situation.

Consider shifting income to lower bracket family members, if justifiable, as the 10 percent rate bracket returns to its pre-2003 amounts next year. If you're married, consider the practicality of shifting future income to

this year as the marriage penalty relief slips back some for both the increased standard deduction and the larger 15 percent rate bracket in 2005. While it's too late to do much about it, the child tax credit drops to \$700 next year as well.

If you're flirting with a liability under the alternative minimum tax, the higher exemption amounts drop below where they were before 2003. Work toward using the exempt amount that you can in 2004 if the situation's within your control.

Other actions that don't have the same urgency, but still present

opportunities include:

Shifting investments to produce dividends instead of interest can reduce your tax rate to 15 percent.

Sell whatever appreciated capital assets you have left to benefit from the 15 percent rate. If you're already in a 15 percent rate bracket, your rate will only be at 10 percent (perhaps gifting some to the kids for their college tuition).

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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:

Ah, summer in Jacksonville. The heat. The humidity. The sunburn. Hurricane season. But don't forget air conditioning, tea (real Southerners don't say "iced"), ice cream, the Suns, the river and ocean, and an early start to school.



National Oceanic and Atmospheric Administration meteorologists are predicting an especially active hurricane season this year. The forecast calls for six to eight hurricanes (two to four of those becoming major hurricanes) between now and the end of November. The news clamors for our attention touting comprehensive hurricane tracking and preparedness materials. We're advised to maintain adequate stocks of water, candles, lighters, food, propane for the grill, etc. Interestingly, the hurricane guides all seem to apply to homeowners. What's a business to do? In the context of business, what is a hurricane? To some businesses, a hurricane may be an opportunity. To most, it's a disaster. But even disastrous blows, with proper risk assessment and adequate preparation, can be substantially lessened.

Risk assessment is more than just insurance. Risk assessment is having a preparedness plan for your company's computers, data storage, equipment, financial and employee records, furniture, fixtures, premises, legal rights and obligations in an emergency, your Rolodex, etc. Unquestionably, your insurance agent is important, as is your IT person. Other important people regarding proper risk assessment are your accountant, attorney, and possibly your lender. SBRN members regularly assist clients, including other SBRN members, in emergency preparedness. Remember the Y2K issue? Remember how few problems occurred? Risk assessment + action = preparedness.

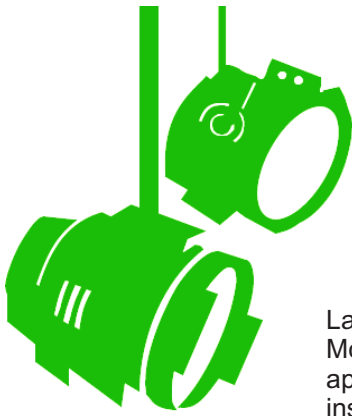
Don't procrastinate. Now's the time to prepare. Duct tape is now available in clear as well as silver.

Have a safe and productive summer,

Howard Caplan, Esq.  
2004 SBRN President



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



## Spotlight on...

### HSAs: A Good Idea's Time Has Come

By Kenneth L. Smith • Insurance Consultant

Late last year, President Bush signed the Medicare Prescription Drug Improvement and Modernization Act into law. Under this new law, any consumer under age 65 is now able to apply for certain "specific deductible" (what some call "high deductible") major medical insurance policies paired with an income tax-favored health savings account. The law, in effect, morphed Medical Savings Accounts (MSAs) into "Health Savings Accounts." If you already own an MSA, you can continue it without interruption. If you wish to start a Health Savings Account (HSA), now's the time.

HSAs require a person or family to secure a specific deductible health insurance policy, defining specific deductible as \$1000 for individuals and \$2000 for a family unit. For tax year 2004, the typical annual deductibles offered by the few insurers providing such plans are (for individuals) \$1000, \$1700 and \$2600. For families, the deductibles are \$2000, \$3450 and \$5150. These deductibles are indexed to annual cost of living changes and will be adjusted each year as the cost of living index dictates.

Understanding how HSAs work is relatively easy if you consider the deductibles "self-insurance" on the part of the policyholders. Since policy owners are expected to pay the day-to-day "small stuff" out of pocket, the premiums paid for the health insurance are less than a low deductible plan or an HMO. To provide the cash to take care of the small stuff, the new law provides for the policy owner to set up a dedicated "cash account." The policy holder then adds specified dollars to that account each month and collects

interest or other earnings as they accrue. Contributions to the cash account are income tax free and may be used to pay for a long list of health care related expenses, including some items not covered by the health insurance policy.

And unlike Cafeteria plans (under IRS Sec. 125), any unused HSA cash account dollars left at year-end roll over to the next tax year, allowing the account owner to potentially accumulate many thousands of dollars by age 65. Prior to age 65, if the owner spends HSA cash account dollars on non-allowable items, he or she must pay income taxes, plus a penalty tax on the amount spent.

However, after age 65, expenditures from the cash account for non-medical expenses are subject to ordinary income tax rates only. Meanwhile,

qualified medical expenses can still be paid with the HSA income tax free dollars.

To sum up HSAs, the participant acquires major medical insurance with a specific deductible, establishes an interest-bearing account from which to pay medical expenses (income tax free) and retains each year's net difference between dollars contributed and dollars spent until he or she reaches age 65. Participants benefit from lower premiums required by specific deductible health insurance policies, potential cash accumulation to augment other

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## Win the Super Bowl PR Game

By Steve Kaufman • Marketing Communications Consultant

With less than six months to go, the countdown to Super Bowl XXXIX we're seeing across the First Coast gives us a sense of urgency and excitement. The effects on many businesses are obvious with so many captive patrons heading our way. But if you're not in the retail or tourism industry you might be wondering, "How can my business get involved—and benefit?" While abundant advertising opportunities exist, they're notoriously expensive, and usually not within the budget or marketing plan of most of the city's small and mid-sized businesses. The challenge of scoring a marketing touchdown may require some initiative and creativity, but with a little effort you'll quickly develop some low-cost PR ideas that can help you score with your current clients and prospects.

**Volunteer Drive.** While the Jacksonville Super Bowl Host Committee's official volunteer drive ended in early summer, our community never lacks for opportunities to make a difference. Are you or is your company active with a local non-profit organization? Is that non-profit doing something special during the Super Bowl? Many groups are, and will need extra hands. Organizing a volunteer drive in support of your chosen charity is a great way to get your clients and co-workers rubbing elbows while they have fun and help a worthy cause. Look for a non-profit that complements your product, service, or marketing message; you'll be doing good for the community—and well for your business.

**Super Bowl Party.** This is a given...capitalize on it! One of the great attributes of the Super Bowl is the party atmosphere that comes with it, and the next best thing to going to the game is partying like you're there. Options for hosting a Super Bowl party abound. Keep it clean and family-oriented by hosting an outdoor BBQ and games for kids. Include football-related contests for door prizes, and games such as a football launch.

Or you can host an "adult swim," rent

a bus and party around town. Either way, make sure everyone who attends gets a t-shirt or football-shaped hat they can take home with your logo on it. Make your party and memorabilia unique and give your clients something to talk about for months to come.



**Shuttle Service.** So you can't buy your clients tickets to the game, but you can assist in their game week transportation. Rent a nice "church van," attach a large magnet logo sign and take your clients downtown so they won't worry about getting home after an evening of celebrating.

This special treatment demonstrates a personal touch. Parking will be extremely limited in the downtown area. The best scenario is to have your clients meet you at your business or some other pre-determined location and drop them off on the St. Johns River Southbank, where they can catch an official shuttle to the Northbank and stadium. Meet them at another pre-determined location after the game or downtown events and take them back to their vehicles.

Whoop up the party atmosphere on your downtown drive. Think silly string, streamers and karaoke. Make the ride *there* fun; everyone will probably be passed

out on the ride back. Check the Host Committee's website, JacksonvilleSuperBowl.com, for links to the NFL's official transportation companies and a listing of rates and contact information.

**Super Bowl Survival Kit.** While your business may not be targeting tourists specifically, a Super Bowl survival kit is something you could give to clients, vendors, and tourists.

Be creative with your packaging and products; think coolers, fanny packs or mini backpacks. What do you put in a survival kit? Whatever you want, really. The best survival kit would provide products that relate your business to the Super Bowl. If your business doesn't enjoy a natural connection to football, some ideas might be a rain poncho, mini-football, team pennants, disposable camera or snacks like Beer Nuts, pretzels or dried fruit.

If the shuttle bus idea isn't an option, you could make arrangements with a cab company to provide "free ride home" cards. The cards would list

*(Continued on page 6)*

### Wasting Your Money on Life and Health Insurance?

You could be - if yours are the old-fashioned pre-2004 kind. New this year:

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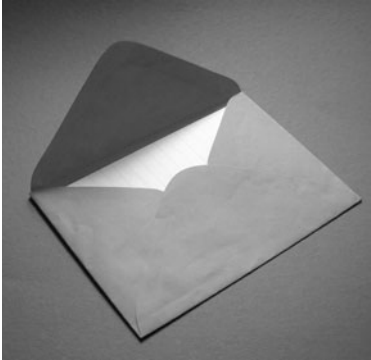
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## Why Marketing Fails; Why Marketing Works

By Sandra Brooks • Marketing Consultant



Each week, I hear from at least one organization that tells me, "We don't do marketing, it doesn't work." Probing, I learn the organization either placed a display ad in the Yellow Pages that resulted in hundreds of unwanted calls or it sent out a large direct mail piece that resulted in no inquiries whatsoever. In some instances, the organization just hosted an extravagant open house and the attendance was less than extravagant...

There are many reasons that the results of marketing efforts fall short of expectation.

### Quality

You don't necessarily have to spend a lot of money to achieve quality marketing. Sometimes, a simple letter will do the job. Just be sure that the text is grammatically correct, that it's been proof read and spell-checked, and that the print is crisp and readable, whether printed professionally, from the desktop printer, or photocopied. First impressions last a long time, so be sure you make a positive one.

### Call to Action

Tell your reader exactly what you want them to do as a result of reading your letter, advertisement or brochure. Although it may seem obvious to you, many marketing programs fail simply because the recipient doesn't know what to do or whom to call. Close your copy with phrases like "Call us now to learn more," or "Visit our website and view our demo," or "Complete and return the enclosed questionnaire to receive...." Be certain that the telephone number, URL, or address you provide is correct. A typo in one of these sections will guarantee that your marketing effort will fail.

### Market Segment

Actually reaching the target market is fundamental to the success of a marketing program. Too many companies purchase large mailing lists, spend a great deal of time and effort developing a quality direct mail piece, send it out, and then nothing happens. Failure, in this case, is the result of using the wrong mailing list. If the recipients aren't interested in your message, nothing will happen. The key is to identify an audience that's interested in your message.

The target market should be defined in your business plan. If a business plan has not been prepared, completing one should be priority No.1. Without a business plan, marketing programs (and the efforts of other disciplines like sales, product development, production, and recruiting) are destined to fail. For

enterprises with a large target market, a specially designed marketing plan can help identify market niches and define focused marketing programs to reach each niche audience.

### Timing

In marketing, "timing" means when to act, the frequency of activities and response fulfillment. When to initiate a marketing program may depend on cyclical or seasonal factors or the event date. Allow enough time to contact your target audience three times (ideally before the date you need them to respond). "Three times" is the rule of thumb regarding contact frequency for any given marketing program.

You also need to know and consider what concurrent events will be competing for the attention of your target audience at that time. If the competition is high, consider changing the date of your event. If that's not an option, you may consider additional contact to increase the visibility of your event.

Contact with your audience can take several forms including direct mail, advertising and telemarketing. The elapsed time between contacts depends on what form your contact

takes, the message and your objective. If the objective is to build awareness, many companies choose quarterly direct mail programs. If the objective is to draw the audience to attend an event, the marketing program is generally structured for three contacts during the two or three months prior to the event including a final phone call a few days before the event. If the objective is sales of products or services, the marketing program would include interval contacts until the sales objective is satisfied. For example, if the sales objective is to sell a discontinued product, the marketing program might include weekly or biweekly direct mailings notifying qualified prospects of closeout discounts on the merchandise. If the sales objective is business development, the marketing program might include monthly seminars and quarterly direct mail.

Don't drop the ball at the fulfillment stage of your marketing program, the point at which you respond to inquiries from your target audience.

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## Choose the Right Employee Retirement Plan

By James Docster • Finance Consultant

As a business owner, carefully considering the advantages of an employer-sponsored retirement plan is a must. Generally, you're allowed a deduction for contributions you make to an employer-sponsored retirement plan. However, you're required to include certain employees in the plan and give a portion of your contributions to participating employees. Nevertheless, a retirement plan can provide a tax-advantaged method to save funds for your own retirement while providing your employees with a powerful and appreciated benefit.

There are several types of retirement plans to choose from, and each has advantages and disadvantages. The following information covers the most popular plans. Additionally, the law permits businesses to have more than one retirement plan. With sophisticated planning, a combination of plans might best suit your business' needs.

**Profit-sharing plans.** Profit-sharing plans are among the most popular employer-sponsored retirement plans. These straightforward plans allow you, as an employer, to make regular, but not annual, contributions that are spread among the plan participants. With a profit-sharing plan, a separate account is established for each plan participant and contributions are allocated to each participant based on a formula (this formula can be amended from time to time). As with all retirement plans, contributions must be invested prudently. Each participant's account must also be credited with his or her share of investment income (or loss).

For 2004, no individual is allowed to receive contributions for his or her account that exceed the lesser of 100 percent of his or her earnings for that year or \$41,000. And your total deductible contributions to a profit-sharing plan may not exceed 25 percent of the total compensation of all the plan participants in that year.

**401(k) plans.** A deferred compensation plan, the 401(k) plan is the most popular type of plan. 401(k)'s

allow contributions to be funded by the participants, rather than the employer. Employees elect to forgo a portion of their salary and put it in the plan instead.

The requirements for 401(k) plans are complicated and these plans can be extremely expensive to administer. However, the employer's contribution cost is generally very small (employers often offer to match employee contributions as an incentive for employees to participate). Thus, in the long run, 401(k) plans tend to be relatively inexpensive for the employer.

### Money-purchase pension plans.

Money-purchase pension plans are similar to profit-sharing plans, but require employers to make an annual contribution. Participants receive their respective share according to the plan's formula.

Although individual contributions are still capped at 100 percent of earnings or a \$41,000 maximum annual contribution, the employer is allowed to make deductible contributions up to 25 percent of the total compensation of all plan participants.

Money-purchase pension plans are relatively straightforward and inexpensive to maintain. However, they're less popular than profit-sharing or 401(k) plans due to annual contribution requirement.

**Defined benefit plans.** By far the most sophisticated type of retirement plan, a defined benefit program, uses a formula defining how much each participant will receive annually after retirement if he or she works until retirement age. This is generally stated as a percentage of pay and can be as much as 100 percent of final average pay at retirement.

An actuary certifies the amount required each year to fund the projected retirement payments for all employees. The employer then must make the contribution based on the actuarial determination. In 2004, the maximum annual retirement benefit an individual may receive is \$165,000 or 100 percent of his or her final average pay at retirement.

Unlike defined contribution plans, there is no limit on the contribution. The employer's total contribution is based on projected benefits. Therefore, defined benefit plans potentially offer the largest contribution deduction and the highest retirement benefits to business owners.

### SIMPLE IRA retirement plans.

A sophisticated type of Individual Retirement Account (IRA), the SIMPLE (Savings Incentive Match Plan for Employees) IRA plan allows employees to defer up to \$9,000 (for 2004) of annual compensation by contributing it to an IRA. In addition, employees age 50 and over may make a "catch-up" contribution of \$1,500 for 2004. Employers are required to match deferrals, up to 3 percent of the contributing employee's wages (or make a fixed contribution of 2 percent to the accounts of all participating employees whether or not they defer to the SIMPLE plan). SIMPLE plans work much like 401(k) plans, without many of the requirements, making them cheaper to maintain.

There are several drawbacks, however. First, all contributions are

*(Continued on page 8)*



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## The Eight D's of Buy-Sell Agreements

By Bruce R. Glassman, JD, CPA, PFS • Finance Consultant

Almost all closely-held businesses, especially multi-owner corporations and partnerships, need a buy-sell agreement in place. Individually owned businesses can also profit from the use of a buy-sell agreement. (In a single-owner business, the buyer could be key employee(s), a competitor, a supplier or even a customer.) Buy-sell agreements are essential for the smooth transition of ownership upon the occurrence of several events, namely the "Eight D's:"

**1. Death of a shareholder.** In the event of an owner's death, business can suffer a financial setback (key person loss), compounded if the surviving shareholders must take in a new partner such as the deceased owner's spouse. He or she may have very little knowledge of the business, yet expect a salary and profits from the business. Harmonious transition of the business can be accomplished with a buy-sell agreement fully funded with life insurance coverage.

**2. Disability of a shareholder.** While most buy-sells take into account death, many totally ignore what could be a more serious financial drain—disability. Often, disability is poorly defined and not funded or under-funded. A disabled shareholder would expect his/her salary to continue, as well as a share of profits. If the disability is extended, how long could the business keep paying? All of these decisions should be outlined in the agreement. It should be a business decision based on previously agreed-upon terms, not emotions.

**3. Departure of a shareholder.** When a shareholder leaves, whether for regular retirement or early voluntary retirement, his or her stock should be purchased. The purchase price can be the same as or less than the death price (it cannot be more). A lower purchase price might be set for early termination. As for retirement planning, a life insurance policy can provide the death benefit and also be used as a retirement supplement.

**4. Divorce of a shareholder.** It's not unusual for a spouse to end up with half the stock of a closely-held business in event of a divorce. There should be a provision in the buy-sell to force the spouse to sell stock back to either the: (a) corporation; (b) original shareholder; or (c) other shareholders. Again, the price cannot be higher than the death price.

**5. Deadlock.** If equal owners come to a major disagreement, the business can become "deadlocked," unable to further conduct normal operations. In this case, the business may have to be liquidated. This should be taken into consideration in the buy-sell agreement.

**6. Disagreement among owners.** If ownership is unequal and there is a major disagreement, a minority shareholder could be forced out of active employment. In that case, it would probably make sense to purchase his or her interest. This possibility should be taken care of in the agreement.

**7. Default.** In most closely-held

corporations, the individual shareholders must personally guarantee corporate loans from banks and/or contribute payments to the bank or business. In the buy-sell agreement, there should be a provision whereby if a shareholder defaults, a buyout is triggered for his or her interest.

**8. Determination of value.** The most important item in a buy-sell is the valuation of stock or business interest. No one wants to over-pay for a business interest. In addition, each owner wants to be sure he or she (or his or her family) receives fair value in the event of a living buyout or death. Appraisals may be viable and even required if family members are involved. Proper valuation also fixes the value in the deceased's estate for federal estate tax purposes. One stipulation is that the value must be fair market value at the time of the agreement. If appropriate life insurance is not purchased to fund the full value, then an installment purchase arrangement should be provided for the balance.

When buy-sells are drafted or reviewed, perhaps the "Eight Ds" would make a good checklist for consideration. It's far easier to make business decisions regarding these situations before they occur than to make emotional decisions after the fact.

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### Super PR Opportunities

(Continued from page 3)

both your company and the cab company's name, the cab company's phone number and an expiration date ending the week of the Super Bowl. Your clients would turn the card into the cab driver to get their free ride, and at the end of the week the cab company will charge you for the rides. By giving someone the option of not driving drunk, you may also save a life.

Finally, don't forget to include an event calendar for all Super Bowl XXXIX activities. The Host Committee will produce this guide closer to gameday.

As the big day approaches, don't feel you're left out of the marketing benefits if you don't keep a public storefront. Be Super Bowl savvy and don't fumble the opportunity to do

something extra nice for your clients, vendors, prospects and visitors. Your business will be the big winner... long after the game's a memory.

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## Mid-Year Tax Planning

(Continued from page 1)

Work toward fully funding those retirement plans. Paying only \$500 per month starting now will get you close to the \$3,000 IRA limit before the end of the year.

Pay special attention to the changes in pre-tax health benefits. The new Health Savings Accounts are better than the traditional flexible spending accounts and you can use them for more medical expenses than previously allowed.

This itemization is not a complete list, but it should get you thinking. As we've learned, all of these provisions can change again anytime that Congress is in session, so watch for developments as the year unfolds. Nevertheless, it's often wise to take advantage of what we know as certain...rather than miss an opportunity waiting for the uncertain.

*Mark Patrick is senior partner with Patrick & Robinson, CPAs, LLC and can be reached at (904)396-5400, or by Email, mark@cpasite.com.*

## Account for your Health

(Continued from page 2)

retirement income dollars, an opportunity to take charge of his or her future health care options and a "stop loss" benefit of each year's medical expenses equal to the deductible on his or her health insurance plan.

If you're in good health and can meet the selected insurance company's underwriting requirements, you could be a candidate for an HSA. Maintaining specific deductible health insurance as a hedge against future events allows eligible individuals and families to take advantage of the time value of money, allowing the cash account to grow income tax free or income tax deferred, depending on the circumstances. However, if you're in poor health or have ongoing significant medical conditions, you'd be better off retaining your present health insurance plan.

Like MSAs, HSAs allow you to own specific deductible health insurance without establishing an HSA cash account. However, you may not set up the cash account in the absence of the health insurance policy.

As with any program established under the Income Tax Code, the devil is in the details. See your insurance broker and/or your tax advisor to determine whether or not a Health Savings Account is appropriate for you or your family.

*Kenneth L. Smith, CLU, FLMI, of Kenneth L. Smith Insurance Planning Services, is a charter member of SBRN and can be contacted at (904) 285-5225 or via Email at kensmith@kensmithhsa.com.*

## Working Marketing Magic

(Continued from page 4)

If your "call to action" promises a promotional item like a mug, pen or a sample, be sure to ship it within 48 hours of receiving the inquiry. If your response is a phone call or Email, respond within 24 hours. Otherwise successful marketing programs can fail at this point simply because too much time lapses between the receipt of the inquiry and your follow-up. Audiences are bombarded with information and quickly forget you.

### Why Marketing Works

In a word, marketing works because of planning. Planning is the single most important factor to ensure the successful outcome of all marketing initiatives. Planning allows you to create and implement strategic marketing programs and directly relate them to your business objectives. Planning results in a cogent and concise marketing program that's easy to communicate to employees, helping ensure company-wide support for the effort. Planning enables you to manage a budget and better negotiate with outside providers. Finally, planning

helps you stay on track when day-to-day distractions threaten the focus of a program.

Effective marketing plans are based on thorough research and strategic analysis of your marketplace and business objectives. Used skillfully, marketing and business plans are dynamic, offering the flexibility to respond to business and marketplace trends. Aggressive organizations review their plans quarterly, adjusting strategies and tactics in response to current trends. In other organizations, an annual review is sufficient. Under no circumstances should business and marketing plans lay dormant—they're working documents and by definition are subject to change.

If you haven't done a strategic analysis and business plan, your marketing plan could fail. In addition, marketing plans must be based on your company's clearly stated goals, vision and mission statement. If you don't have a clear vision, your marketing plan could

take you in a different direction from your intent and will most certainly fail. The more time you spend on planning your marketing and managing your plan, the higher the return will be in terms of greater growth, lower marketing expenditure and a more proactive, successful business environment.

*Sandra Brooks is president of INCOMM International, Inc., and can be reached at (904) 778-4434 or via Email at slbrooks@incomminternational.com.*



## Establishing Employee Retirement Plans

(Continued from page 5)

immediately vested; meaning any money contributed by the employer immediately belongs to the employee (employer contributions are usually "earned" over a period of years in other retirement plans). Second, the amount of contributions high-paid employees (usually the owners) can receive is severely limited compared to other plans. Finally, the employer cannot maintain any other retirement

plans. SIMPLE plans are not an option if you employ more than 100 employees.

The preceding information is not exhaustive, but it represents the most commonly used plans today. Recent tax law changes give retirement plan professionals creative options that include combining different types of plans to maximize benefits for higher

paid employees. If you're considering a retirement plan for your business, ask an SBRN professional to help you determine what works best for you and meets your business' needs.

*James Docster is a financial advisor and district manager at Waddell & Reed Financial Service and can be reached at 904-448-2743 ext. 110, or Email at [jdocster@wradvidsors.com](mailto:jdocster@wradvidsors.com).*

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