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SBRN.org

Small Business Resource Network SBRN Connect to Profit.

Connections

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this issue

Do you own a Black Belt Business?

By Steve Goranson • Business Coach

What does it mean to earn a black belt in any of the various styles of martial arts? Perhaps achieving the skill of a trained killer? But martial arts training is a lot more involved than that. In addition to being a form of self-defense and exercise, it's a philosophy or a way of life.

I got involved in the martial arts at a very early age but didn't receive my black belt in Tang Soo Do karate until I was almost 30. I found that it was not only a great form of exercise and self defense but it also taught me lessons in how to survive in the battles of business and life. But when I look back what I really learned was the importance of goal setting, focus, determination, and the use of systems.

Each martial art uses a series of levels or belts that every student strives to obtain before he or she becomes a black belt. This systematized approach provides students a process to gain mastery over a particular level of skills before moving on to the next level. This process shows the importance of not only setting end goals, but milestones along the way to keep you on track.

My sensei (karate instructor) taught me that you must master each level you reach by *learning* karate, but once you become a black belt you are now *doing* karate. Once you reach this level you now have the knowledge and wisdom to apply what you've learned. The journey doesn't stop there. There are new goals and milestones as you reach for the higher levels of being a black belt.

As a business coach I've found that this same systematized approach can also be applied to business. When do you get your black belt in business? When are you "doing" business instead of learning business? At ActionCOACH we have a definition for this, *"A commercial profitable enterprise that can work without you the business owner."* Let's take a look at the six belts you must master before you can be a black belt in business:

White Belt: At this level the emphasis is on basic business mastery over time, team, and money. It's about getting the chaos out of your business. It's about making sure you can make payroll and that your employees understand their roles and responsibilities in your organization. It's where you learn to delegate tasks to your team, so you can concentrate on developing higher level skills needed to obtain your business black belt.

Yellow Belt: Here you work on creating predicable cash flow in the business. You develop your niche and USP (unique selling proposition) so you can start selling on value and not price.

Green Belt: Now you progress to working on creating efficiencies in your business. You're starting to develop systems that will run your business so you don't have to.

Blue Belt: Here you're learning how to get the right people "on the bus;" how to get the right team players, and who will run your systems that will run your business.

Red Belt: Now you start to see all your hard work come together. You'll see the synergies of your systems and team develop. You start grooming your general manager who will replace you in your business.

Black Belt: Now you've made it! You've created *a commercial profitable enterprise that works without you.* You're now an entrepreneur…a business black belt. You're now generating passive income from the business. You can now take the skills and knowledge that you've learned and apply them to other businesses or start investing your profits so that your money is making money.

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SBRN is Going Green!

"Going green" is an important initiative in this current state of economic and environmental peril. It not only saves money and energy in the long run, it also improves the quality of life and overall health. What started as a fad or trend has now become a global endeavor to help our planet. There are many ways to "go green" and each small contribution can make a big difference.

SBRN is contributing to this effort with an electronically delivered newsletter. SBRN *Connections*, will be exclusively available at www.sbrn.org for delivery via e-mail starting in 2009. This issue will be the last print version available. Signing up is simple and the rewards are high. Just by clicking on the *Connections* newsletter link at the bottom left of the home page and filling in your name and e-mail address, you're able to receive your guide to current small business issues right in your inbox! In addition, you may download past issues of the newsletter on the same webpage. It's another example of one-stop shopping from SBRN for all your small business needs.

Whitewater Ahead!

By Philip Geist
Agency Representative

The warning call of whitewater rafters as they prepare to "shoot the rapids" ahead may be an appropriate analogy for the situation facing small businesses today.

We begin by maneuvering our raft down the river. Although it may have narrows where the speed picks up and bends that we can't see around, we're able, through experience and training, to maintain control of the raft.

Next is the call, "Whitewater ahead!" We know that at the other end of the rapids there will be smooth rafting again as the river calms down, but first we must get through the rapids. The problem is that we don't know how difficult they'll be to navigate, so although we make some assumptions as to what lies ahead, we understand that we'll have to improvise and adjust our plans as we pass through.

Whitewater rafters rate the difficulty of rapids by assigning a class to them:

Class 1: Very small rough areas, requires no maneuvering. (Skill level: none)

Class 2: Some rough water, maybe some rocks, might require maneuvering. (Skill level: basic paddling skill)

Class 3: Whitewater, small waves, maybe a small drop, but no considerable danger; may require significant maneuvering. (Skill level: experienced paddling skills)

Class 4: Whitewater, medium waves, maybe rocks, maybe a considerable drop; sharp maneuvers may be needed. (Skill level: whitewater experience)

Class 5: Whitewater, large waves, possibility of large rocks and hazards, possibility of a large drop, requires precise maneuvering (Skill level: advanced whitewater experience)

Class 6: Class 6 rapids are considered to be so dangerous that they're effectively un-navigable on a reliably safe basis. Rafters can expect to encounter substantial whitewater, huge waves, huge rocks and hazards, and/or substantial drops that'll impart severe impacts beyond the structural capacities and impact ratings of most all rafting equipment. (Skill level: successful completion of a class 6 rapid without serious injury or death is widely considered to be a matter of luck or extreme skill).

Continuing our analogy, we have to trust that today's business isn't class 6. While we hope the rapids will turn out to be class 1, they may be class 5, so that level of disruption is what we should prepare for to reach the calm waters ahead without falling out of the raft during the journey.

How DO you prepare your business for times like these where multiple economic issues and uncertainties are occurring simultaneously? First, you must focus close in. Like the rafter who glances ahead to plan a general course, but focuses on each rock as they're approached, you need a general strategy for the next six to nine months and a plan that may be monthly, weekly, or daily depending on the business you're in.

Back to those rocks…My general advice to business owners struggling through these economic times begins with conserving cash. Steps that'll assist in this effort include:

- **Collect accounts receivable in a timely manner.** Aggressively collect over-aged accounts, even if you have to discount them. It'll be better to receive 85 cents on the dollar if that enables you to break-even on the sale or show a small profit.

- **Maintain inventory at levels related to current sales, not at historical levels.** I've been able to help several businesses "find" enough cash to carry them through the next six to nine months just by not replacing inventory as items are sold until a more appropriate level is reached.

- **Curtail unnecessary expenses.** In good times it's fine to entertain clients and suppliers, but only 50% of that expense is deductible, and that only has benefit if you have a taxable profit. In these times, those monies will better serve you by paying operating expenses.

- **Eliminate expenses that aren't supporting a profitable activity, recognizing that the elimination may only be temporary.** A service company with a fleet of 15 vehicles that only needs seven at current sales levels can suspend the liability insurance on those not needed and achieve an immediate savings. Note that they should maintain any theft or comprehensive damage during the suspension to protect the asset. If the vehicles are leased or covered by a loan, you may need to negotiate between the bank and insurance company to accomplish this arrangement.

- **Deal with the dreaded "L" word.** No business owner likes to layoff employees because sales are low, but it's a disservice to the business, other employees, and yourself to maintain payroll at a level that's unprofitable. In the long run such an action will cause the business to become uncompetitive or to fail.

- **Adjust processes to the current level of sales.** I spoke recently with a drycleaner who used to process several hundred shirts a week by cleaning and pressing three times a week. The sales in that business have fallen by half due to the slowing of the economy and the business has adjusted by only processing shirts twice a week. The resulting savings in utilities, cleaning supplies, machine maintenance, and casual labor (pressers) has enabled that business to remain profitable and ensure that it can survive until the economy improves.

- **Sell, sell, sell!** Just because the economy is slow doesn't mean that you can't find new customers. There will always be people who are unhappy with their current supplier and they're potential customers for you. There are also new people moving into the area (although at a slower rate than in past years) who are shopping for products and services.

Con•nec•tions

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.**

Additionally, there are people who are moving “down-market” to stretch their buying dollars. Potential customers for a business may be in the next highest economic tiers that traditionally shopped elsewhere. For example, people who ate out weekly at restaurants with an average “ticket” of $40 per person may now be looking for restaurants with an average ticket of $20. Don’t assume that your potential customers are all in the same demographic as past customers.

- **Negotiate, ask, never assume.** Just because a lease states that the tenant can renew for an additional year at a 6% increase to base rent doesn’t mean that the landlord will not negotiate. We’re in unusual economic times and there’s more value in a landlord renewing without an increase and having a tenant that’ll stay in business, than in getting an increase, having a tenant’s business fail, and then having an empty storefront at a time where the potential to rent it is lower than in recent history.

So, “Whitewater ahead!” Watch the rocks closely, glance ahead to plan a general course, remain flexible and adapt as needed. Stay calm and steer for smooth waters and we’ll see you on the other side when the river quiets down again.

Philip Geist is area director of the Ocala office of the SBDC at University of North Florida. He can be reached at (352) 622-8763 or sbdcoca@atlantic.net.

New and Improved?

Possible Non-Profit Pitfalls of the New IRS Form 990

By Keith Johnson • CPA

As a practitioner with 11 years’ experience working with non-profit clients, I get a lot of comments from executive directors and boards of directors about the IRS Form 990 that’s required filing each year by most organizations exempt from income tax under IRS code. The concerns cover the complexity of the form and the amount and detail of information required in preparing the return. The non-profits I know work on bare bones budgets and have nothing to hide from public inspection. They are, however, overwhelmed by the actual Form 990 and wonder if there’s an easier way to report their activities. Unfortunately, with the newly released 990 taking effect for returns filed in 2009, both non-profits (management and board) and their preparers will be required to provide greater breadth and depth of information related to the non-profit’s operations and should start learning and understanding the new form now.

Several issues were raised during the redesign process and public comment period that drove the development of the final product. First was minimizing the reporting burden. CPAs know that many of our non-profit clients have executive directors who aren’t financially astute and that’s ok, as most of them have been trained in social services, not finance. The new 990 succeeds in its original goal: to reduce the burden in its preparation. This reduction is done through use of thresholds, reporting by type rather than transaction, and eliminating unnecessary attachments and schedules.

Second, reviewers wanted the non-profits to be able to qualitatively tell their story, rather than just report financial information. As the 990 is a public document available to potential donors, non-profits want to be able to fully describe their mission and activities to convince potential donors of their charitable purpose. Previously, the only area that an organization could really describe its mission and activities appeared on page 3 (Statement of Program Service Accomplishments) and even then it was more a tool to report grants and expenses. The revised form enables filers to provide a summary page in the beginning and various places throughout the return to provide narratives.

Finally, given the current economic climate, the new 990 has a section on governance, consisting of three parts: composition of the governing body (board of directors and management), management policies, and disclosure. An important fact to consider is that the IRS does disclose in the instructions that certain information that it’s asking for isn’t required disclosure under federal law. The instructions state the organization should consider its own facts and circumstances in disclosing this information. Thus presenting a balancing act for clients and CPAs who advise them, as the lack of disclosure may not be unlawful, but given that it’s a public document, potential donors may see the lack of disclosure as a red flag and withhold contributions. For example, you’re not legally required to have a written conflict of interest policy and answering “no” is perfectly legal. However, potential

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Where’s my bailout?

Janice Donaldson • Agency Representative

Many small businesses are asking this very question in light of all the publicity about federal bailouts in the financial community and in the auto industry. Did you know that Congress is working hard to appropriate additional funding to your local Small Business Development Center and its Small Business Resource Network program to assist small businesses in surviving the economic downturn?

In 2008, the SBDC at the University of North Florida received an additional $63,000 in federal funding to increase its capacity and meet increased demand for training, counseling and informative support to area small business owners. That number is anticipated to increase another $77,000 in 2009. These federal dollars will make a difference in the lives of entrepreneurs who use the services that the SBDC and SBRN provide.

That’s the good news. The downside is that the SBDC/SBRN must match these federal dollars with cash and in-kind from non-federal sources. UNF, the City of Jacksonville, the City of Ocala and Marion County currently provide the lion’s share of match to the program. But, in these difficult budget times, increases in this funding seem highly unlikely. YOU CAN HELP. Private donations to UNF earmarked for the SBDC/SBRN provide the donor a tax deductible contribution and can be used as matching funds for the federal grants, effectively doubling his or her investment in small business.

Consider investing in small business success through the SBDC and its SBRN. Make your contribution to the Friends of the SBDC online at www.sbdc.unf.edu or call (904) 620-2476 for more information.

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Possible Non-Profit Pitfalls of the New IRS Form 990

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donors may see the lack of a written policy as a potential misappropriation of their gifts. Therefore, non-profits should put themselves in a donor's shoes. They should disclose all relevant facts to avoid raising questions by a donor, but to only give the IRS information that's legally required, nothing more.

So, just what are non-profits and practitioners up against in navigating the new 990? Previously, the 990 had nine pages and two schedules (a seven page Schedule A for 501 c (3) charitable exempt organizations and a one page Schedule B to report contributors giving over $5,000). The form has now increased to 11 pages and 16 supplemental schedules. Fear not, the 16 schedules are only required to be filed based on the organization's activities. Many of these supplemental schedules are streamlined versions of the old Schedule A which were only filed by charitable non-profits. The 11 page form must be filed by all exempt organizations and contains a summary page and a core form and should be reviewed by the executive director and board to ensure all activities required to be reported are included.

Another method the IRS is easing the hair-pulling and expletives surely to be performed by non-profits and their CPAs is a gentle phase-in of the new form over the next three years starting January 2009 for the 2008 tax year. During the three year phase-in, certain organizations have the choice to use the new Form 990 or to use a Form 990-EZ (abbreviated version), which has far less stringent reporting requirements than either the old or new 990's. However, to qualify for the 990-EZ, the organization must pass both a gross receipts and assets test. In 2008, organizations with gross receipts between $25,000 and $1,000,000 (those under $25,000 in gross receipts are exempt from filing at all) and assets of less than $2,500,000 may file a 990-EZ. In 2010 (2009 tax year), the thresholds drop to less than $500,000 in gross receipts and $1,250,000 in assets. In 2011 and afterwards, (2010 and later tax years), those with gross receipts of between $50,000 and $200,000 and assets less than $500,000 can still file a 990-EZ. For entities under $25,000 in gross revenues (in 2008 and 2009) and those with less than $50,000 in gross revenues for tax years 2010 and later, a new form, a 990-N can be filed. The 990-N is a new electronic form for very small exempt organizations. Previously, those entities with less than $25,000 may not have had to file under certain circumstances.

If you serve on a non-profit board, be sure youre executive director and CPA are prepared for these changes.

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Thank you to our Platinum & Silver Friends of the SBDC/SBRN!
~ George Knapp of the Tippins Foundation
~ Jamie Docster of Waddell & Reed Financial Advisors

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See why on Page 1

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