

# Business

# Insights

► Tax ► Finance ► Technology ► Growth

## *Inside this issue*

### **Succession Planning**

*Family Business: Stepping  
Out of Your Predecessor's Shadow*

### **Financing**

*Financing Alternatives in a Tight Market*

### **Human Resources**

*Management That Puts People First  
Drafting an Effective Employee Handbook*

### **Technology**

*Designing an Online Press Room*

### **Business Planning**

*The Advantages of  
Being "Second to Market"*

### **Benefit Trends**

*COBRA Enrollment Increases*

*Employers Expect to  
Restore Pay and 401(k) Matches*



## Family Business: Stepping Out of Your Predecessor's Shadow

At one time or another, many small businesses experience a transition in leadership. Typically, a family member or other close associate takes over after years of apprenticeship. This transition is usually the culmination of a **succession plan** that outlines the original, or previous, owner's intent for the future leadership of the company.

However, even with a conscious and deliberate succession plan, a successor may find it difficult to assert his or her vision for the company's future to employees. Suddenly, the successor, who has an understanding of the products and services offered by the business, must delve into new territory—sole responsibility for the *operations* and *management* of the business.

If you have recently found yourself assuming control of a **closely held business**, or if you anticipate taking the reins in the future, here are some suggestions that can help you “get off the starting blocks” quickly:

**Gain Support of Other Owners at the Start.** If you expect your predecessor or other owners to continue to exercise authority after you take control, get their support for your business plan at the outset. Agreeing on goals *now* will help provide a solid basis for your *future* operating decisions.

**Hire for the Future.** Let the business's long-term interests guide your hiring decisions. Once you have determined your vision for the company, as well as your business strategy, hire managers that best fit your future plans.

**Develop Your Own Management Style.** Assemble a compatible team that supports your management style and can help you move toward your goals more effectively. Choose managers who will challenge you. Managers who voice their opinions may prompt new ideas and innovative strategies that may benefit your company.

**Act Now with Confidence.** Even if you have a controlling interest in the company, you

may feel like a junior partner when surrounded by veteran employees. Don't let this intimidate you. Hesitating now could eventually inhibit your company's growth. Be *proactive* instead of *reactive*. Once you know the action you need to take, move forward. The sooner you assume a leadership role, the sooner your confidence (and that of those around you) will grow.

### **Treat Past Contributors with Respect.**

Be careful about making drastic moves such as replacing the entire management team at once. Experienced members can be valuable resources as you chart your future course. However, you may have to face the hard fact that some managers no longer possess the necessary qualities, skills, and know-how to propel the company into the future. If this is the case, treat them with dignity and respect. Utilize their energy and wisdom by relying on them as mentors. If you must replace some managers, generous severance packages can allow them to leave the company with recognition for their past contributions.

**Mentor Your Staff.** If you've benefited from being mentored by your predecessor and his or her managers, continue the tradition. In addition to creating a qualified peer group, mentoring can also help you develop protégés in whom you have confidence and who may ultimately become candidates for your management team.

**Accept Your Mistakes.** Don't be too hard on yourself if you make a poor decision. Mistakes happen. It's better to take action to remedy a problem than to avoid action out of fear. Running a company means making a multitude of decisions, and this inevitably involves making a few mistakes. The trick is to *learn* from them and move on.

Stepping out of your predecessor's shadow can be a challenging experience. While your predecessor may have shown great confidence in you, you may still have a lot to learn. Following these tips will help you gain respect as the new successor. ■



## Inside this issue

Family Business: Stepping Out of Your Predecessor's Shadow ▶ 1

Financing Alternatives in a Tight Market ▶ 2

Management That Puts People First ▶ 4

Drafting an Effective Employee Handbook ▶ 5

Designing an Online Press Room ▶ 6

The Advantages of Being “Second to Market” ▶ 7

COBRA Enrollment Increases ▶ 8

Employers Expect to Restore Pay and 401(k) Matches ▶ 8

## Financing Alternatives in a Tight Market

One result of the recent economic downturn is a limit on many traditional sources of credit on which small businesses have come to rely. While the economy is now showing signs of improving, funds are not yet being granted as freely as before. If you are seeking financing to operate or expand your business, you may need to develop new strategies for raising capital. With some innovation and perseverance, you may be able to obtain financing.

Prior to embarking on a campaign to raise additional funds, it is important to calculate as precisely as possible how much financing your firm needs and to outline how the money will be spent. Before seeking to borrow, review your current operations, looking for ways to cut unnecessary costs or increase revenue. Revise your business plan to reflect any changes in your company's needs or circumstances. Potential lenders and investors may want to see evidence that your business is being run efficiently and that market conditions justify additional expenditures. Even if sales are down, you may, for example, be able to demonstrate to lenders that your company is outperforming competitors and is in a position to rebound quickly as the economy picks up. Be aware also of the level of risk you are considering, and whether the amount of financing may jeopardize your business.

### Seeking New Investors

In the wake of the recent downturn, your company may be in a very different position than it was the last time you sought business financing. If an analysis of your current situation reveals that your debt-to-equity ratio is already high, taking out additional loans or lines of credit could expose you to extensive risk. To avoid becoming too leveraged, consider looking for new investors.

Depending on your needs, you may be able to cover your capital requirements through small investments from friends, relatives, business associates, individual or "angel" investors, or employees who would like to have a stake in the business. In some cases, suppliers with a long-standing relationship with your business may be willing to take an equity stake in lieu of payment. These deals should always be sealed with a legal

contract defining the terms of the arrangement, including the stakeholder's return on investment and the extent to which investors will be involved in the running of the business.

Despite economic conditions, venture capitalists continue to seek opportunities to acquire stakes in growing businesses, especially if these opportunities are available at a discount. There are various types of venture capitalists. They may be backed by large financial institutions, pension funds, or groups of wealthy individuals. If your business is the right size, you may qualify for funding through small business investment companies (SBICs) or for-profit venture capital firms licensed and regulated by the U.S. Small Business Administration (SBA).

While these venture capitalists, like banks, will look for a reasonably healthy balance sheet, they may also be willing to take a chance on an undercapitalized business with strong growth potential. Venture capitalists may, for example, take into consideration the quality of the management team, the intellectual property of the business, and anticipated changes in the marketplace that could affect demand for the firm's products and services. The terms of arrangements with venture capital firms will vary, though the primary goal of these investors is generally to achieve a certain level of return on their investment after a specified period of time, usually three to seven years. Some venture capitalists may agree to a hands-off approach when it comes to the day-to-day running of the company, while others may seek to become more involved in management, especially if the business is struggling.

### Exploring Loan Options

If, however, your company has a favorable debt-to-equity ratio, you may be able to obtain additional capital through loans, possibly from a variety of sources. If you wish to borrow money to cover a temporary shortfall or to grow the business, start by approaching your current bank. If the amount your bank is prepared to lend you is insufficient, investigate alternatives. Because lending practices vary, it is worth applying for loans from a variety of banks, ranging from large institutions to smaller community banks or credit



*continued on page 3*

## Financing Alternatives in a Tight Market . . . continued



unions, which may have been less affected by the economic downturn. In some cases, you may have to negotiate loans on less favorable terms. In addition to paying higher interest rates, you may be required to secure lines of credit against your assets.

However, banks are not the only sources of lending. For smaller loans, consider approaching a nonprofit lender that provides micro-loans as part of a program developed by the SBA. These lenders, which typically extend lines of credit up to \$35,000, may require applicants to provide evidence that they have been turned down for a loan by a bank. Online peer-to-peer lending may also provide a smaller loan, usually up to \$25,000. Individuals or businesses wishing to borrow funds on a peer-to-peer website post a listing for a loan, including information about the amount they need and the rate they can afford. Potential lenders then start bidding to fund the loan, offering varying amounts and rates.

If you are unable to obtain conventional financing, you may qualify for a loan through another SBA loan program. In response to the economy, the Federal government announced earlier this year that funding would increase for SBA loan programs. Distributed through commercial lenders, these loans are guaranteed by the SBA and may offer favorable terms to qualified borrowers. The 7(a) program provides loans up to \$2 million for a variety of business purposes, including financing larger capital purchases or covering short-term working capital needs. While the loan itself is made by the bank, the SBA limits the interest rates and fees of the lender. The SBA's 504 loan program provides growing businesses with long-term, fixed-rate loans of up to \$2 million for the purchase of major fixed assets, such as land and buildings. However, the SBA requires personal guarantees on these loans from borrowers owning 20% or more of the business.

### Offering Bonds

In addition, you may qualify for loans or bond financing through a state or municipal economic development program. The economic development authority of the state of New Jersey, for example, provides growing businesses with low-interest financing through bonds, loan

participation, loan guarantees, and direct loans. These loans offer a choice of variable or fixed interest rates, and they generally provide borrowers with longer repayment schedules than those offered by traditional lenders. States usually target these programs to businesses considered critical to the local economy, such as manufacturers, technology firms, and women- and minority-owned businesses.

In particular, business owners may not know that they qualify for financing through tax-exempt bonds. States are subject to a volume cap on the number of tax-exempt bonds they can issue. The states then allocate a portion of that amount to conduit issuers, such as state and municipal economic development agencies. Businesses can use the proceeds from these tax-exempt bonds to finance capital investments and expansions, including building construction, renovations, and purchases of real estate or new equipment. You may improve your chances of obtaining financing through a tax-exempt bond by demonstrating that the intended investment will create jobs and contribute to economic growth.

These bonds are exempt from Federal and state income taxes, and the interest rates are low. Overall, this form of financing can cost as much as one-third less than conventional loans. However, because the upfront costs of obtaining a tax-exempt bond can be high, including application and legal fees, these bonds are generally appropriate for transactions of \$3 million or more. Applying for these bonds can also be time-consuming, so this option may be inappropriate for short-term financing needs.

Several of these approaches used in combination may work best in raising the necessary capital. For example, taking on a new investor can improve your company's debt-to-equity ratio, thus increasing your chances of obtaining a loan from a bank at an affordable interest rate. Having secured additional lines of credit, your business may in turn become more attractive to potential investors. In the current economic environment, however, patience and persistence are key. You may have to investigate your options and network with potential sources of financing before finally hitting upon an effective strategy. ■



## Management That Puts People First

Payroll is generally a company's biggest operating expense. Employing people is costly, but the contributions of employees are essential to the daily operations of the business. As a company grows, the work done by employees, both as individuals and as a group, plays an increasingly vital role in the success or failure of the business.

When business owners hire workers, their main concern is that the employees excel in their jobs. Yet, after recruiting and hiring people with appropriate qualifications, owners and managers may overlook the need to create the type of work environment that encourages and fosters achievement. By focusing the company's management goals around employees, rather than around short-term business targets alone, employers may find that retention and satisfaction levels among employees rise, along with business results.

Management experts who have studied employee engagement have found consistently that certain workplace conditions lead to higher levels of productivity and satisfaction among employees, while other conditions can cause employees to become increasingly disengaged from their work. For example, employees are more productive if they understand the goals they are expected to achieve and how achieving those goals can contribute to the overall success of the organization. Workers also benefit from regular feedback from their managers, as well as guidance on how they can improve their performance.

At the same time, many employees thrive when given a level of autonomy. Even employees in low-level positions, such as cashiers or customer service representatives, often have to think quickly and make choices that will either benefit or hinder the company. Workers who believe their employer trusts their judgment are more likely to act in the interest of their employers and to take responsibility for their actions, as opposed to those who feel that they are micromanaged and that any deviation from standard practice will be met with criticism. Whenever possible, employers may grant employees some choice in how they dress while at work and the freedom to personalize their work spaces. Even minor flexibility can go a long way toward improving morale.

In addition, employees need access to the tools that enable them to perform optimally

and working conditions that accommodate their needs. For example, workers may be more productive if they have computers that are fast and reliable and machines that operate safely and easily. Employees generally know what types of tools and equipment are standard in the industry, and they may become frustrated if they are working with outdated technology. Opportunities to improve their skills, both through formal and on-the-job training, can also increase an employee's

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*Employing people is costly, but the contributions of employees are essential to the daily operations of the business.*

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feelings of loyalty to his or her employer. Ergonomic considerations are also crucial. Workers perform best when working comfortably and given regular breaks.

Possibly the most important element of employee engagement is the quality of personal relationships in the workplace. Employees who have friends at work and who have open and honest lines of communication with their managers and co-workers report being far more satisfied with their jobs and more loyal to their employers, compared with those who feel socially isolated among their co-workers and ignored by their superiors. While it may seem like an unnecessary expense, especially when times are tough, employers may invite workers to occasional parties, outings, and events to recognize their contributions to the success of the company. By getting to know each other on a personal level, workers will be better able to communicate effectively on job-related issues and to cooperate effectively in building the business.

Concerns about employee engagement continue long after the hiring process is complete. By developing management strategies that put people first, you may see a positive return on your investment in terms of productivity, loyalty, satisfaction, and morale. ■

# Drafting an Effective Employee Handbook

It can be beneficial for all businesses, regardless of size, to draft and distribute an informative employee handbook. Used to communicate the policies, procedures, rules, and benefits of the business, a thoughtfully prepared and up-to-date manual can be a useful tool for all employees, while also helping to protect employers from potential liability.

While an employee handbook need not be lengthy, it should provide a basic outline of each employee's responsibilities, as well as an explanation of their rights and privileges. When a business has several levels of management, an employee handbook can help establish common guidelines across the organization. Without consistent standards to guide them, supervisors may unknowingly show bias, which can lead to resentment toward the employer and friction between employees. Establishing a formal set of rules and practices can help to clarify expectations regarding appearance, performance, and behavior in the workplace. A handbook can also help to ensure that both managers and rank-and-file employees are aware of their legal obligations and of the potential consequences of noncompliance.

Employee handbooks typically include the following elements:

- An introduction that may consist of a welcome letter from the owner, a brief history of the company, and a mission statement.
- A summary of the company's hiring and recruitment policies, including a statement that the firm is an equal opportunity employer that does not discriminate and a guarantee that personal information will be protected.
- An outline of the management structure, chain of command, and job descriptions and classifications, including information about probationary periods and other relevant personnel issues, such as promotion policies and performance reviews.
- An explanation of the company's pay and overtime procedures as they apply to specific groups of employees, as well as policies regarding work hours, tardiness, and absenteeism.
- A section that details the benefit offerings, including health insurance, retirement plans, sick leave, paid holidays, and any additional perks. If vacation time is available, explain

how paid leave is accrued and the proper procedure for requesting time off.

- A section that outlines workplace policies, such as dress code, health and safety procedures, the use of workplace technology, and expense reimbursement procedures.
- An outline of the firm's discrimination and harassment policies, instructions for filing a complaint, and an explanation of complaint investigation procedures. This section may remind employees that certain behaviors will not be tolerated in the workplace and also help protect the business from liability.
- A statement of disciplinary procedures, including definitions of the behaviors that could result in disciplinary action, such as drug and alcohol use, unapproved absences, or the violation of specific rules. This section may also contain an explanation of grievance procedures.
- An employment at-will statement, which explains the right of the employer to terminate the employee and the right of the employee to resign employment.
- A statement to be signed and returned to the employer by each employee acknowledging that the handbook has been read and understood.

There are also some legal points to consider when drafting an employee handbook. Be sure to include the proper legal disclaimers, which may state that the policies, procedures, and standard practices outlined in the handbook represent guidelines only, and that the employer reserves the right to amend its procedures and practices at any time. Before finalizing an employee handbook, employers are advised to seek legal review of the contents.

In addition to creating a safety net for employers, a well-designed handbook can provide business owners with the opportunity to clarify their expectations of employees, as well as to detail any incentives offered for hard work and loyalty. Business owners may want to consult with employees when composing the manual, asking for feedback on its contents, tone, and relevance. An employee handbook can also help to demonstrate to potential investors that the business is well organized and takes its relationships and legal obligations seriously. ■





## Designing an Online Press Room

**M**ost small businesses do not have large budgets for public relations. But, any business with a website can utilize the opportunities available online by allowing journalists, customers, and other stakeholders to easily access up-to-date news about the company and its industry on its website.

When considering your company's online press strategy, start by asking yourself this question: "How easy or difficult would it be for a journalist using a search engine to find my company's press releases or other information I want to make publicly available?" If your website is difficult to find or navigate, reporters covering your industry or seeking the views of a small business owner in your community may bypass your business in favor of a more accessible competitor.

If you have not done so already, start by adding a "Media Room" or "Press Room" page to your website. Be sure this page matches the branding of the main page of your website. If you have a PR contact or a designated staff member responsible for fielding media inquiries, post the name of the contact, along with his or her email address, phone number, and office address. Many companies also post photographs so the journalist can recognize the contact if an in-person meeting is arranged.

You probably already feature a general description of your company, including information about management, the activities of the business, and what distinguishes your company from its competitors, on your website's "About Us" page. On the media page, you may offer journalists and the general public more detailed information by providing a link to your company's press kit. A press kit, usually in a PDF format that reporters can easily download and print out, can include general information on the company's products and services, its management, and its history. Such kits may also include attractive graphics, short biographies of key employees, photographs and descriptions of the facilities, and an overview of the company's lines of business. A press kit is not designed to be a catalog; instead, it should strive to create a positive image and an identifiable brand. Hard copies of your press kit may also be useful when attending conferences or meetings with individual journalists.

At the heart of any media page is a comprehensive and up-to-date listing of the press releases your company has issued, including an archive of previous press releases going back several years. Press releases may be posted either on the main page of the press room or on a separate page with

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*On the media page, you may offer journalists and the general public more detailed information by providing a link to your company's press kit.*

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a prominently displayed link on the main newsroom page. It is essential that the staff member responsible for updating the press release listing does so in a timely fashion. There are few things more frustrating for a journalist than to see an article based on a press release, only to find that the latest release listed on the company's media page is over six months old.

Another valuable resource for journalists may be links to previous news stories that have been written about your company. This "In the News" section can provide valuable background information about your organization and its activities, and it can serve as a gauge of the level of interest your company has generated so far.

Online press rooms should provide the news journalists are seeking, without being too busy. If your website includes marketing information, product catalogs, articles, videos, blogs, or podcasts offering industry-related news or commentary, link to these from the press room page, but refrain from featuring them in the press section. The media pages are not necessarily the appropriate place to post advertisements, promotions, or hard-to-download graphics. Instead, the primary goal of the press room is to provide journalists with easy access to the resources they need to report on your company. ■

## The Advantages of Being “Second to Market”

Like most entrepreneurs, you may have dreamed of creating or inventing a new product or service. In this dream, you picture yourself becoming wealthy and famous as you sell this remarkable innovation to the public. Once reality sets in, however, you may realize that developing a new product requires not only a good idea, but also resources to build it, and then to market and distribute it. Being “first to market” with a new product can be a long and potentially perilous road. While being first can provide a competitive advantage, sometimes the company that is second or third in launching the new product or service can still turn a profit.

The appeal of having the “first-mover advantage” in a particular market segment may be great, but the risks associated with launching a completely new product are also great.

Products that consumers now take for granted were, at one time, unknown. The first mover offering a new product must educate potential customers about the virtues of the innovation and persuade them to take a chance on it. The company also must convince source suppliers to manufacture the product, as well as distributors and retailers to carry it. Often, sales of even an attractive product do not take off until word-of-mouth marketing sets in. This process can take years, and during that time, the company may

fail to turn a profit. Sometimes, the idea does not catch on quickly enough, and the company folds or drops the product, only to see its concept revived successfully by a competitor.

In some circumstances, the first-mover advantage can be retained. Firms that have claimed intellectual property rights to the idea, and that have access to customers, suppliers, and distributors with an interest in the new product, have a real chance of success in launching the product. But, if a version of the concept can be reproduced without violating intellectual property law, a

larger company in a better position to manufacture, distribute, and market the product may put the smaller innovator with fewer resources out of business.

Yet, larger companies are not the only ones that can profit from being second or third to market. First movers may make mistakes that can be remedied by later entrants. While the core design of a certain product may be attractive, minor design glitches, such as a button that frequently jams, can frustrate buyers. First movers may have to produce multiple versions of the product to attain optimal quality. Later entrants to the market who can offer better-designed or higher-quality versions of the product by resolving these problems can often carve out their own market share. Alternatively, later entrants may offer a slightly lower-quality, but still attractive, version of the product aimed at price-conscious consumers who cannot afford the original.

In addition, a later entrant can time the launch of its version of the product to meet market demand. For example, a less-expensive version of a product may have a better chance during an economic downturn than during an economic boom. Later entrants can also wait until the marketing efforts of competitors have created demand for the product and then offer consumers an alternative. The manufacturing process can be simplified by the later entrant, who can discover new methods of production and sources of parts or raw materials. By learning from the first mover’s errors, later entrants can create a product that is even more appealing to customers than the original, and possibly at a lower cost, in part because they have invested less in the initial development and marketing. A potential customer who goes to a retailer to purchase the original version of the product may buy the improved, lower-price version.

In some cases, of course, the company that first created the product will succeed in dominating the market. However, assuming intellectual property rights are not an issue, later entrants may find that capturing even a small segment of the market for an alternate version of the item can help grow the business. ■



## COBRA Enrollment Increases



Since a new subsidy designed to help unemployed workers extend their employer-provided health care benefits became available in February, the numbers of Americans enrolled in COBRA have doubled, according to a study by human resources consultancy Hewitt Associates.

Due to rising unemployment, more than 14 million workers have become eligible for the Consolidated Omnibus Budget Reconciliation Act of 1986 (COBRA) subsidy since it was enacted under the American Recovery and Reinvestment Act of 2009 (ARRA). Based on an analysis of 200 large U.S. companies representing 8 million workers, the study found that, from March 2009 to June 2009, monthly COBRA enrollment rates for Americans eligible for the subsidy averaged 38%, up from 19% from September 2008 through February 2009.

COBRA allows individuals to remain enrolled in their company health plan for a period of time after leaving a job. Prior to passage of ARRA, terminated employees were responsible for paying the full cost of the health plan premiums, as well

as up to an additional 2% to cover administrative costs. Under ARRA, workers who are involuntarily separated from employment between September 1, 2008 and January 1, 2010 are given the option of paying just 35% of the cost of COBRA coverage for up to nine months. The former employer is required to pay the remaining 65% but will be reimbursed by the government through a payroll tax credit.

According to the study, the COBRA subsidy is worth around \$8,800 a year to the average claimant. Researchers noted that an average employee with employer-sponsored health coverage pays 22%, or \$1,900 of the cost per year, and a worker receiving subsidized COBRA would pay 35%, or \$3,000 per year.

The findings also indicated that COBRA enrollments vary across industries. For example, companies in the industrial manufacturing sector have seen an 800% increase in COBRA enrollments. Over the same period, enrollments for companies in the construction, leisure, and retail industries tripled. ■

## Employers Expect to Restore Pay and 401(k) Matches

As the economy shows signs of improving, more employers plan to reverse cuts in salary and retirement plan contributions made during the downturn, according to a survey by human resources consultancy Watson Wyatt.

The August 2009 survey of 175 large employers showed that 33% of employers that froze salary levels during the economic downturn plan to unfreeze them within the next six months, up from 17% in a similar survey conducted in June. The August survey also showed that 44% of companies that cut salaries intend to reverse the cuts in the next six months, compared with 30% in June. In addition, 24% of employers that reduced 401(k) matches said in August they would restore the matches to their previous levels, up from 5% in June.

The survey also found that 52% of employers are more concerned about retaining top performers and critical-skill employees than before the economic downturn. When asked about efforts to keep employees engaged, 83% have increased communication, 40% have held additional employee forums to address economy-related concerns, and 47% have changed employee roles to expand responsibilities. However, just 27% expanded the use of recognition programs, and only 18% created special compensation programs for high-performing or at-risk employees.

When asked to project three to five years ahead, 83% of employers expect to see more employees working past their desired retirement ages, and 43% anticipate reducing the size of their workforce. At the same time, however, around half of employers expect to experience greater difficulty in attracting and retaining critical-skill employees. ■

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