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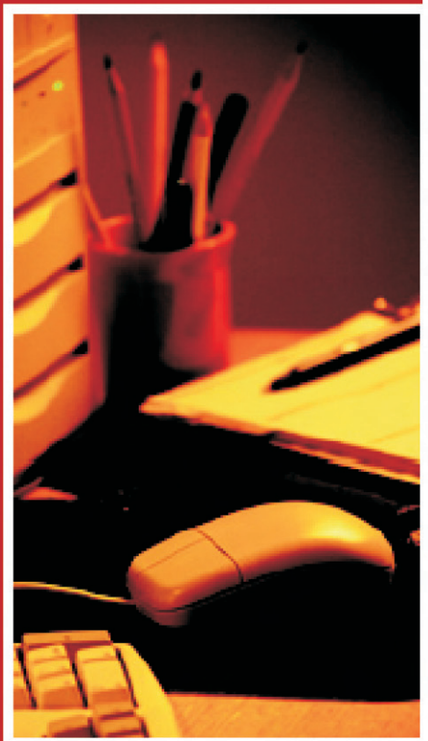
Ten Ways **to Protect Your Business**



Advice from CPAs

Planning for Success

There are no certainties when it comes to business cycles, and advanced planning cannot protect the small business owner from the ups and downs of a changing economy. There are, however, fundamental steps you can take to minimize disruptions from increasing prices, changing consumer habits, growing operating risks, competition and fraud.

Safeguard These Ten Critical Areas

The following ten business functions are vital to the growth and continuity of your organization, and apply to most phases of the business life cycle. (This list is not all-inclusive — and you should approach these topics in the order that makes the most sense for you and your business.)

Growing Your Business

A major concern for any business is to be positioned to expand with new products or additional locations. Timing is critical.

1. Business Planning

The following are some important considerations when developing your business plan. This document will serve as the foundation for your business goals, strategies and future — so plan wisely!

- Gauge your market's potential size
- Recognize customer needs
- Analyze industry statistics and competitive market data
- Identify potential promotion and advertising strategies
- Define your offerings
- Determine the economic climate within your market (e.g., rising interest rates, increasing unemployment)
- Confer with professional advisers, such as a CPA (Certified Public Accountant), attorney, insurance broker or lender

2. Financial Planning

Not only do you need to have funds available to grow your business, you must also efficiently manage those funds. Whether you are crafting your business plan or managing your business' finances (purchases, payroll, vendor payments, etc.), it's important to be able to articulate your objectives in running your business and be able to answer these questions.

- What type of loan should I get?
- What collateral will I need?
- What is the cash flow necessary for me to repay the loan and manage my business' day-to-day financial needs?
- How will I use the loan proceeds?
- How will I grow and expand my business? What are the associated costs?

At the same time, you must consider cash-flow management. This involves:

- Forecasting, budgeting, receiving, controlling, disbursing and investing funds generated by your business' operations.
- Improving liquidity and increasing profits by increasing cash inflow; reducing cash outflow; and investing idle funds in higher-yielding vehicles.

3. Marketing Your Business

Here are some ideas for promotional efforts to raise the visibility of your business.

- Look for new niche markets to which you can target your business' services and advertising.
- Identify and respond to emerging trends.
- Raise your visibility in your local market by giving speeches at business associations like the Chamber of Commerce or the Rotary Club.
- Create brochures or flyers to distribute in the town or city in which your business operates.

Operating Your Business

How you structure your business, protect it from risk, manage employees and use technology will determine your ability to succeed.

4. Selecting the Legal Structure

The way your business is structured will impact its operating efficiency as well as determine the tax treatment.

Sole Proprietorship **—** A one-person business. All business income and losses are reported on your personal income tax return, and you are personally liable for any business obligations.

Partnership **—** A business owned by two or more people, each personally liable for any business debts or legal claims. Partners pay tax on their share of income via their personal income tax returns.

Limited Partnerships **—** A partnership in which the general partner is responsible for running the business and is liable for its debts. The limited partner has minimal business control and no exposure to business debts. This type of structure is taxed similar to a sole proprietorship or partnership.

Limited Liability Companies **—** A business similar to corporations in that they provide limited personal liability for business debts and claims. But, the owners of an LLC pay taxes on their share of the business income on their personal tax returns, like partnerships.

C Corporation **—** Taxes on business profits are paid by the corporation. The owners pay individual income tax only on money that is withdrawn from the corporation as a salary, bonus or dividend.

S Corporation **—** A corporation wherein all business profits "pass through" to the owners who report them on their personal tax returns, such as with a sole proprietorship, partnership and LLC.

5. Managing Business Risk

Risk management involves protecting yourself against potential loss or less-than-expected return. A tool typically used to manage risk is insurance, including:

- Group life
- Group health
- Casualty and theft
- Disability
- Workers' compensation
- Key man
- Automobile

It is critical to have periodic appraisals done of your business by a CPA who is skilled in this area.

6. Managing Your Workforce

As a business owner, it's important to set a philosophy and standards of performance and clearly communicate them to your employees. Some practices to put in place include a time recording system; a new employee orientation program; a training program that includes policies and procedures dealing with internal controls; and a performance measurement system.

Monitoring your employees' performance and providing regular evaluations based on a consistent set of standards will put any employee on notice about his or her performance if it is less than desired. It is also critical to document your discussions in the event legal action is taken against you based on accusations of bias or favoritism.

7. Leveraging Technology

Moore's Law states that processing speed will double every 18 months, so it pays to make sure technology serves the needs of your business.

If you have limited capital and are concerned about rapid changes in technology, you may want to consider leasing. Leasing technology equipment allows you to expense the equipment rather than purchase a depreciable asset, all while freeing up your capital to purchase other critical assets.

Maintaining Your Business

Once you have developed a business and financial plan, hired the right people, implemented technology and protected against risk, you then need to consider how to maintain what you've built in the event of circumstances such as theft, death or retirement.

8. Succession Planning

More than 70 percent of family-owned businesses do not survive the transition from founder to second generation. In most cases, the "killers" are taxes, management or family discord. These are issues that a good family business succession plan will cover. In developing a succession plan, consider:

- Transferring management to one person, whether a child or non-family member
- Transferring equal shares of business ownership to family and non-family members
- Planning ahead a minimum of five years to determine whether there is any interest in continuing the business on the part of family members
- Developing strategies for minimizing taxes upon your death so that business assets do not need to be liquidated to pay any estate tax liability

9. Protecting Against Fraud

As a result of the increasing use of technology, businesses need to take steps to protect themselves against fraudulent activity ranging from identity theft — such as stolen bank account numbers — to the illegal generation of documents such as sales invoices, purchase orders and bank statements. It's a good idea to conduct periodic audits of operations, processes and accounting procedures to ensure the proper functioning of controls and to uncover any irregularities.

Make sure to:

- Check your credit report every six months
- Install proper firewalls, virus protection and encryption for your business' computer system
- Shred all unnecessary financial documents

10. Using Professional Advisers

Choosing the right professional advisers is critical to reaching your business goals. CPAs are widely used by many types of companies because of their financial expertise and knowledge of how businesses can be profitably managed and positioned for growth. An attorney understands the issues concerning the legal structure of your business, contractual arrangements with suppliers and distributors, leases and litigation protection.

Whether you're seeking a CPA or an attorney, here are some screening questions to ask.

- How long have they been practicing? (ask for references)
- What is their experience level with your type of business?
- How are their fees determined?
- How much time will they need to handle the service and when can they begin?

You should also establish a strong working relationship with your lender so you can get the financing you need to establish or expand your business.

As a business owner, your time may be better spent focusing on the business' core purpose rather than financial and operational issues. Working closely with your CPA throughout your business' life cycle may help you realize your dreams of success.

Help for Small Businesses

The AICPA has joined the U.S. Small Business Administration (SBA), an independent agency of the federal government dedicated to helping Americans start, build and grow their small businesses. Be sure to ask your CPA about the SBA, and visit ***www.sba.gov*** *to access tools, resources and services (online courses, podcasts, newsletters, legal information and more!) for managing risk and preventing fraud.*