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Counselors to America's Small Business

LATER PLANNING STAGE

Pricing your product

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Insurance

Recordkeeping

VISA CARD for Home business

HOW TO PRICE YOUR PRODUCTS AND SERVICES

The primary goal of business is to make a profit. Many small businesses fail to do so because they do not know how to price their products or services. Pricing is the critical element in achieving a profit and is a factor that all firms can control.

Before setting your prices, you must understand your product's market, distribution costs, and competition. Remember, the marketplace responds rapidly to technological advances and international competition. You must keep abreast of the factors that affect pricing, and be ready to adjust.

Retail Cost and Pricing

A common pricing practice among small businesses is to follow the manufacturer's suggested retail prices. The suggested retail price is easy to use, but it can cause problems. It may create an undesirable price image, and it doesn't consider the competition.

Competitive Position

Another approach is a strategy in which a firm bases its price on those of its competitors. A small retailer should compare prices with a similar store. Do not try to compete with a large store's prices, because they can buy in larger volumes and their cost per unit will be less. Instead, highlight other factors, like customer service. Customers will often pay more for merchandise if they get courteous service.

Pricing Below Competition

Many vendors have been very successful using this pricing strategy. Since this strategy reduces the profit margin per sale, a firm needs to reduce its costs and:

- ◆ Obtain the best prices possible for the merchandise;
- ◆ Locate the business in an inexpensive location or facility;
- ◆ Closely control inventory;
- ◆ Limit the lines to fast moving items;
- ◆ Design advertising to concentrate on "price specials;"
- ◆ Offer no or limited services.

Pricing goods below the competition can be difficult to maintain. Why? Because every cost component must be constantly monitored and adjusted. It also exposes a business to pricing wars. Competitors can match the lower price, leaving both parties out in the cold.

Pricing Above the Competition

This strategy is possible when price is not the customer's greatest concern. Nonprice considerations important enough for customers to justify paying higher prices include:

- ◆ Service considerations: delivery, speed of service, satisfaction in handling customer complaints, knowledge of product or service, helpful and friendly employees,
- ◆ A convenient or exclusive location,
- ◆ Exclusive merchandise.

Price Lining

This strategy targets a specific segment of the buying public by carrying products only in a specific price range. For example, a store may wish to attract customers willing to pay over \$50 for a purse. Price lining has many advantages:

- ◆ Reduced errors by sales personnel;
- ◆ Ease of selection for customers;
- ◆ Reduced inventory;
- ◆ Reduced storage costs, due to smaller inventory.

Multiple Pricing

This strategy involves selling a number of units for a single price. For example, two items for \$1.98. This is useful for low cost, consumable products like shampoo or toothpaste. Many stores find this a desirable pricing strategy for sales and year-end clearances.

Service Costs and Pricing

Every service has different costs. Many small service firms fail to analyze their services' total cost, and therefore, fail to price them profitably. By analyzing the cost of each service, prices can be set to maximize profits and eliminate unprofitable services. Service Cost Components
Material, labor and overhead make up the total cost of any product or service.

This is the cost of materials found in the final product. For example, the wood and other materials used in the manufacturing of a chair are direct materials.

Labor Costs

This is the cost of the work that goes into the manufacturing of a product. An example is the wages of all production line workers. The direct labor costs are derived by multiplying the cost of labor per hour by the number of man-hours needed to complete the job. Remember to use not only the hourly wage, but also include fringe benefits. These include: social security, workers compensation, unemployment compensation, insurance, and retirement benefits.

Overhead Costs

Any cost not readily identifiable with a particular product is overhead. These include indirect materials and indirect labor, such as maintenance, supplies, repairs, heat and light, depreciation and insurance. These are not charged to direct labor, but must be included as a cost. Examples are clerical, legal and janitorial services and supplies. Insurance, taxes, rent, advertising and transportation are also overhead costs.

Part of the overhead costs must be allocated to each service performed or product produced. The overhead rate can be expressed as a percentage or an hourly rate. Adjust your overhead costs annually. Charges must be revised to reflect inflation and higher benefit rates. It is best to project the costs semi-annually, including increased executive salaries and other projected costs.

A cost lid must always be used in preparing a bid or quoting a job. Include shipping, handling or storage in the total material cost.

Figuring Costs and Profits For A Consultant Service

Pricing services where your own labor or expertise is used is different from pricing services that use materials and other labor. For instance, most consultants price their services by the hour. Senior consultants charge more for their time than do their less experienced counterparts. Remember to charge for an adequate number of hours. Travel time is usually listed as an extra charge. It is unlikely that all of your time will be billed to clients. Therefore, hourly or contract fees must be set high enough to cover expenses during slow periods. That is why one-half of the total normal working hours for a given year are used in figuring overhead rates. Try to obtain long term, monthly, or contract assignments when possible.

Summary

Your pricing structure and policy are major components of your public image and are crucial to securing and keeping your clientele. Pricing for service businesses may be more complex than retail pricing. However, the result is the same: cost, plus operating expenses, plus desired profit, equals the services price. The key to success is to have a well-planned strategy. Establish your policies, constantly monitor prices and operating costs to insure profit. Accuracy increases profits!

How to Get More Information

Information is power! Make it your business to know what business information is available, where to get it and most importantly, how to use it. Sources of information include:

U.S. Small Business Administration

- ◆ SBA District Offices
- ◆ Small Business Development Centers (SBDCs)
- ◆ Service Corps of Retired Executives (SCORE)
- ◆ Small Business Institutes (SBIs)

Consult your telephone directory under U.S. Government for your local SBA office or call the Small Business Answer Desk at 1-800-8-ASK-SBA for information on any of the above resources. Also, you may request a free copy of the Small Business Directory, a listing of business development publications and videotapes, from your local SBA office or the Answer Desk.

Other Sources:

- ◆ State Economic Development Agencies
- ◆ Chambers of Commerce
- ◆ Local Colleges
- ◆ The Library
- ◆ Manufacturers and suppliers of small business technologies and products.

CHOOSING A LAWYER

WHEN IS A LAWYER NEEDED?

Legal advice is expensive. Consult a lawyer when he/she can really be of help. You may be able to handle simple matters yourself. Bankruptcy, patent applications, irreconcilable disputes, interpretation of complex contracts, partnership agreements, incorporation if at all complex, and buying or selling a business are typical situations where attorney counseling is recommended. In the case of disputes, the use of an arbitration service may be easier, quicker, and less expensive than a lawyer and the courts. In some instances a Para-legal may be sufficient and less expensive than a lawyer.

CHOOSING THE RIGHT LAWYER

It is important and often difficult to choose the right lawyer. The best recommendation is often from a friend or business associate. The Yellow Pages will help you to get started. Some legal organizations may not provide the best recommendations, as their listings are sometimes paid for by the listing lawyer. This does not assure quality. The US Patent Office provides a list of qualified patent lawyers. Be sure to get a lawyer who specializes in your specific problems.

EVALUATING

Many lawyers will provide a short preliminary consultation at no charge. This will assist in your evaluation. Call and ask if a preliminary no-charge consultation is available. Ask for background, experience, specialization, hourly cost, telephone consultation costs, fees, and method of payment. Retainer and up-front fees may be negotiable. If a court case, ask if you have a strong case. You may wish to talk with several lawyers before making a choice.

To be competitive, small business owners must plan and prepare for all future events and market changes. Possibly the most important aspect of preparation is effective cash-flow planning. Failure to properly plan cash flow is one of the leading causes for small business failures in the United States. Experience has shown that many small business owners lack a general understanding of accounting principles. For this reason, a few of the basic principles will be covered. There also are self-instructional guides from which you can obtain a better understanding of accounting.

INSURANCE

As a new business owner, you should be familiar with several areas regarding insurance:

General Information

Points on buying insurance, types of insurance, amounts of insurance

Liability Insurance

Protection against claims by others for damage caused by you or your employees

Property Damage Insurance

Protection against damage to your property, of various kinds

Going Business Insurance

Protection against disruption of the business

Specialized Insurances

Insurance against Fraud, failure to collect accounts, product liability, etc.

Employee (and Owner) Health Insurance

What to consider before deciding on Health Insurance

INSURANCE CHECKLIST

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Essential Coverage

Four kinds of insurance are essential: fire insurance, liability insurance, automobile insurance, and workers' compensation insurance. In some areas and in some kinds of businesses, crime insurance, which is discussed under "Desirable Coverages," is also essential.

Are you certain that all the following points have been given full consideration in your insurance program?

Fire Insurance

1. You can add other perils--such as windstorm, hail, smoke, explosion, vandalism, and malicious mischief--to your basic fire insurance at a relatively small additional cost.
2. If you need comprehensive coverage, your best buy may be one of the all-risk contracts that offer the broadest available protection for the money.
3. The insurance company may indemnify you--that is, compensate you for your losses--in any one of several ways:
 - a. It may pay actual cash value of the property at the time of loss.
 - b. It may repair or replace the property with material of like kind and quality.
 - c. It may take all the property at the agreed or appraised value and reimburse you for your loss.
4. You can insure property you don't own. You must have an insurable interest--a financial interest--in the property when a loss occurs but not necessarily at the time the insurance contract is made. For instance, a repair shop or dry cleaning plant may carry insurance on customers' property in the shop, or you may hold a mortgage on a building and insure the building although you don't own it.
5. When you sell property, you cannot sign the insurance policy along with the property unless you have permission from the insurance company.
6. Even if you have several policies on your property, you can still collect only the amount of your actual cash loss. All the insurers share the payment proportionately. Suppose, for example, that you are carrying two policies--one for \$20,000 and one for \$30,000--on a \$40,000 building, and fire causes damage to the building amounting to \$12,000.

The \$20,000 policy will pay \$4,800; that is, 20,000	2, or --- of \$12,000
50,000	5
The \$30,000 policy will pay \$7,200; that is, 30,000	3, or --- of \$12,000
50,000	5

7. Special protection other than the standard fire insurance policy is needed to cover the loss by fire of accounts, bills, currency, deeds, evidence of debt, and money and securities.
8. If an insured building is vacant or unoccupied for more than 60 consecutive days, coverage is suspended unless you have a special endorsement to your policy canceling this provision.
9. If, either before or after a loss, you conceal or misrepresent to the insurer any material fact or circumstance concerning your insurance or the interest of the insured, the policy may be voided.
10. If you increase the hazard of fire, the insurance company may suspend your coverage even for losses not originating from the increased hazard. (An example of such a hazard might be renting part of your building to a dry cleaning plant.)
11. After a loss, you must use all reasonable means to protect the property from further loss or run the risk of having your coverage canceled.
12. To recover your loss, you must furnish within 60 days (unless an extension is granted by the insurance company) a complete inventory of the damaged, destroyed, and undamaged property showing in detail quantities, costs, actual cash value, and amount of loss claimed.
13. If you and the insurer disagree on the amount of loss, the question may be resolved through special appraisal procedures provided for in the fire-insurance policy.
14. You may cancel your policy without notice at any time and get part of the premium returned. The insurance company also may cancel at any time with a 5-day written notice to you.
15. By accepting a coinsurance clause in your policy, you get a substantial reduction in premiums. A coinsurance clause states that you must carry insurance equal to 80 or 90 percent of the value of the insured property. If you carry less than this, you cannot collect the full amount of your loss, even if the loss is small. What percent of your loss you can collect will depend on what percent of the full value of the property you have insured it for?
16. If your loss is caused by someone else's negligence, the insurer has the right to sue this negligent third party for the amount it has paid you under the policy. This is known as the insurer's right of subrogation. However, the insurer will usually waive this right upon request. For example, if you have leased your insured building to someone and have waived your right to recover from the tenant for any insured damages to your property, you should have your agent request the insurer to waive the subrogation clause in the fire policy on your leased building.
17. A building under construction can be insured for fire, lightning, extended coverage, vandalism, and malicious mischief.

Liability Insurance

1. Legal liability limits of \$1 million are no longer considered high or unreasonable even for a small business.
2. Most liability policies require you to notify the insurer immediately after an incident on your property that might cause a future claim. This holds true no matter how unimportant the incident may seem at the time it happens.
3. Most liability policies, in addition to bodily injuries, may now cover personal injuries (libel, slander, and so on) if these are specifically insured.
4. Under certain conditions, your business may be subject to damage claims even from trespassers.

5. You may be legally liable for damages even in cases where you used "reasonable care."
6. Even if the suit against you is false or fraudulent, the liability insurer pays court costs, legal fees, and interest on judgments in addition to the liability judgments themselves.
7. You can be liable for the acts of others under contracts you have signed with them. This liability is insurable.
8. In some cases you may be held liable for fire loss to property of others in your care. Yet, this property would normally not be covered by your fire or general liability insurance. This risk can be covered by fire legal liability insurance or through requesting subrogation waivers from insurers of owners of the property.

Automobile Insurance

1. When an employee or a subcontractor uses a car on your behalf, you can be legally liable even though you don't own the car or truck.
2. Five or more automobiles or motorcycles under one ownership and operated as a fleet for business purposes can generally be insured under a low-cost fleet policy against both material damage to your vehicle and liability to others for property damage or personal injury.
3. You can often get deductibles of almost any amount--say \$250 or \$500--and thereby reduce your premiums.
4. Automobile medical-payments insurance pays for medical claims, including your own, arising from automobile accidents regardless of the question of negligence.
5. In most States, you must carry liability insurance or be prepared to provide other proof (surety bond) of financial responsibility when you are involved in an accident.
6. You can purchase uninsured-motorist protection to cover your own bodily-injury claims from someone who has no insurance.
7. Personal property stored in an automobile and not attached to it (for example, merchandise being delivered) is not covered under an automobile policy.

Worker's Compensation

1. Federal and common law requires that an employer:
 - a. provide employees a safe place to work,
 - b. hire competent fellow employees,
 - c. provide safe tools, and
 - d. warn employees of an existing danger.
2. If an employer fails to provide the above, the employer is liable for damage suits brought by an employee and possible fines or prosecution.
3. State law determines the level or type of benefits payable under workers' compensation policies.
4. Not all employees are covered by workers' compensation laws. The exceptions are determined by State law and therefore vary from State to State.
5. In nearly all States, you are now legally required to cover your workers under workers' compensation.
6. You can save money on workers' compensation insurance by seeing that your employees are properly classified.

7. Rates for workers' compensation insurance vary from 0.1 percent of the payroll for "safe" occupations to about 25 percent or more of the payroll for very hazardous occupations.
8. Most employers in most States can reduce their workers' compensation premium cost by reducing their accident rates below the average. They do this by using safety and loss-prevention measures.

Desirable Coverages

Some types of insurance coverage, while not absolutely essential, will add greatly to the security of your business. These coverages include business-interruption insurance, crime insurance, glass insurance, and rent insurance.

Business Interruption Insurance

1. You can purchase insurance to cover fixed expenses that would continue if a fire shut down your business--such as salaries to key employees, taxes, interest, depreciation, and utilities--as well as the profits you would lose.
2. Under properly written contingent business-interruption insurance, you can also collect if fire or other peril closes down the business of a supplier or customer and this interrupts your business.
3. The business-interruption policy provides payments for amounts you spend to hasten the reopening of your business after a fire or other insured peril.
4. You can get coverage for the extra expenses you suffer if an insured peril, while not actually closing your business down, seriously disrupts it.
5. When the policy is properly endorsed, you can get business-interruption insurance to indemnify you if your operations are suspended because of failure or interruption of the supply of power, light, heat, gas, or water furnished by a public utility company.

Crime Insurance

1. Burglary insurance excludes such property as accounts, fur articles in a showcase window, and manuscripts.
2. Coverage is granted under burglary insurance only if there are visible marks of the burglar's forced entry.
3. Burglary insurance can be written to cover, in addition to money in a safe, inventoried merchandise and damage incurred in the course of a burglary.
4. Robbery insurance protects you from loss of property, money, and securities by force, trickery, or threat of violence on or off your premises.
5. A comprehensive crime policy written just for small business owners is available. In addition to burglary and robbery, it covers other types of loss by theft, destruction, and disappearance of money and securities. It also covers thefts by your employees.
6. If you are in a high-risk area and cannot get insurance through normal channels without paying excessive rates, you may be able to get help through the federal crime insurance plan. Your agent or State Insurance Commissioner can tell you where to get information about these plans.

Glass Insurance

1. You can purchase a special glass-insurance policy that covers all risk to plate-glass windows, glass signs, motion-picture screens, glass brick, glass doors, showcases, counter-tops, and insulated glass panels.
2. The glass-insurance policy covers not only the glass itself, but also its lettering and ornamentation, if these are specifically insured and the costs of temporary plates or boarding up when necessary.
3. After the glass has been replaced, full coverage is continued without any additional premium for the period covered.

Rent Insurance

1. You can buy rent insurance that will pay your rent if the property you lease becomes unusable because of fire or other insured perils and your lease calls for continued payments in such a situation.
2. If you own property and lease it to others, you can insure against loss if the lease is canceled because of fire and you have to rent the property again at a reduced rental.

Employee Benefit Coverages

Insurance coverages that can be used to provide employee benefits include group life insurance, group health insurance, disability insurance, and retirement income.

Key-man insurance protects the company against financial loss caused by the death of a valuable employee or partner. Group Life Insurance

1. If you pay group-insurance premiums and cover all employees up to \$50,000, the cost to you is deductible for Federal income tax purposes, and yet the value of the benefit is not taxable income to your employees.
2. Most insurers will provide group coverages at low rates even if there are 10 or fewer employees in your group.
3. If the employees pay part of the cost of the group insurance, State laws require that 75 percent of them must elect coverage for the plan to qualify as group insurance.
4. Group plans permit an employee leaving the company to convert group-insurance coverage to a private plan, at the rate for his/her age, without a medical exam, within 30 days after leaving the job.

Group Health Insurance

1. Group health insurance costs much less and provides more generous benefits for the worker than individual contracts would.
2. If you pay the entire cost, individual employees cannot be dropped from a group plan unless the entire group policy is canceled.
3. Generous programs of employee benefits, such as group health insurance, tend to reduce labor turnover.

Disability Insurance

1. Workers' compensation insurance pays an employee only for time lost because of work injuries and work-related sickness--not for time lost because of disabilities incurred off the job. But you can purchase, at a low premium, insurance to replace the lost income of workers who suffer short-term or long-term disability not related to work.
2. You can get coverage that provides employees with an income for life in case of permanent disability resulting from work-related sickness or accident.

Retirement Income

1. If you are self-employed, you can get an income tax deduction for funds used for retirement for you and your employees through plans of insurance or annuities approved for use under the Employees Retirement Income Security Act of 1974 (ERISA).
2. Annuity contracts may provide for variable payments in the hope of giving the annuitants some protection against the effects of inflation. Whether fixed or variable, an annuity can provide retirement income that is guaranteed for life.

Key-Man Insurance

1. One of the most serious setbacks that can come to a small company is the loss of a key employee. But your key employee can be insured with life insurance and disability insurance owned by and payable to your company.
2. Proceeds of a key-man policy are not subject to income tax, but premiums are not a deductible business expense.
3. The cash value of key-man insurance which accumulates as an asset of the business can be borrowed against and the interest and dividends are not subject to income tax as long as the policy remains in force.

Organizing Your Insurance Program

A sound insurance protection plan is just as important to the success of your business as good financing, marketing, personnel management, or any other business function. And like the other functions, good risk and insurance management is not achieved by accident, but by organization and planning. A lifetime of work and dreams can be lost in a few minutes if your insurance program does not include certain elements. To make sure that you are covered, you should take action in four distinct ways:

1. Recognize the various ways you can suffer loss.
2. Following the guides for buying insurance economically.
3. Organize your insurance-management program.
4. Get professional advice.

Recognize the risks. The first step toward good protection is to recognize the risks you face and make up your mind to do something about them. Wishful thinking or it-can't-happen-to-me attitude won't lessen or remove the possibility that a ruinous misfortune may strike your business.

Some businesses will need coverages not mentioned in the checklist. For example, if you use costly professional tools or equipment in your business, you may need special insurance covering loss or damage to the equipment and/or business interruption resulting from not being able to use the equipment.

Study insurance costs. Before you purchase insurance, investigate the methods by which you can reduce the costs of your coverage. Be sure to cover the following points:

1. Decide what perils to insure against and how much loss you might suffer from each.
2. Cover your largest loss exposure first.
3. Use as high a deductible as you can afford.
4. Avoid duplication in insurance.
5. Buy in as large a unit as possible. Many of the "package policies" are very suitable for the types of small businesses they are designed to serve, and often they are the only way a small business can get really adequate protection.
6. Review your insurance program periodically to make sure that your coverage is adequate and your premiums are as low as possible consistent with sound protection.

Have a plan. To manage your insurance program for good coverage at the lowest possible cost, you will need a definite plan that undergirds the objectives of your business. Here are some suggestions for good risk and insurance management:

1. Write down a clear statement of what you expect insurance to do for your firm.
2. Select only one agent to handle your insurance. Having more than one may spread and weaken responsibility.
3. If an employee or partner is going to be responsible for your insurance program, be sure he/she understands the responsibility.
4. Do everything possible to prevent losses and to keep those that do occur as low as possible.
5. Don't withhold from your insurance agent important information about your business and its exposure to loss. Treat your agent as a professional helper.
6. Don't try to save money by underinsuring or by not covering some perils that could cause loss, even though you think the probability of their occurring is very small. If the probability of loss is really small, the premium will also be small.
7. Keep complete records of your insurance policies, premiums paid, losses, and loss recoveries. This information will help you get better coverage at lower costs in the future.
8. Have your property appraised periodically by independent appraisers. This will keep you informed of what your exposures are, and you will be better able to prove what your actual losses are if any occur.

Get professional advice about your insurance. Insurance is a complex and detailed subject. A professionally qualified agent, broker, or consultant can explain the options, recommend the right coverage, and help you avoid financial loss.

HEALTH INSURANCE

Health Insurance for the Small Business

In recognition of the importance of small business to a strong economy, The Travelers Companies has joined with the U.S. Small Business Administration (SBA) to help meet the information needs of existing business owners and aspiring entrepreneurs.

Structuring Your First Benefits Plan

Health insurance is the second most-coveted fringe benefit in America today - behind only paid vacation. Yet only half of employers with fewer than 10 employees offer it, some because of the price tag. Cost, of course, is a major consideration. But in today's environment of managed care plans and increase cost-sharing with employees, it doesn't have to be an overriding issue. Structuring your benefits plan properly -- with an eye on the quality and cost of care -- can help you attract and retain qualified employees.

Where to Start

When considering your first benefits plan, begin by determining the needs of your employees. You may want to sit down with them to discuss options, making it clear that you may not be able to afford all of what they want and that some costs may have to be shared. Armed with this information, you should contact an independent insurance agent or broker who:

- ◆ Can explain the different coverage options available,
- ◆ Present you with alternative plans and quotes and
- ◆ Sell and service your policy.

Because you will have an ongoing relationship with your agent, consider the agent's reputation, personal dynamics and responsiveness when making your selection. Your agent will explain to you the major categories of insurance plans, including:

Indemnity

This is a traditional pay-as-you go health insurance plan. The employee pays a set deductible, then a coinsurance percentage (usually 20 percent) of covered expenses. After he or she has paid a certain amount out of pocket, the plan pays 100 percent of the expenses. The employee can use any doctor or hospital, and simply files claims for reimbursement. Some indemnity plans have "managed care" features, which control costs by monitoring care to make sure it is appropriate and cost-effective. Pre-admission review of hospital stays or medical treatment is one popular and effective managed care feature.

Another method of controlling costs with an indemnity plan is raising the deductible and/or increasing the employee's portion of the coinsurance. The higher the deductible and employee coinsurance, the lower the cost to the employer and employee.

Managed Care

Managed care plans, which are becoming increasingly popular, encourage employees to avail themselves of quality, cost-effective care by offering them financial incentive -- usually higher coinsurance -- to use certain doctors and hospitals. The providers in a managed care network agree to limit their fees in return for a guaranteed number of patients. The providers also handle all claims of quality reviews. One type of managed care network is a Health Maintenance Organization (HMO), which generally provides 100 percent reimbursement for most services, but provides little or very limited benefits if the employee chooses to see doctors outside of the network for care. In a Preferred Provider Organization (PPO), the employee receives higher reimbursement (often 90 percent) when using a network provider, but benefits are lower (sometimes 70 percent) when the employee receives care from a physician outside the network. However, many plans reimburse emergency care at the 90 percent level, regardless of whether the services are provided by a physician within or outside of the network.

Self Insurance

Some employers self-fund their own plans, but contract with an insurance company for claims administration. This option is generally for larger businesses with more sophisticated insurance administration capabilities and financial resources to absorb the higher risk involved. Selecting a Plan

Your agent or broker will probably provide you with several different proposals and quotes from insurance companies. Since each quote may provide for different coverages, don't just compare prices. Ask to see the entire proposal from the insurer, including customer service and claims paying capabilities. In reviewing the proposals, ask your agent the following questions:

- ◆ Is the insurance carrier reputable and financially strong?
- ◆ Will the policy be renewed every six months or annually?
- ◆ Is the plan easy to administer? Is there a toll-free 800 number to call to make changes or have questions answered?
- ◆ Does the insurer process and pay claims quickly?
- ◆ What are the penalties employees should know about? Are there any "hidden" deductibles, such as a separate inpatient hospital deductible?
- ◆ Will the insurer underwrite the policy as a group, as individuals or both?
- ◆ Does the managed care plan provide enough of a financial incentive to encourage employees to select network providers?

Once you decide on a benefits plan, your insurance company will provide follow-up information for employees that details plan specifics, enrollment periods and claims procedures. Once the program is operational, you will soon become aware of the importance of accurate, responsive service. And, keep the lines of communication open between you and your insurer. Only through

continued dialogue can the benefits program be fine-tuned to provide the highest level of service to you and your employees.

In today's benefits environment, providing employee health insurance coverage does not have to be an all-or-nothing proposition. Understanding your employees' needs, researching the options available and selecting a reputable insurer can give you a competitive advantage in recruiting and retaining a skilled workforce.

RECORDKEEPING

Inventory and Sales Records

Minimum Records Required

There are four basic records that a business must maintain: 1) Sales Records, 2) Cash Receipts, 3) Cash Disbursements, and 4) Accounts Receivable.

Sales Records

A record of all sales must be kept. If you use a cash register, a combined Sales and Cash Receipts record may be kept. Sales may result from a single primary activity or may result from different types of activity and be recorded in subcategories. For example, a business might record three kinds of sales: wholesale, retail, and services. It is important to record all sales as they occur. Remember that a sale may result in cash or arrangements may be made to receive payment at a later time. In either case, the sales records should reflect that the sale has occurred.

Cash Receipts

Cash is received by a business at the time of the sale or as payment on account for a credit sale. In any case, all cash should be recorded as it is received. A small business without a cash register can enter each transaction in a Sales and Cash Receipts Journal showing the date, name, invoice number, and the amount of the sale. Deposit all cash receipts for the day in the bank. Do not pay out small amounts directly from cash receipts. Instead, establish a petty cash fund to pay small amounts not covered by invoices. By depositing all cash receipts daily, you have a basis on which to verify the daily balance in the cash receipts book.

Cash Disbursements

Just as all cash receipts should be deposited, nearly all disbursements should be made by check. The petty cash fund, as stated earlier, should be used to make payments only on small items. When writing a check, use an invoice or bill to support the check. In the checkbook, record the purpose of the check, the date, name, check number, and the amount of the check. Bank charges should be recorded in the same manner as a check except, of course; they would not have a check number.

Accounts Receivable

The fourth basic record to be maintained is for credit sales. If a business provides a product or service to a customer and agrees to accept payment at a later time, it has created an account receivable. An account receivable record normally contains information pertinent to billing and receiving payment from a customer. Every effort should be made to ensure that accounts receivable are kept current. Bills should be prepared promptly and mailed to correct addresses. At the end of each month, accounts receivable should be "aged." Aging means listing all accounts

unpaid for 30 days, 60 days, and over 60 days. Special action should be taken to collect older overdue accounts. Extraordinarily large accounts should be watched carefully.

For delinquent accounts, try to get the customer to promise payment on a specific date. Then, if payment is not made on that date, contact the customer to find out why payment was not made. Be persistent, it's your money.

Recordkeeping Process

A small business involved in ordering and selling merchandise should have a recordkeeping process that reflects the flow of that merchandise through the business.

Ordering and Receiving

The process begins when a business orders merchandise. An order can be written or oral. Oral orders should be documented with a written record. Copies of all orders should be retained. When merchandise is received, it should be checked for quantity and condition, checked against the packing slip, and checked against the original order. Any discrepancies should be noted and the supplier notified as soon as possible.

The merchandise is then recorded on a Receipt Log listing quantity, description, and source. The Receipt Log serves as the basis for additions to the Inventory List, which is a complete record of all goods available for sale.

When an invoice (bill) is received from a supplier requesting payment, the invoice is checked for accuracy and verified against the Receipt Log and the original purchase order. A check should then be written to the supplier for the appropriate amount.

As sales of merchandise are made, goods are removed from inventory. If the merchandise consists of large, expensive items (e.g., automobiles, refrigerators, etc.), the inventory list may be maintained on an item-by-item basis with a sale resulting in the immediate removal from the inventory list of the item sold. On the other hand, many businesses sell a large number of inexpensive items; a small grocery store, for instance, might sell 200 boxes of cereal. For these businesses a periodic physical count of merchandise available for sale is the only realistic way to keep track of inventory.

Sales can be cash or credit. In either case, the sale is recorded at the point of sale. The sales slip serves two primary purposes. First, it is the original record of the sale used to record that transaction in a journal. When a cash register is used, the cash register tape and total at the end of the day serves as the sales slip. Second, sales slips are used to reduce the inventory listed, at least when a perpetual inventory (item by item) method is used.

Sales for cash are recorded as Sales and as Cash Receipts. Sales on credit are recorded as Sales and Accounts Receivable. Credit sales require that a customer credit account be established and maintained.

Completing the Cycle

The reduced inventory resulting from sales signals the need to order more merchandise. Purchase orders are written and sent to suppliers and the cycle of merchandise flowing through the business continues. Much of the process of recording and tracking inventory today is done by computers and or computerized cash registers. However, these new systems are only as accurate as the information which is entered into them and checks and balances for human error still exist. By utilizing a computerized system it is possible to know on a daily basis what the inventory and sales for each item are and to plan for re-orders of merchandise in a more effective manner. They also provide an efficient method for determining loss by "shrinkage and theft."

Inventory-Related Records

Inventory records are vital for ensuring that adequate quantities and types of merchandise are available for sale. There are two basic methods. The first, the perpetual method, keeps track of each item available for sale. As each item is sold, the inventory is reduced. The perpetual method works well with big ticket items. More suitable for businesses selling large quantities of inexpensive items is the periodic inventory method. This method relies on a physical count of all merchandise available for sale periodically with inventory records adjusted to reflect the actual counts. The difference between the items on hand and the items purchased for sale represents the amount of items sold (although adjustments for shrinkage--shoplifting, employee pilferage, and the like--have to be made).

Inventory records should include the name, description, amount, and cost of merchandise in stock and on order. Also needed are supplier information, the dates items were ordered and received, and the name of the person who placed the order. For periodic inventory systems, the records should also include the date of the last physical inventory count and the names of the persons who conducted the inventory.

As noted earlier, there is a growing trend to use computerized inventory systems. Many software programs exist which are designed for specific businesses. You should make a complete study of available programs and check with individuals using the systems before making a decision to purchase a standard software inventory program or to have a custom program designed.

Understanding that inventory can be a liability rather than an asset and knowing how to plan and control your inventory are both crucial to your profit picture. The relationship of inventory to profit and loss will only be visible with an accurate records-keeping system.

Choosing a Computer Accounting Program

The Computer & the Accountant

By Bruce J. Blanding

The preceding chapters have discussed in some detail the need for a good recordkeeping system and the essential elements it should contain. While there is no alternative to maintaining a good records-keeping system, there are two sources of help that can prove to be extremely valuable.

- With the aid of a computer, the burden of maintaining a recordkeeping system can be significantly reduced.
- And with the assistance of a professional accountant, the records can become more meaningful and useful to the owner/manager.

Computers

The keeping of records was originally an entirely manual process. The tools involved in the days of Bob Cratchitt and Mr. Scrooge consisted of a quill pen and paper. In more recent years, these tools were replaced by others like the typewriter. Most people over 30 learned to type on a manual typewriter. These were slowly replaced by electric typewriters that were a little faster (once you stopped reaching for the carriage return). Now the electronic typewriters and word processors are demonstrating capabilities that are astounding.

So, too, the evolution of the abacus and pegboard to the adding machine and to the computer has been an amazing progression. Even within the relatively short period of time the computer has been in existence, there have been dramatic changes. Microcomputers on the market today are capable of storing and processing more information than the largest early computers. And they are small enough to sit on the top of a desk instead of filling an entire room.

Feasibility

When designing or improving a recordkeeping system, an important consideration is the tools that will be used and their relative cost and utility. In evaluating the feasibility of using a microcomputer in a business operation, a number of questions need to be answered. One of the primary concerns is the "cost" of a microcomputer. Cost considerations should include the actual cost of the equipment itself (and related software); costs related to operation and maintenance; and costs of training staff to use the equipment properly.

While cost is always an important consideration, another, equally important, concern is utility. What the microcomputer can do is a key question. The handling of more information is useful but only if the information is used.

Also, consider the element of time. If the use of a microcomputer can result in less time spent on the recordkeeping process and/or gathering information more quickly, then the utility of the microcomputer will be greater.

System Considerations

If the decision is made to use a microcomputer in a business, a number of system considerations are necessary in selecting a particular brand or model of equipment. There are many books to help you make your selection. Visit your public library or a bookstore and choose several to read. A small investment in a book or two can prevent a much larger investment in the wrong computer and software for your business. The SBA Business Development Pamphlet MA 2.027, "How to Get Started with a Small Business Computer," will also help you ask the right questions.

Accountants

The professional expertise of an accountant can be an important element contributing to the success of most businesses. The advice and counsel of an accountant should be sought and followed by the owner/manager to improve the operation of the business.

Selection

The selection of the right accountant for the business is an important step toward success. When making this decision, the owner/manager should seek an individual or firm with a good reputation. It may be advisable to ask other owner/managers in the community to make recommendations and/or ask the accountant for client references. The experience and skill of an accountant are obviously important. Find out how long the accountant has been in business and the level of training possessed. If a person is a C.P.A. (Certified Public Accountant), that generally means that he or she has completed at least a bachelor's degree with an emphasis in accounting, practiced as a public accountant for several years, and successfully passed a rigorous professional accounting examination.

VISA/MASTERCARD for HOME BUSINESS

A summary of notes taken from CompuServe.

Message: #203317, S/1 News & General Info

I want to thank you for the tips regarding a merchant account for a home based business. Starting a couple of months ago, I planned a strategy to get merchant status for my 5 year old marketing consulting practice. I run this show in my condo, using IBM clones with MSW4W2, MS publisher, an EPL600 laser printer, etc... I wanted to share this with you in case someone else might find the story useful.

Here's what I did: First, I suspected strongly that American Express would be easier to get than the others, so I started there. It only took 3 weeks to get set up! Next, after a few weeks of being set up with Amex I went to my bank (Bank of America) and met with the branch manager. I told her I was already a merchant with Amex, and wanted to explore getting set up with the bank. I presented the idea that (a) I had an established business (5 years) that depended on incoming telephone orders, with no outbound telemarketing (important!); (b) I had good credit and a good reputation in the field, and (c) I have my office at home so I can work more efficiently and be available longer hours.

She indicated that although the bank usually would not set up a home office based merchant, they WOULD "look at it" since I was a customer of the bank. She gave me an application. I said that I assumed she wanted financials with the application, she said no that wasn't necessary. I took the application home, filled it out, and then generated a number of items for a presentation package: Complete, up to date financial statements from Quicken, copies of our marketing materials (flyers, brochures), copies of our ads in AutoWeek, On Track and Home Office Computing, a copy of a Fortune 1000 marketing presentation, and a cover letter explaining how we do business and thanking her for her time and effort in considering us for merchant status.

I packaged all this in a neat presentation folder with my business card, and dropped it off the next day. After being approved, the manager came out to "inspect my home office" and get the papers signed. While I was giving her a quick tour of our PC equipment, she said that one of the main reasons the bank had okayed us for merchant status was that we use computers effectively, to make our materials and financials "very professional looking". I guess the main point I would like to share is, we need to market ourselves to vendors and suppliers, to banks and other services, just as professionally and just as rigorously as we market to potential clients or buyers. I hope that this account helps others in their quest for Visa/MC merchant status! Message: #203423, S/1 News & General Info

We, too, are B of A customers and find that longevity with them is a big plus whenever we ask for anything. I don't know if this is as important at other banks; I suspect there may be differences -like "you have both your business and personal account with us" but the point is if one finds out what the bank values and uses that, that may be what one needs.

Message: #203504, S/1 News & General Info.

Having all accounts at the same bank, carrying fairly large balances in at least some of them, and having them there for a long period of time may have meaning to some of the large banks with many branches, but it definitely carries significant weight when the bank is a small one -- large enough to be stable, but not so large that it has many different branches. I deal with such a bank, and I did not have ANY of the problems that others report on getting visa/master card merchant status. I filled out the forms, and in just a couple of weeks had my imprinter and merchant card used for making deposits. No pressure to buy or lease an online terminal. They did not even make a site visit (although they said they might when I filled out the forms).

When I learned that a computer program existed to turn my PC into an online terminal, I just called the bank, told them I knew for sure that such a program existed, although they were going to have to push their contact at the processing service to check into it, since most of them did not know about it, and only were familiar with the dedicated terminals, and a week or two later the bank called to have me come by to pick up the manual and disk. I am completely convinced that the size of the bank and the size and long term nature of my account is what caused all of the problems others are having to be non-issues.

Message: #203522, S/1 News & General Info

I wish I could say our experiences were as good. We did finally get a merchant account. Trying to get our money deposited in our account is something else. We're now at Day 11 waiting on our money to arrive in our bank account (2 days supposedly is what it takes). We've bounced up several levels of management so far without a lot of questions being answered. They've got 1 more hour to return my call and we go another level higher. I think a senior VP will be the next person to speak with. Maybe he/she can explain why they can't transfer the funds when they had a voided check to go by. I wish we had have waited on doing a lot of transactions till the money started arriving in our account. We'd had customers on hold waiting to use Visa/MasterCard for a while and they ran up the charges quickly. Now we're looking at paying our suppliers for items already shipped to customers.

The terminal/printer was a required purchase of course. It was more then slightly annoying to be lied to about the value of the items (we can buy the terminal/printer for 1/8 the price we paid). We're also now looking at a 150% increase in the transaction rate due to phone order sales (another lie that was made to us even though we understood we'd have a higher rate...instead they quoted a low rate and had the bank be the bad guys and raise it).

It's been a real pain but it's a requirement to do mail order business for the items we sell. We've also got to deal with folks trying to defraud us. We had our first one recently on CIS. Responded to our ad wanting a 2000.00 notebook computer yet unwilling to give a last name, voice phone, tried to use a "cousin's card" and ship to a friend's address. Uh huh. Didn't even want to know the model # of the notebook I was selling.

Message: #203547, S/1 News & General Info

The fact that you have bounced up three levels of management and are next scheduled to talk with a Senior-VP is what I was talking about regarding large bank vs. small bank. The guy I deal with at my bank, if I escalate above the teller, is an Executive-VP of the bank, immediately below the president (small banks just don't have the multi-layers of VPs).

I am amazed at the guy trying to get you to ship him a computer to a friends address, using a cousin's card, and not being willing to give you a last name and phone number. Why didn't he just sign his messages Thief? Did you drop Feedback a note about the situation? They might like to know. The only problem I have had is when one customer did not recognize my business name, Singleton & Associates, on his Visa Statement and made an inquiry requesting a copy of the ticket. Before the bank had time to contact me he remembered and sent me an email saying he remembered and was contacting the bank to tell them to drop the issue. When they contacted me I sent them a copy of the guy's message and the ticket, but they seemed confused and just asked again for the ticket.

Message: #203714, S/1 News & General Info

For Amex we're depositing paper tickets to our bank just like a check. Works well. We get paid in 2-3 days (AMEX said should be immediate but you know how that goes) and have had zero problems. Amex is easy to deal with.

Visa, MasterCard (CB and diners club as if we'd have anyone use them for a computer) has been another matter entirely. We use a terminal and printer so we don't have to deposit anything. All done by ACH transfers (or supposedly they are) within 2 business days. It's a neat system if it would only work. The explanation I got was that they mistyped the account # from the voided check we gave them. Our sales rep lied to us about most items of the system. He told us unlimited phone orders at a low rate and that the bank wouldn't know if the card was swiped or typed in. The later I knew wasn't true from asking a person here on CIS who does POS work.

The unlimited phone orders at a low rate were something else that didn't fly. At least the bank said they wouldn't cancel our merchant account (just increase the transaction rate 150%) for the extra phone orders. I wondered if didn't consider that canceling our account would prompt us into a lawsuit claiming fraud by their rep's. They might as well have because that would have been the outcome. I wish our local banks were easy to deal with. The small ones really don't do their own merchant accounts. The bank we use for our checking accounts is now Nation's Bank (#4 largest) so.....When I first got an account there I dealt with the #2 guy north of Atlanta. He left and it's been downhill ever since (3-4 mergers later).

Just out of curiosity what rate did they initially quote you, and what are they now hitting you with? I will have to check my records to be sure, but I believe I am getting something like 2.87%.