PDH Academy

Final Exam

1. Which business entity type is the simplest to set up and operate?
   a. Limited partnership
   b. Sole proprietorship
   c. General partnership
   d. Professional corporation

2. There are two principal accounting methods used in business. They are known as the:
   a. Ordinary method and extraordinary method
   b. Single-entry method and double-entry method
   c. Credit basis and debit basis
   d. Cash basis and accrual basis

3. "Net 30 days" and "Due upon receipt" are examples of:
   a. Accounts receivable
   b. Collection periods
   c. Contractual obligations
   d. Payment terms

4. What is the threshold number of full-time employees necessary to cause the Family and Medical Leave Act to be in effect?
   a. 25
   b. 50
   c. 75
   d. 100

5. Which of the following is not a test for determining the question of exempt vs. non-exempt employees?
   a. Duties test
   b. Professional test
   c. Salary basis test
   d. Salary level test

6. Which of these insurance policies protects your business against claims arising from accidents which are not the result of your company's work?
   a. Disability insurance
   b. General liability insurance
   c. Homeowners insurance
   d. Errors and Omissions insurance

7. A life insurance policy held by a company on one of its shareholders is known as a _________ policy.
    a. Key man
    b. Accidental death
    c. Executive
    d. Income replacement

8. Which of these is a benefit of purchasing equipment compared to leasing equipment?
    a. Irregular cash flow
    b. Maintenance costs
    c. Tax deductible depreciation
    d. Obsolescence

9. Obligations and debts owed by a business are called:
    a. Liabilities
    b. Bills
    c. Debits
    d. Operational costs

10. This report lists all your unpaid invoices along with how long each invoice has been outstanding:
    a. Accounts receivable aging report
    b. Cash flow projection
    c. Uncollectible accounts report
    d. Work in progress report

Business Fundamentals for the Small to Medium Sized Surveying Firm

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Objective:

This course will seek to help the professional land surveyor who hopes to become or who is already a business owner by focusing strictly on the “business” aspect of the profession.

Course Outline:

Introduction

SECTION 1: Startup Considerations

a. Business Formation
b. Business Planning
c. Location and Facilities
d. Advisors
e. Brand Development

SECTION 2: Financial and Insurance Matters

a. Professional Liability Insurance
b. General Liability Insurance
c. Business Accounting Basics
d. Banking Relationships
e. Tax Strategies
f. Equipment: Buying vs. Leasing
g. Establishing your Fees
h. Accounts Receivable

SECTION 3: Human Resources

a. Staffing your Company
b. HR Basics
c. HR Compliance
d. Troubleshooting

SECTION 4: Marketing

a. Marketing a Service Business

SECTION 5: Succession Planning

a. Developing a Succession Plan
b. Key Man Life Insurance
c. Methods of Succession
d. Preparing your Business for Sale

Conclusion

Introduction

A professional land surveyor may find career success within an established firm, a government agency, an educational setting, or many other places. Often, however, the surveyor desires to strike out on his or her own, either alone or with one or more partners. Like members of other professions, surveyors often receive little business training as part of their formal education and as such are compelled to acquire business knowledge through experience and continuing study.

This course aims to study business fundamentals as they relate to the land surveying profession. Professional competence is assumed and accordingly there will be little, if any, discussion of the actual performance of surveying work. Rather, this course will focus on the formation, structure, operation, and continuation of a successful and profitable business.

This course will be of benefit to the practicing professional considering starting up a new enterprise, as well as to the established business owner seeking useful insights toward the betterment of his or her operation.

SECTION 1 – STARTUP CONSIDERATIONS

Business Formation

Once the decision to start a new business enterprise has been made, the owner must decide which legal entity type is going to work best. This section will describe the common legal entities and review the pros and cons of each one.

Sole Proprietorship

The sole proprietorship is by far the simplest legal structure for any business. Under this structure, the business owner, and the business itself are not considered legally separate. By default, the legal name of the business is the same as the legal name of the owner unless the owner registers a "doing business as" (DBA) name. Very little legal or accounting help is necessary to start up a sole proprietorship and in the modern surveying environment with GPS and robotic technology, a sole proprietorship can be a convenient structure for a professional operating as a one-person enterprise to get started.

A sole proprietor has total control over the operation of his or her business and there are no administrative requirements, such as recording meeting minutes or formally passing resolutions. A sole proprietor also has control over the distribution of profits from the business.

Profits or losses are reported as income on the sole proprietor's personal income tax forms.

Since there is no legal separation between the sole proprietor and the sole proprietorship, the business owner is personally liable for any debts, judgments, or settlements. This arrangement is very risky for the professional surveyor because his or her personal assets can be seized as the result of a lost lawsuit against the business.

The Pros and Cons of the Sole Proprietorship

Pros

- It is the simplest business structure to set up and the simplest business structure to operate.
- Legal and accounting costs are less than those of other entity types.
- The owner maintains total control over the operation of the business.
- There are no administrative requirements.
- Tax reporting is comparatively simple, as a separate tax return for the business is not required.

Cons

- There is no legal separation between the business and its owner.
- All the liability of the business rests upon the owner, placing all of his or her personal assets at risk.
- Ownership is limited to one person only.
- Outside investment is not permitted.
- The business ceases upon the death of the owner.
- Not well suited for transition to new ownership.

A sole proprietorship can be a good fit for businesses that are relatively simple and can expect to have a low level of liability. Many businesses start out as sole proprietorships and then convert to a more complex structure when the business begins to mature.

Partnership

A business structure which is slightly more complex than a sole proprietorship is a partnership. Like a sole proprietorship, a partnership does not establish a legal entity separate from its owners. A partnership is similar to a sole proprietorship with the primary difference being that a partnership consists of two or more owners.

In a partnership, each partner has a right to participate in management of the business as well as a right to share in any profits earned. Typically, a partnership agreement is executed by the partners which specifies the rules governing control of the business. The death or withdrawal of any partner dissolves the organization.

Each partner in a partnership shares joint personal liability for all the obligations of the partnership. In a partnership, the liabilities caused by one partner are the joint responsibility of all the partners. To protect against personal liability for the partners, many partnerships elect to file with their Secretary of State as a Limited Liability Partnership or LLP, which does afford some separation between the business entity and its owners.

Partnerships are taxed as a "pass-through" entity, meaning that the partnership itself does not pay taxes, but rather each partner is responsible to report his or her share of the partnership's income or loss on his or her own personal tax return.

A partnership, like a sole proprietorship, does not require much formal administration or filing with the state, unless the partners elect to form a Limited Liability Partnership.

The Pros and Cons of the Partnership

Pros

- It is simple to create and simple to operate.
- There is no limit on the number of partners that may be included.
- Startup costs can be spread among the partners.
- Legal and accounting costs are generally lower than those associated with corporations.
- The owners maintain control over the management of the business.
- There are few administrative and filing requirements.
- Tax reporting is comparatively simple, with the partnership treated as a pass-through entity.

Cons

- There is no legal separation between the partnership and its owners.
- All the liability of the partnership rests upon the partners, placing his or her personal assets at risk.
- Each partner's share of the income is subject to self-employment taxes.
- A partnership is dissolved immediately upon the death or withdrawal of one of the partners.
- Disagreements among the partners over management of the business are common.

A partnership is sometimes a good structure for two or more practicing professionals wishing to team up without the added hassle of forming and operating a corporation.

Subchapter C Corporation

A more complex business structure is the Subchapter C Corporation or C-Corp. A C-Corp is a legal entity which is separate from its owners, which provides a level of protection from personal liability, sometimes referred to as a "corporate veil". In a C-Corp, corporate documents must be filed with the state and specific administrative requirements must be met. Also, a C-Corporation must file articles of incorporation with the Secretary of State's office.

In a C-Corp, separate corporate bank accounts and records must be maintained, and all the assets of the corporation are the property of the corporation and not its owners. Total separation between the affairs of the business and the personal affairs of the owners is a must in order to preserve the legal protection against personal liability.

A C-Corp must file and pay taxes on the income generated by the corporation. In a sense, C-Corp profits are taxed twice – once when the profits are earned by the corporation and again when shareholder dividends are reported as income on the shareholders' personal income tax returns. Upon the sale of stock by a shareholder, the increase in share value compared to the basis value of each share is subject to capital gains taxation.

As a C-Corp is owned by its shareholders, ownership is transferrable through the buying and selling of shares of stock. The successful perpetuation of a company upon the retirement or death of an owner is more easily achieved in a C-Corp than it is in a sole proprietorship or a partnership.

The Pros and Cons of the Subchapter C Corporation

Pros

- The Shareholders are protected from liability.
- Ownership can be transferred through the buying and selling of stock.
- The corporation is a separate entity from its owners.
- The business may be perpetuated upon the retirement or death of an owner.

Cons

- Profits are taxed twice – Once when earned and again as shareholder dividends.
- Startup is more complex and expensive than other structures.
- Administrative requirements must be met.
- A separate corporate tax return is required.
- Basis of stock value must be tracked for each shareholder.

A C-Corp is a good entity type for businesses that seem likely to grow into a larger and more complex enterprise than what might be expected of a sole proprietorship or a partnership. It is also a good structure for businesses with significant exposure to liability. From the standpoint of a surveying business, protection from personal liability is crucial, particularly for those involved with any type of construction. Professional liability insurance (which will be covered later in this course) has limits which may not be enough to cover the cost of a serious lawsuit. The corporate veil may be all that remains to guard the surveyor's home and savings.

Subchapter S Corporation

A Subchapter S Corporation, or S-Corp, is similar in structure to a C-Corp with a few important differences. Like a C-Corp, and S-Corp exists as a legal entity separate from its owners, and as such provides a similar level of protection against personal liability. An S-Corp must likewise file articles of incorporation with the State and meet the requisite administrative requirements.

While a C-Corp may have an unlimited number of shareholders, an S-Corp may have no more than 75 shareholders and there may be only one class of stock issued. There may be no preferred stock shares.

An S-Corp is considered a pass-through entity for purposes of taxation, meaning that the company does not pay taxes, but rather the shareholders pay taxes on the profits of the corporation. Each shareholder is taxed on corporate profits in accordance with his or her percent of ownership in the corporation. Also, corporate losses are reported proportionately on the personal income tax returns of the shareholders. Upon the sale of stock by a shareholder, the increase in share value over the basis value of each share is subject to capital gains taxation.

The Pros and Cons of the Subchapter S Corporation

<u>Pros</u>

- The Shareholders are protected from liability.
- Ownership can be transferred through the buying and selling of stock.
- The corporation is a separate entity from its owners.
- The business may be perpetuated upon the retirement or death of an owner.
- Double taxation is avoided.

<u>Cons</u>

- Startup is more complex and expensive than other structures.
- Administrative requirements must be met.
- A separate corporate tax return is required.
- Basis of stock value must be tracked for each shareholder.

An S-Corp is a good entity type for a business that is likely to grow into a medium-sized company with multiple owners and expects to have significant exposure to liability.

Limited Liability Company (LLC)

The Limited Liability Company, or LLC, is a business structure that combines the legal protections of a corporation with the operational efficiencies of a partnership. In an LLC, the owners are referred to as “members”. An LLC may consist of a single member or multiple members.

An LLC is less complex to set up and administer than a corporation. However, it can be more difficult to perpetuate upon the retirement or death of a member. Like a corporation, an

LLC exists as a legal entity separate from its members and as such provides the benefits of the corporate veil.

Unlike a C-Corp, an LLC is not taxed as a separate entity. Profits or losses are passed through the business to each member, and each member reports his or her share of the profit or loss on his or her personal tax return. In this way, an LLC functions like an S-Corp or a partnership.

The Pros and Cons of the Limited Liability Company

Pros

- The members are protected from liability.
- Relatively simple to set up and administer.
- No separate tax return is required.
- Pass-through taxation.
- Favorable tax laws pertaining to liquidation.

Cons

- Self-employment tax is assessed on the profits of the business.
- Transfer of ownership is complicated.
- Perpetuation of the business can be difficult.

An LLC is a good business structure for businesses that expect to function only for the duration of the working career of the member(s), and for business owners that require the corporate level of protection against liability.

Selection of a business entity type is one of the most important early decisions in the formation of a new enterprise and a subject for occasional review for the existing business. Your business structure will affect the operations, control, transferability, taxation, and liability associated with your business.

Once a business is operating as a particular entity type, it can be quite complex and costly to change, so making the correct decision from the outset is critical. Money spent in consultation with your accountant and your attorney on this subject will be money well spent, but as the business owner it will be your decision.

Business Planning

A well-written and organized business plan is not only a useful preparatory tool for a prospective business owner but a necessity for a business owner who will require outside financing. A business plan is helpful in developing an objective and critical evaluation of the feasibility of the business. It is one thing to have ideas but quite another thing to put those ideas on paper and determine whether they can be forged into a profitable business.

The first matter to consider in preparing a business plan is an analysis of your potential market. As a professional surveyor, you should be in communication with your peers and at least have a feel for their workloads. Are they constantly swamped with work and even turning down projects? If so, there is possibly market share to be had. Conversely, if your peers seem to have a steady but unimpressive workload, it is an indication that the market may be somewhat saturated. If this is the case, it does not necessarily mean a new enterprise cannot succeed. It only means that a new enterprise must be exceptionally competitive in pricing or service level, or better yet find an underserved niche in the marketplace. There is no law that says a professional land surveyor must be a full-service provider. Many surveyors have found success by concentrating their service offerings on small but important sectors of the surveying field, for example: construction staking, aerial survey control, mining, or industrial surveying to name a few.

A second point to consider is the management of the business. As a prospective business owner, you must honestly evaluate yourself and determine if you think you possess enough business intelligence to do it alone. If not, you will need to do what you can to educate yourself and you will also need to rely upon the help of trusted advisors.

The third, and certainly most important thing to consider is the matter of profitability. Your business must eventually become profitable if it is going to succeed. That is not to say that a fledgling enterprise will not endure unprofitable times, but over the long term, consistent profitability must be achieved.

To determine the likelihood of profitability, a business owner in the planning phase must first carefully project expected monthly expenditures. This includes, but is not limited to the following: payroll, taxes, rent or lease payments, vehicle and fuel costs, utilities, insurance, equipment payments, memberships, software costs, supplies, benefits, etc. It is also important to allow for unexpected or irregular expenses.

Once monthly expenses have been estimated, the next step is to estimate monthly revenues. In the beginning, this will require some guesswork but by making some assumptions involving the hourly billing rates of you and your employees, and by relying on past experience to estimate the percentage of time you and your employees are likely to be billable, it is possible to make a decent estimate of monthly revenues.

Of course, the difference between your projected monthly expenses and your projected monthly revenues will represent your projected monthly profit or loss. Hopefully, your projection will indicate a positive cash flow but if it does not, there is no reason to give up. Rather, reconsider your inputs and try again and again. Perhaps there are extras that can be eliminated or maybe your billing rates need to be adjusted. The purpose of the business planning phase is to force the business owner to objectively examine and understand the economic realities facing the enterprise. If at last the business is determined to be unviable, at least this determination will have been made in the planning phase instead of after a great deal of time and money has been spent.

A well-made business plan is also a valuable tool in the sense that it clearly and concisely communicates your plans to others. If outside investment or financing is being sought, your business plan will be among the first items your potential investors or lenders will ask for.

A typical business plan consists of three parts preceded by an Executive Summary. The first section generally explains the management aspect of the business. It will describe the services your business will provide, the market your business will serve, and the business environment into which you are stepping. In this section, graphs, diagrams, bullet points, and other visual accents are helpful. Your reader will appreciate a pleasing appearance and good readability. A length of 10 pages or more is appropriate for the first section.

Your second section will tend to be more data oriented. Cash flow projections will appear in this section along with billability estimates and your planned fees and rates. When presenting your plan, it is important that you can back up your projections with sound data and reasoning. This is not the place for unfounded guesses and rosy optimism. Your banker has likely seen it all before and will expect you to present honest, verifiable information. Even if you hire someone to write your business plan for you, you will need to know this section thoroughly so that you may present it intelligently and address any questions that arise.

The third section will normally consist of documents that support the first two sections. Anything you can add to prove and clarify the information presented in the first two sections is appropriate to add to this section. Remember that your purpose is to communicate with people who may have little or no understanding of what your business is about, and to that end you need your business plan to be complete, clear, concise, readable, and informative.

Following are some tips to consider when preparing your business plan:

- Produce a neat plan. Use quality stationery and a professional-looking cover. The impression given by the appearance of your plan will set the tone for what follows.
- Check, double check, and triple check your spelling and grammar. Then have someone else check it. Typos, spelling mistakes, and grammatical errors will make your plan appear unprofessional and may negatively influence the reader. Many inexpensive online editing services are now available and may prove to be quite useful.
- Make sure all your data is up to date. You cannot expect a lender or an investor to be comfortable making decisions based upon old information.
- Be cautious in your assumptions. It is critical that any assumptions you make about workload, market share, billability, or any other factors are presented realistically. You should not present only best-case scenarios, but rather you should present carefully thought out likely scenarios.
- Be detailed. Spell out in your plan and be prepared to explain verbally the specific details of how your business will make money.

- As the owner, be prepared to demonstrate the level of your own investment in your business. A lender will want to see that you have a significant amount of your own money on the line.
- If seeking a loan, be prepared to personally guarantee it with your own assets. A lender will want to see that you are willing to stand behind your company.
- Be realistic in your capital needs.
- Emphasize your proposed cash flow. Collateral will cover a loan in the event of default, but a strong cash flow is what will pay the payments of a good loan.

Below is a sample business plan outline:

Section One:

a. Description of the Business
b. Products or Services Offered
c. Market Analysis
d. Marketing Plans
e. Proposed Location
f. Competition
g. Operations
h. Personnel

Section Two:

a. Financial Statements (Projections)
    - Profit/Loss Statement
    - Cash Flow Projections
    - Balance Sheet
    - Explanation of Assumptions
b. Break Even Analysis
c. Sources and Uses of Capital

Section Three:

a. Historical financial statements
b. Tax returns
c. Letters of Reference
d. Personal financial information
e. Contracts

Location and Facilities

There are two aspects of location that must be considered for your business. The first is the geographical location and the second is your physical location within your geographical location. If you intend to establish your business in the community where you are already physically located, the question of geographical location is already answered. For the business owner looking to relocate, you need to go to where the action is. Actors go to Hollywood, country singers go to Nashville, and so on. As a surveyor looking to relocate, you will need to determine where there is a strong demand for the services you intend to provide.

Selecting the actual location of your business, once you have settled on your geographic location, requires the consideration of several points.

First, consider the neighborhood and the surrounding businesses. Does a surveying office seem to fit there? Are there other successful professional enterprises in the neighborhood? It is crucial to check the zoning of any property you are considering making sure that your type of business will be permitted there. Also, consider the length of the commute from your home. As a business owner, you are likely to have long days, weekends at the office, and unexpected after-hours trips. You do not want to have a long commute. Consider that a one-hour commute, five days per week, fifty weeks per year adds up to the equivalent of sixty-two 8-hour days per year spent just driving. Over the course of a 30-year career, that adds up to well over 7 years of working days spent commuting.

A professional business, unlike a restaurant or a retail establishment, will not generally rely upon visibility and traffic for business. Most of your clients will come to you intentionally, so it is not necessary to pay top dollar for a location at a busy intersection. It will be more important that your business is easily accessible and in an agreeable neighborhood.

Whether renting, leasing, building, or purchasing an office, the same principles apply in the selection of your facilities. Your first consideration must be to make sure you will have adequate space to accommodate your personnel, and your file storage system. You will also need a safe area in which to store your surveying equipment.

The importance of the overall appearance and condition of your office (both inside and out) cannot be understated. Your office should always be presentable. The appearance of your facility reflects on the perceived quality of your work. You should take care to ensure that the lawn and landscaping are well maintained, that the exterior of the building is clean and is in good repair, and that the inside of your facility is tidy and professional-looking. If it looks like you do not care, your clients will sense that. If it looks like you take some pride in your business, your clients will sense that as well.

The security of your office is also a major consideration. As a surveying office, you will certainly have expensive computers and high-tech electronic equipment in your building. These items are always attractive targets for theft. An investment in good locks and a quality security system will pay for itself if it thwarts even a single burglary attempt.

Advisors

Owning and operating a business is certainly an act of individualism but at the same time it is not a do-it-yourself project. Many major pitfalls can be avoided by consulting with trusted professionals such as attorneys, accountants, and insurance agents.

Legal

As a business owner you will find that the need for legal advice arises constantly. Sometimes it relates to something as mundane as the language in a contract and sometimes it involves a high stakes lawsuit or insurance claim.

Attorneys are expensive but they are there to save you from committing costly errors on your own. The simple fact that you have a respected attorney or law firm on your side is oftentimes enough to keep people from trying to take advantage of you.

If you have been in the surveying profession in your own geographic area for a while, you most likely know several attorneys. This knowledge gives you a pool of candidates to start with when selecting your own attorney. The following are some factors to consider in selecting an attorney or law firm to represent your business:

Responsiveness - Oftentimes you need a legal question answered quickly and do not have days to wait. It's easy to imagine a case where there is ambiguity in the scope of work set forth in a contract and there is a contractor waiting on your crew for construction staking that you don't think is part of your contract. In this case you need an answer now. Seek out an attorney that has a demonstrated track record of taking your phone calls or at least returning calls promptly.

Expertise – Like surveyors, attorneys tend to specialize in one or more areas of law. You will want an attorney who has other business clients that resemble your own business. It pays to contact other business owners you know and see who they use. A law firm with multiple attorneys makes sense for a business. At different times you may need help with employment law, contracts, litigation, corporate matters, etc. Where a single attorney may not possess expertise in all these areas, a larger firm will have lawyers available for the various matters that may come up.

Comfort Level - Your company's attorney will be a trusted advisor and a confidante. It is crucial that you select an attorney with whom you are comfortable discussing all matters pertaining to your business. Also, you must select an attorney that you trust completely to work toward the best interests of you and your business.

Accounting

In general, the same principles that apply to the selection of an attorney or law firm apply to the selection of an accountant or an accounting firm. Responsiveness and expertise are key.

Also, much like a law firm, a multi-professional accounting firm will most likely have CPAs specializing in various areas to help you when unusual circumstances present themselves.

Any competent CPA will be able to tend to the ordinary matters of your business such as taxes, payroll, and the preparation of income statements and balance sheets. However, a business owner should seek out an accountant or accounting firm that provides an advisory component as part of their service. A good advisor will possess knowledge of deductions and credits that could save you thousands of dollars in unnecessary tax payments each year.

Insurance

Your business will need several types of insurance, including: Errors and Omissions, Liability, Vehicle, Property and Equipment, and possible Health and Life. It is efficient to streamline this process by working with an agent you trust rather than shopping for all these various insurance products individually. A good agent will determine the coverages you need and match you to the appropriate products. Furthermore, your agent can do much of the legwork for you should you have a claim. As a practicing professional, your time is more valuably spent at work than it is waiting on hold with an out-of-town provider.

Whether you are dealing with a legal matter, a financial issue, or an insurance claim, all the decisions involving your business are ultimately yours. Your team of advisors can guide you in the right direction, but the final decisions will always be yours. That being said, always remember that your team of advisors are experts in their own fields, just like you are in yours. When you are faced with a decision in your business, your team of advisors can prove to be invaluable.

Brand Development

You may consider your brand to be how you present your business to the outside world. Anything that affects how your company is perceived is part of your brand and must be cultivated and maintained. As a service provider, your business branding is much different than it would be for a company that manufactures or distributes a product.

In the service business, the most important aspect of your brand is your reputation. You do not have a product to stand behind. A good reputation is your greatest asset and as such must be treated accordingly. Once a reputation is tarnished, it is very difficult to restore it. Following are some useful tips aimed at cultivating a good reputation.

DO:

- Treat clients, employees, colleagues, contractors, and vendors fairly at all times.
- Be punctual as it pertains to deadlines and meetings.
- Return phone calls and emails in a timely manner.
- See that you and your employees always maintain an appropriate appearance .
- Be honest in all your dealings.
- Be friendly and professional in all your communications.
- Be a positive corporate citizen of your community.

DON'T

- Promise unachievable timeframes and fail to come through.
- Attempt to deceive a client, colleague, contractor, or employee.
- Perform, certify, or accept shoddy work.
- Permit yourself or your employees to present a sloppy or inappropriate appearance.
- Speak disrespectfully of your colleagues, clients, or employees to others.

Another aspect of your brand is your company name. Many professional sole proprietors choose to simply use their own name as their company name. Other business owners choose to use their name as part of the business name (Smith and Associates, for example). Others still select a brand-new name for their business. Selection of a name for your business is a matter of personal preference but it is crucial that you check with your Secretary of State's office to make sure the name you have selected has not been taken already.

Once a name has been decided upon, another aspect of your branding is your logo. A logo for your business is purely optional. Many successful businesses have no logo at all or nothing more than their company name in a specific font. A logo can be as simple or complex as you prefer. If a logo is created, it is obviously wise to create a professional looking logo and to stay away from designs that might be considered distasteful. Consulting with a design professional is an affordable and effective way to have a logo created.

Whichever direction you decide to go with your business name and logo, it is beneficial to your branding efforts to strive for consistency in your presentation. Your survey plats should have consistent line types and symbols. Your written materials should display consistency in font and setup. Your signage and printed marketing materials should possess a consistent color theme. In short, your work should be distinguishable at a glance.

SECTION 2– FINANCIAL AND INSURANCE MATTERS

Professional Liability Insurance

Regardless of what type of surveying work you do, professional liability insurance is an absolute must. This is an expense that cannot be trimmed and a corner that must not be cut. Professional Liability Insurance, also called Errors and Omissions Insurance, protects the professional from legal claims relating to work done by the company.

As we all know, mistakes happen, sometimes through carelessness and sometimes through nothing more than bad luck or bad information. Anyone who has been long involved in the practice of surveying has certainly missed an item covered by snow or leaves or been frustrated by an underground utility line that was not marked by the locating service. You can be very diligent in your work and still have this sort of issue cause problems. A sound insurance policy will significantly reduce your expense if you are determined to be at fault.

Even worse than the mistakes that happen are the accidents that can happen involving your work. As surveyors, we often work on construction sites, industrial properties, and commercial development where a blunder or oversight by a surveyor could be linked to an accident. To be named in a major injury or loss of life lawsuit can cost tens of thousands of dollars in legal defense even if you win your case. If you are found liable, the judgment could easily get into seven figures. An uninsured business would most likely be wiped out by this kind of judgment.

Even a frivolous lawsuit that is filed against you requires legal defense. In all these cases, your professional liability insurance represents a safety net to prevent your business from a catastrophic loss.

A good agent will review the type of work you do, your professional track record, and your revenue data to determine the levels of coverage you need.

One point of advice – If any situation arises that you could foresee as turning into a potential claim against you, no matter how remote that possibility seems, it is imperative that you notify your insurance agent immediately. You must never keep information regarding a potential claim from your agent. Always communicate promptly and completely and maintain a record of your communications. If a case goes to court, you will do well to have organized records of all communication relating to the case.

General Liability Insurance

Another type of insurance that cannot be done without is General Liability Insurance. This type of policy protects the policy holder against claims not arising from deficiencies in the product or professional services provided by the company. Sometimes this is referred to as "Slip and Fall" insurance.

General liability insurance can be tailored to your specific needs. For example, if you are a sole proprietor working from your home, your needs may be quite minimal. On the other hand, if you have a busy office where members of the public walk in frequently, you will need a more robust policy. Like professional liability coverage, general liability coverage is a must-have. It would be irresponsible to have your livelihood at risk because someone tripped over your welcome mat.

Business Accounting Basics

A business owner does not need to be an expert in accounting but he or she does need to have a working knowledge of basic accounting principles. Your accountant will prepare balance sheets, income statements, depreciation schedules, and numerous other reports for you. An effective business owner will be able to digest this information and discuss it intelligently. Here is an overview of some business accounting basics.

Bookkeeping vs. Accounting

These terms are related but not identical. Bookkeeping refers to the process of recording and organizing transactions, sending invoices, paying bills, managing accounts, and providing information. Many small business owners do their own bookkeeping, especially when starting out. Accounting refers to the process of analyzing the data collected in the bookkeeping process.

Business Accounts

There are five basic types of accounts with which a business owner must be familiar:

- **Assets** – Includes cash on hand, receivables, real estate, and items of value owned by the business.
- **Liabilities** – Includes obligations and debts owed by the business, such as accounts payable and loans.
- **Revenue –** Includes the money earned by the business activity.
- **Expenses –** Includes the money that flows out of the business to pay for items or services.
- **Equity –** The value remaining after the liabilities are subtracted from the assets, which represents the value of the owner's interest in the business.

Bookkeeping Methods

One choice that needs to be made when setting up a business is which type of bookkeeping method will be employed. The two common methods are single-entry and double entry.

In single-entry bookkeeping, each transaction is entered only once. For example, if you receive payment from a client, you record it in the asset column. This method is useful for simple businesses with relatively few transactions.

In double-entry bookkeeping, two entries, a debit, and a credit, are recorded for each transaction. In the ledger, a debit is recorded on the left side and a credit is recorded on the right side. For example, imagine that you purchased a new GPS unit for $10,000 in cash. In this transaction you have decreased your cash supply and increased the overall value of your equipment. A $10,000 debit would be logged on the left side for the equipment account and a $10,000 credit would be logged on the right side for the cash account. In this way, your books will remain balanced at all times.

There are many quality bookkeeping software products available to simplify the process whichever method you choose.

Accounting Methods

There are two principal accounting methods by which a business may keep track of its income and expenses: cash basis and accrual basis. These methods differ in the timing of when sales and purchases are debited or credited.

In the cash method, income is only counted when a payment is actually received, and expenses are only counted when they are actually paid. This method is simpler for most small businesses.

In the accrual method, transactions are counted when services occur, orders are made, or items are delivered, regardless of when the money actually changes hands. The accrual method is better suited to medium-sized to large-sized businesses. Your accountant will help you select the appropriate method.

Financial Statements

Your accountant will prepare financial statements for your use. These statements provide key information regarding the overall health of your business. An effective business owner must be able to thoroughly understand the information presented.

- **Balance Sheet –** The balance sheet is a statement of the company's financial position. It lists all assets, liabilities, and the owner's equity at a specific moment in time.
- **Income Statement -** The income statement (also called a Profit and Loss Report or a P&L Report) lists the company's income, expenses, and the profit or loss over a specific period of time.
- **Statement of Equity –** The Statement of Equity or Statement of Retained Earnings details the changes in the value of the equity of the company over a specific period of time.
- **Cash Flow Statement –** The Cash Flow Statement reports on the cash flow activities of the company, namely the money flowing in versus the money flowing out over a specific period of time.

Your financial statements provide you with invaluable information as you make decisions affecting all aspects of your business. You need not strive to become an accounting expert, but you do need to develop a reasonable level of financial literacy if you are to become an effective business owner.

Banking Relationships

Whether you are just starting out in business or your business is already established, good banking relationships are critical to businesses of all sizes. Even if you are self-funding your startup, at some point you may need bank financing for new equipment, vehicles, real estate, etc. Furthermore, access to a line of credit for short-term operating expenses may be all that keeps you from going out of business if you experience a temporary cash shortfall. In an environment of low interest rates, the intelligent use of debt can be a valuable business tool and a strong relationship with one or more banks will allow you convenient access to capital when you need it.

There are two main aspects to consider regarding your banking relationships – the personal aspect and the financial aspect. If you have not done so already, take time to personally meet the commercial lending decision makers at your bank. If you are in the startup phase, it is worthwhile to set up a brief meeting to introduce yourself and your business. Even if you have no immediate need for bank financing, you might at some point, and your chance for success is much better if the loan officer is familiar with you. Also, be sure to remain a customer in good standing at that bank. A loan officer is much more likely to want to help someone who has been a good customer at their bank. Though your needs may not be immediate, this personal relationship is worth cultivating.

The other aspect of a banking relationship is the financial aspect. You might be a great customer and the loan officer might be a dear friend, but if your company's financial picture is in disrepair you will still have trouble obtaining financing. Bankers are businesspeople, and they earn their money by making good loans. If your balance sheet is strong, your credit rating is high, and your company is consistently profitable, obtaining financing is remarkably easy. On the other hand, if you have little equity, derogatory items on your credit report, and a poor track record of profitability, you may be able to get financing somewhere, but you can expect unfavorable terms. Just like the personal aspect of banking relationships, the financial aspect must be managed as well. You should have the constant goal of keeping your company's financial picture in good shape so when the time comes to seek financing you are able to produce strong financial statements. This is easier said than done, of course, but as you make business decisions always be mindful of how your decisions will affect the overall condition of your financial statements.

Unless you have a large reserve of cash in your business, you should consider working with your bank to set up a line of credit for operating expenses. In the surveying business, as you know, revenue tends to be irregular. If you are waiting for payment on one or more large projects, you may find yourself in a cash shortfall even though you have a strong accounts receivable position. An operating line allows you to make payroll and pay the bills until your receivables come in.

In this era of frequent mergers, acquisitions, and mobility within the financial sector, it is wise to develop business banking relationships with more than one bank. Not only do the people at the banks turn over, but the lending policies and procedures may change too. What had once been a solid relationship can change into a tenuous one with little or no warning. It is always good to have a second option.

Tax Strategies

All for-profit business owners must remain constantly aware of the tax implications of their business operations. Armed with some knowledge and the advice of a good accountant, you can develop strategies to minimize your tax burden. You must certainly pay what is required and no ethical business owner should ever attempt any sort of deceit pertaining to their taxes, but by understanding the tax laws and taking a strategic approach you can avoid paying anything beyond what is owed.

There are different types of taxes that apply to a business:

- **Income Taxes** – Income taxes are paid to your federal, state, and local governments. Your corporate structure will determine how your income taxes are paid.
- **Employment Taxes** – These are the taxes that are withheld from the employees' paycheck. Employment taxes include Social Security, Medicare, and Unemployment taxes. If you are self-employed, you must pay self-employment taxes on your net earnings.
- **Sales Tax** – Sales taxes are applied to the sale of goods and services. Generally speaking, the customer pays the sales tax and the business pays the amount of collected sales tax to the state.
- **Property Tax** – Property taxes are paid by the owner of real estate. In most locations, property taxes are paid twice annually.

The first component to a good overall tax strategy is to maintain current and meticulous records of all financial transactions. You must set up a bookkeeping method and log every activity. You must also develop a filing system for invoices, statements, bills, and any other document pertaining to a financial transaction. This is not only for your own benefit, but for the benefit of your accountant at tax time. Excellent records are also beneficial should you ever be subjected to a tax audit.

As covered previously, the selection of the correct business structure will have a profound effect on your tax situation. Professional advice in this area will pay for itself many times over in tax savings. This is something you should take great pains to get right the first time.

For the sake of simplicity, even if you are a sole proprietor, it is best to keep your personal and business dealings completely separated. Your business needs to have its own bank accounts, credit card accounts, loans, and investments. Not only does this simplify your bookkeeping and accounting, but it helps to preserve the "corporate veil" should that ever be called into question.

If you intend to process payrolls yourself, never forget to pay your state and federal payroll taxes on time, every time. The unintentional failure to file or pay your payroll taxes on time will subject you to penalties and the intentional failure to do the same is a federal crime. This process needs to be part of your normal routine.

For the startup business using a home office, there is a significant tax deduction available. If your home office is a separate area used solely for business purposes, you may deduct a percentage of your household expenses as a home office deduction. This deduction is based on the percent of your home's floor space being used as office space.

When using consultants, be certain to have proper agreements in place. This will avoid later confusion over how the related expenses are figured. This is another area where the services of an experienced accountant will pay dividends.

Familiarize yourself with all the tax write-offs and credits available to you. Also, never hesitate to ask your accountant to search for write-offs and credits for which you might qualify. In addition to your accountant, it can be worthwhile to engage a professional tax consultant who stays on top of rule changes and new credits or deductions that are allowed each year. Many such consultants will set their fees as a percentage of the savings that they achieve for you, so you really have nothing to lose in talking with them.

Equipment: Buying vs. Leasing

A surveying business needs a lot of equipment to function properly. Instruments, vehicles, computers, and office equipment are just the beginning. Before making any major decision on equipment, it is worthwhile to consider the cost-benefit of buying versus leasing. As with most business decisions, there is no ironclad one-size-fits-all solution and as such it is best to consider the pros and cons.

Leasing:

Pros

- Makes sense for equipment that is likely to need replacement often due to technological obsolescence. If you anticipate that you will need to upgrade a piece of equipment every year or two in order to do your work optimally, then leasing will enable you to avoid using outdated items.
- It evens out your cash flow. Instead of laying out large amounts of cash up front, a lease allows you to make consistent and predictable payments each month.
- Equipment lease payments are generally tax-deductible as an operating expense.
- No repair or maintenance costs. If a piece of leased equipment malfunctions or requires repair, you will not have out of pocket costs like you would if you owned the equipment.
- You can afford to try out expensive equipment that you would ordinarily be hesitant to purchase. Perhaps you would like to use a UAV or a scanner, but you are not sure if you can justify the cash outlay involved. A lease is a good way to see if a new piece of equipment can help your business before you commit a large sum of money.

Cons

- In the long run, a lease is going to be more expensive than a cash purchase. Also, you will build no equity in your equipment. There will be no trade-in or resale value when you decide to update.
- Maintenance and repair decisions are out of your hands. If you feel that a piece of leased equipment needs maintenance or calibration, it will be up to the lessor to decide if it is necessary and you will be subject to their schedule.
- You may be required to commit to a lease of 12 or 24 months even if you are certain to be finished with the equipment in a shorter timeframe.

Buying:

Pros

- The equipment is yours. You may choose to make any alterations or modifications you wish. You are also in control of maintenance and repairs, meaning you have flexibility in who works on your equipment and when they do it.
- You build equity in your equipment. When it is time to upgrade, you are free to trade it in or sell it.
- The tax advantage of depreciation. Purchased equipment can be placed on a depreciation schedule by which an annual tax deduction is allowed over a period of years.
- Simplicity. Buying equipment outright allows you to avoid the hassles associated with contracts and agreements. Also, there is no opportunity for disagreement about the condition of the item as there could be at the end of a lease.
- You are not limited by the inventory of the lessor. You are free to purchase the exact equipment you desire from whomever has it available.

Cons

- Irregular cash flow. Rather than predictable monthly lease payments, you will instead have large expenditures at the time of purchase.
- High tech items such as surveying instruments, computers, and software tend to become outdated quickly. If you have purchased an item and it becomes outdated, you will need to upgrade it and any equity you have accumulated will have diminished because of the reduced resale or trade-in value.
- You are financially responsible for the costs associated with maintenance and repairs. Depending on the equipment, these costs can be quite large and are often quite unexpected.

Before acquiring any expensive piece of durable equipment, consider the pros and cons listed above. Also, to enjoy the benefits of ownership and the predictability of steady monthly payments, you may wish to consider financing if you are able to obtain favorable terms.

Establishing Your Fees

The topic of establishing professional fees is deep enough to warrant an entire course of its own. As a provider of professional services, a surveyor does not deal in the production and distribution of goods where items may be priced based on the cost to bring them to market plus a markup. As a professional, a surveyor has time, expertise, and advice for sale. When considering the establishment of your fees, there are two fundamental questions to consider:

1. What am I willing to accept in exchange for my time, advice, and expertise?

2. What will people pay in exchange for my time, advice, and expertise?

A first step in setting your fee structure goes back to your business plan. In the planning phase you should have estimated how much revenue you will need each month to cover all your expenses. You will need to be certain that your estimated monthly fees far exceed your estimated monthly expenditures to a point where you can achieve profitability even when unforeseen expenses and unplanned drops in revenue occur. Surveyors are always at the mercy of the weather, so it is best to account for a certain amount of lost field time.

Some surveyors prefer to bill on an hourly basis while some prefer to bill on a lump-sum basis. Others use both methods depending on the situation. It is best to be flexible and able to charge by either method depending on what works best for you or upon the needs of your client.

One common rule of thumb for setting hourly fees is to set your fees at a minimum of three times each employee's hourly rate of pay. If an employee earns $25 per hour, then their billing rate must be at least $75 per hour. This is a very simple methodology and may be thought of as a useful starting point for establishing hourly rates. You would certainly want to adjust from there to figure out what works but it is informative to think of your fee in three components: The employee's wages, the employee's share of the overhead, and the employee's profit responsibility.

Billing jobs on an hourly basis is simple, straightforward, and protects you from taking large losses on projects. In short, if you and your employees are working on the project, revenue is being generated.

One downside to hourly billing is that it disincentivizes efficiency in the workflow. Finding a faster way to get a job done can reduce the revenue associated with it. Many surveyors experienced this fact firsthand with the advent of GPS equipment. What may have taken two people 8 hours to accomplish with conventional methods might take one person only 4 hours with a GPS unit. In this simplified example, the identical service is achieved with one-fourth the manhours. Adhering strictly to an hourly billing basis, a surveyor could be completing a higher volume of projects only to earn the same level of revenue because of an investment made in a more efficient technology.

Hourly billing is very well suited for projects where it is difficult to estimate the time that will be spent working on it. Many aspects of surveying fit this concept. The time involved in a boundary survey can vary wildly depending upon factors that you remain unaware of until you start working on the project. Any boundary surveyor can relate to the frustration of learning that a monument is lost, obliterated, or buried deeply under a roadway and will require an extensive recovery effort. Likewise, all boundary surveyors have experienced the elation of recovering monuments in locations that shave hours off the project. In short, unless you go into a survey with some familiarity with the conditions, it is very difficult to accurately estimate the time required to complete the project. These are the cases where hourly billing is a safe bet.

Many clients, however, prefer to know exactly what a project is going to cost them in advance and accordingly request a lump-sum billing agreement. If done carefully and correctly, this system can be beneficial to the surveyor and the client. For the client, it creates certainty and the ability to budget the necessary funds. There are no surprises waiting at the end of the project. For the surveyor, it rewards efficiency. The less time spent, the higher the profit. This fee system also allows the surveyor some flexibility to adjust his or her fees based on things like workload, value creation, and presumed liability. Do beware however, that a lump-sum fee arrangement introduces the possibilities of cost overruns and losses on a project if it takes longer than expected to complete.

If you are backlogged with projects and a potential client has an immediate need, it makes good business sense to aim higher with your fee proposal. Conversely, if your workload is light you may wish to be more competitive with your fees.

The value created by the work of a surveyor is not distributed evenly. Your day spent staking foundation anchors at a new power plant will generate far more monetary value than your day spent working on a small residential boundary survey. When developing a lump-sum fee proposal, this value differential should be a factor.

In this example, the liability assumed in these two cases can scarcely be compared. The remedy for an error on a small residential boundary survey will likely be counted in hundreds or thousands of dollars while the remedy for a blunder on an industrial construction site could lead to a seven-figure claim.

Flexibility is the key when determining whether to set your fees on an hourly or lump-sum basis. Each system works best in different situations and your professional judgment will guide you. Above all, it is imperative that all communication with your client regarding fees is abundantly clear and explained in detail in a written agreement before work begins.

Accounts Receivable

Accounts receivable are claims for payment held by a business for services rendered or goods supplied. In a surveying business, accounts receivable is almost always in the form of invoices. Responsibly managing your accounts receivable will go a long way toward maintaining your level of working capital, thereby improving the overall financial health of your enterprise. This section will elaborate on some of the key terms and principles relating to accounts receivable.

Payment terms refer to the agreement between the business and the client as to when payments are due and the fees or interest that may be charged. The payment term "Due upon receipt" is self-explanatory. Another common example of a payment term is "Net 30 days" which means that payment is due 30 days from the invoice date. If the payment is satisfied on or before the 30th day, no interest or late fees apply. If payment is not made within the 30-day window, the creditor may charge allowable late fees and interest. Similar to Net 30 are Net 45 and Net 60. To improve turnaround time, some businesses choose to offer a discount for early payment.

Of interest to a service-providing business owner are the *accounts receivable turnover ratio* and the *average collection period* which respectively measure how efficiently a company collects receivables from clients and the average amount of time it takes for a business to receive payment from clients. When you complete a project for a client and send them an invoice, you are essentially extending an interest-free and unsecured loan to them for the amount of the invoice. They have received your services and in turn, owe you your fee.

As a professional business owner, you must always remember that you are not a bank. You are not in the business of extending credit and being paid back over time. You need working capital in your business in order to pay your payroll and expenses. Your employees, landlord, and your own bank will not wait for you to collect on sluggish accounts. Along with completing projects and generating invoices, the proper management of accounts receivable can make or break your company's finances. Remember that money lent without interest loses value over time and if you are required to borrow money to cover cash shortfalls, your problem is increased twofold.

This is a useful formula for computing your accounts receivable turnover ratio:

Accounts Receivable Turnover = Net Credit Sales / Average Accounts Receivable

For example, if a company's net credit sales for a year were $500,000 and its average accounts receivable figure was $50,000, the company's turnover ratio is 10, indicating that on average the company's accounts receivable turned over ten times over the course of the year, or approximately every 36 days, or your average collection period.

The Average Accounts Receivable for a specific period of time is obtained by adding the accounts receivable at the beginning and ending of the time period and dividing this total by two.

The Net Credit Sales figure must cover the same time period as the period used for the Average Accounts Receivable.

This ratio will help quantify your company's effectiveness in collecting its receivables. A higher turnover ratio is an indicator that a company's collection efforts are efficient and that the company has a high proportion of customers who pay their bills quickly. If the turnover ratio is lower it might be an indication that the company has a poor collection process or that it has customers who are slow to pay.

Your turnover ratio should be monitored periodically to see if any trends emerge. If you are invoicing with Net 30 terms and your ratio indicates a turnover of more than 45 days, you should investigate to see if it is being driven by certain bad accounts or if it is a reflection on your collection process as a whole.

An accounts receivable aging report is a report that lists the unpaid invoice balances along with the length of time for which they have been outstanding. This report allows a business to stay on top of open invoices and to identify possible slow paying clients. The report will list each client's outstanding balance and is then sorted into columns as follows: Current, 1-30 days past due, 31-60 days past due, 61-90 days past due, 91-120 days past due, and Over 120 days past due.

The accounts receivable aging method is useful for estimating the value of uncollectable debts. As a general rule, the longer a receivable account remains outstanding, the chances of its collection become less likely. It is also a useful tool for identifying when it is necessary to send a reminder invoice or to consider other collection measures.

To keep cash flowing into your business, you should always strive to generate and send invoices as soon as possible, and then to stay on top of your accounts receivable. If you delay 30 days sending out an invoice and your client takes 60 days to pay it, you will have extended free credit for that invoice for one-fourth of a year. It is imperative that you set aside time regularly to generate and send invoices.

When account has been receivable for an extended period of time and communications with the client have yielded no results, you may consider the account uncollectible. An uncollectible account is a debt that is deemed to have virtually no chance of being paid. An account may become uncollectible for a variety of reasons, such as bankruptcy, fraud, dispute over the legitimacy of the debt, or simply the refusal of the client to pay the debt. As a rule, an account over 120 days past due may be considered uncollectible after ordinary attempts to collect the debt have been exhausted. At this point, the amount of the account may be written off as a bad debt expense.

Alternatively, as last resorts after all reasonable attempts to collect the debt have failed and you are certain that the debt is legitimate, you may choose to file a lawsuit or engage the services of a debt collection agency. A debt collection agency will work on your behalf to recover the amount owed in return for a percentage of the debt. You may also choose to file a lawsuit, which will certainly be a costly process and only makes sense if the amount of the debt is large enough to make the legal fees worthwhile. Before turning the collection process into an adversarial relationship, it is best to engage in civil communication with a slow paying client and try to cooperate with them toward the goal of getting your invoice paid. The moment they receive a collection call or a letter from your attorney, the dynamic of the relationship is bound to change for the worse and you might find that the slow payer has developed a renewed enthusiasm toward his or her goal of not paying you. Clear communication is the best preventative of bill collection problems. You can be civil without being a pushover.

SECTION 3 – HUMAN RESOURCES

Staffing Your Company

A company is made up of many things, including your brand, your buildings, and your assets, but the heart of any company is its people. The skills, abilities, attitudes, and personalities of your employees are what makes a company what it is. Special attention must be given to the staffing of your company. Each person you employ represents an enormous investment of time, trust, and capital. A good hire will add value to your company many times above his or her salary and benefits. Accordingly, great pains must be taken to ensure that you hire only high- quality employees and avoid settling for subpar employees out of necessity.

Certain characteristics are good predictors of the future performance of an employee and you would do well to seek out people who have a proven history of:

Intelligence – This does not necessarily mean that the candidate was a top student, although academic performance is an indication of intelligence. There are numerous facets to human intelligence such as emotional intelligence, linguistic intelligence, logical intelligence, spatial intelligence, and interpersonal intelligence to name a few. All people possess varying degrees of the differing types of intelligence and the people who succeed in the workplace tend to have high levels of several categories of intelligence. When screening candidates, do not be afraid to ask complex questions that may not have a right or wrong answer. You want to get a feel for the candidate's ability to think critically.

Attitude – A bright person with a good attitude can accomplish nearly anything you ask in the workplace. People with a disposition toward helpfulness and responsibility will fit in anywhere. Beware of candidates who have ready excuses for any past shortcomings or who have unkind remarks for their present and past employers and coworkers. If a person has only negative things to say about others, it is more likely a reflection of their own personality. A habitual complainer is not going to miraculously drop the complaining habit as soon as they join your company.

Responsibility – Do your homework when considering a candidate. Certain red flags such as frequent job changes and involuntary terminations might be explainable, but oftentimes these items are indicators of responsibility issues. It is not necessary to dismiss a candidate outright because of warning signs, but these matters need to be brought up with the candidate and their explanations need to be checked out. If this means calling former employers or coworkers, then so be it. Hiring is a major decision and getting it wrong can be extraordinarily detrimental to your business. Remember that a candidate is going to give you his or her best presentation at the interview and the references they provide are going to be the candidate's biggest boosters. You owe it to yourself and your business to dig deeper and find out the truth from people who are likely to give you their honest and unbiased evaluation.

In the process of surveying, your employees are going to be trusted to work with minimal supervision, possess expensive equipment, and enter the properties of others. You cannot afford to have untrustworthy employees among your staff. A background check is an excellent way to identify past issues that might point to future difficulties. People may deserve a second chance, but always remember that you are operating a business and not a charity, and the passing out of second chances is not your job.

Hustle - Laziness in the workplace is unacceptable. If your candidate has a reputation for laziness, steer clear. There is no amount of coaching or motivating you can do that will correct a lazy attitude. What's worse, lazy employees tend to drag down the morale of everyone around them. Look for candidates that have demonstrated the willingness to do whatever it takes to fulfill their duties. Any indications of past problems with attendance or tardiness should be considered the most serious warning signs. It should go without saying, but there can be no substitute for the simple acts of showing up on time every day and doing what you are supposed to do.

When determining the wage or salary for an employee, it is beneficial to research the various online tools available to ensure that you are offering competitive compensation. If your candidate is already employed, they are unlikely to leave their position to come to work for you for significantly less money. Your compensation offerings must be sufficient to both entice people to join your company and to retain them once they are hired. That is not to say that you must necessarily pay more than the other firms in your area, but you should strive to at least be in a competitive range. An employee who feels undercompensated will always have an eye on the want ads.

When making compensation determinations, it is good practice to be mindful of how your employees' rates of pay relate to one another. Although compensation tends to be a private matter, employees will talk about compensation amongst themselves and if pay disparities are discovered, resentment is likely to follow. Some employers prefer to have a strict pay scale based upon position and experience and others choose to make compensation decisions on a case by case basis. Either way can work but if the case by case style is used, an opportunity for internal conflict can be reduced by maintaining some semblance of a fair structure in compensation.

When hiring, it is economical of your time to do much of your legwork prior to inviting candidates in for interviews. There is no need to interview a large slate of candidates for a position. If you have taken the time to gather information ahead of time, you can develop an idea for which candidates have a reasonable chance of being chosen for your position. There is no benefit in spending time interviewing candidates who have little chance of being hired. You may occasionally discover a diamond in the rough, but often you will find that you have spent an hour of your day talking to someone who you have no intention of hiring.

When your field is narrowed and you invite candidates in for interviews, take plenty of time and do a thorough job. Every employer has his or her own interviewing style and your own style will certainly develop and evolve as you go through the process. The main point is to never be rushed and take as much time as you need to ensure you have done the best job you can. When you conduct a job interview and select a candidate, be aware of the fact that you may be making a decision that will affect your business for decades and in turn could affect the remainder of your personal life. Errors made in the recruiting and hiring process are costly in terms of time, money, reputation, and morale. There are no more important decisions in the management of a business than hiring decisions.

HR Basics

In the sense that the people you employ are the heart and soul of your business, nearly every aspect of your business relates in some way to the management of human resources. For your company to succeed, your employees must likewise succeed, and you share with them the responsibility for their success. By providing them with the necessary tools and a favorable working environment, you help your employees to be productive and at the same time you reduce costly employee turnover.

Job Descriptions

By clearly communicating the requirements of a position and your expectations for an employee, you are providing one of the first tools they need to succeed. A written job description is useful in this situation. A good job description details the normal duties and responsibilities associated with a position. It should also list the duties and responsibilities that may not be part of the normal routine but may come up from time to time. Furthermore, a job description should explain that duties and responsibilities not listed in the description may still be required at the discretion of the employee's supervisor. You do not want to grant your employee a job description they can hide behind to get out of doing a reasonable task that you have requested but is not explicitly set forth in their job description. A job description should be thought of as a guideline for explaining your expectations.

Performance Reviews

Another way to manage expectations is through a thorough performance review process. There are several ways to tackle this and whichever method you feel fits your business is best. Online tools are available to help you construct your process. The most important thing is to commit to going through the process at least once a year. A performance review should be a personal meeting and the points of the meeting should be logged in writing. Many employers use a checklist or a report card style review form. Be sure to discuss the positive aspects of the review along with your discussion of any areas that need improvement. If there are matters that need attention, remember that people generally do not respond well to harsh criticism. Advice and correction should be delivered in a constructive manner that provides the employee with a clear understanding of what specific steps need to be taken toward improvement and what improvement goals, if applicable, need to be achieved. At the conclusion of your discussion, review your notes with the employee and have them sign it. You may even wish to furnish them with a copy for their reference. Your review process need not be complex, but it should be thorough and consistent. An employee who receives clear communication and feedback is more likely to remain emotionally engaged and invested in your company.

Training and Orientation

The training and orientation processes begin the moment an employee joins your company. New employee orientation sets the tone for the employee's career experience and introduces them to your corporate culture, values, policies, and expectations. Your orientation process needs to include safety training compatible with the mandates of the Occupational Safety and Health Administration (OSHA).

Other topics to address at orientation are the prevention of sexual harassment and discrimination.

Employee Policy Manual

An employee policy manual or handbook, no matter the size of your company, is an invaluable communication tool in human resources management. A manual provides your employees with a handy reference presenting your company's mission, values, rules, policies, and benefits. It also serves as a vital tool to protect your employees from unfair treatment and to protect you, the employer, from claims of unfair treatment. Again, online tools are available to assist with the composition of your manual or you can choose to have one professionally done by a Professional Employer Organization (PEO). It is worth having a PEO or your legal counsel review your manual every year and make necessary updates. Employment laws change frequently and without much fanfare, so you might unknowingly use an outdated handbook if regular maintenance is neglected.

Employee Benefits

To attract and retain top quality employees, a competitive package of benefits is key. The package you offer is going to depend on the size of your company and the funds you have available.

Paid time off, or PTO, may include vacation time, sick leave, personal time off, holidays, and bereavement. A robust package of paid time off can serve as an attractant for your recruiting process and a perk for the sake of employee retention.

A full-time employee will expect to be paid for major holidays. As a business owner, you must decide which holidays to recognize. At a minimum New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving, and Christmas will be expected as paid holidays. Other federal holidays and religious observances may be considered also. No business is required to offer holiday pay, but if you wish to attract and retain good people, it is a good idea.

Vacation time, sick leave, and personal time are integral to any benefit package. Some companies differentiate between these categories and some companies lump them all into a single category. When distinction exists, vacation time is used for planned time away from work, sick leave is used when ill or when caring for others who are ill, and personal time is used for various situations that do not fit the vacation or sick categories (appointments, household problems, etc.).

Some employers offer bereavement leave for employees who need time off due to the death of a loved one. Bereavement leave is not required by law and may be offered as unpaid rather than paid leave.

The amount of leave time provided is entirely up to the owner of the business as it is not regulated by law. Generally, the amount of leave time granted to an employee increases according to their longevity with the firm. The employee policy manual should explain in detail how unused paid time off will be treated. Many companies limit how much unused paid time off may be carried over from year to year. Some companies employ a "use it or lose it" policy whereby any hours of paid time off over the stated limit are forfeited, while some companies choose to buy out excess accumulated paid time off.

Either way, it is important to have some sort of limit in place to help avoid the problem of an employee carrying months or years of accumulated paid time off. Accumulated paid time off shows up as a liability on your company's books. Also, when this happens, there is a risk that your employee may develop unreliable attendance habits toward the end of their career while trying to use up time. Furthermore, such an employee may carry their excessive leave to the point of retirement or termination, at which point the company will owe them for that time, possibly having an adverse effect on your cash position.

The availability of a qualifying health insurance plan is now a required benefit for companies with 50 or more full time employees. If your firm has fewer than 50 employees, health insurance, while quite expensive, is an attractive benefit to offer. If your company does not intend to offer health insurance, it may be a good move to increase your salary packages so that your employees are more able to purchase coverage on their own. Dental, vision, and life insurance packages are often offered as components of an overall health insurance plan. These coverages are also available as stand-alone products which are generally quite affordable if moderate coverage levels are chosen.

As part of the management of your health insurance benefit, you must regularly review your plan documents for completeness and accuracy. You must also be sure that the necessary summary plan descriptions and plan notices are distributed to your employees as required by law.

A retirement benefit, such as a 401(k) plan, is also part of a normal benefit package. As the employer, you may set up voluntary or matching contributions to your staff members' retirement plans.

Other benefits that may be worth considering are:

- Short term disability insurance
- Long term disability insurance
- Supplemental life insurance
- Flexible spending accounts
- Health savings accounts
- Discount programs
- Theme park or event tickets

A professional employer organization (PEO) will be instrumental in helping your business set up its benefits program.

You might also consider what are referred to as creative benefits that do not have much direct impact on your company's cash but may be considered perks to improve employee morale. These perks may or may not fit into how your business functions but some creative benefits to consider are:

- Flex time
- Telecommuting
- Savings club or Christmas club
- Volunteer time off – Allowing employees paid time away from work to volunteer for a 501(c)(3) charitable organization that they support.
- Casual dress code
- Luncheons

HR Compliance

A business owner should be well informed on a variety of topics relating to human resources compliance. Errors or omissions made in the area of employee law can be costly and damaging to your business. If you choose to work with an HR consultant, you need not become an expert in the field of human resources compliance, but you should at a minimum strive to educate yourself sufficiently so that you may avoid problems and pitfalls. A guiding principle in all your HR matters should be that all your policies and procedures are applied equally to all employees and are applied with consistency and fairness throughout your organization.

If your business is of sufficient size (50 or more full time employees), the Family and Medical Leave Act (FMLA) will apply. According to the FMLA, a qualifying company must provide an eligible employee with up to 12 weeks of unpaid leave each year for any of the following reasons:

- For the birth and care of the newborn child of an employee.
- For placement with the employee of a child for adoption or foster care.
- To care for an immediate family member (i.e. spouse, child, or parent) with a serious health condition.
- To take medical leave when the employee is unable to work because of a serious health condition.

In terms of your hiring practices, be certain that your job descriptions, advertisements, and interviews are not in violation of the Americans With Disabilities Act (ADA). For example, be aware that disability-related questions may not be asked prior to offering your candidate a position. Further, your application forms, employment forms, and interview locations must be accessible to people with disabilities. Be prepared and willing to make reasonable and appropriate accommodations as necessary in order to enable candidates with disabilities to participate in the interview process. The ADA is lengthy and detailed but is required reading for anyone who has or intends to have employees or who manages a business operating at a physical location.

The Equal Employment Opportunity Act of 1972 was passed to prohibit job discrimination based upon race, age, disability, religion, sex, or national origin. A responsible employer will become familiar with and operate according to the principles contained within this act. The Equal Employment Opportunity Commission exists to enforce the provisions of the act and is authorized to mete out fines and sanctions in response to violations.

Review your interview questions to ensure that your questions are appropriate and relate to the applicant’s ability to perform the job successfully. Interview questions must not be discriminatory regarding the applicant’s race, religion, sex, age, ethnic group, national origin, marital status, disability, military service, or any other protected status. If a criminal background check is part of your hiring process, be certain to obtain written authorization from your candidate and to use background checks consistently. You must not pick and choose which candidates are subjected to a check.

There are certain forms that must be filed for each new employee. Form I-9 must be completed and filed within three business days of a new employee's first day at work. Form W-4 (the employee's tax withholding certificate) must also be collected from each new employee.

Be certain to classify your employees and yourself correctly as exempt or non-exempt employees. The primary difference between exempt and non-exempt employees relates to overtime pay. An exempt employee is not entitled to receive overtime pay according to the rules of the Fair Labor Standards Act (FLSA). A non-exempt employee is entitled to overtime pay at a rate of one-and-a-half times their regular rate of pay for all hours worked in excess of 40 hours in a week. It is up to the employer to establish the time frame that makes up the company's work week, but it must remain consistent from week to week. For example, a company's work week may begin at 12:01 a.m. on Sunday and run through midnight the following Saturday. It is not of particular importance how your company's work week is structured, but it is important that it remains consistent, particularly for the purpose of computing overtime hours.

To determine whether an employee is to be classified as exempt, the following three tests must be satisfied.

- **Salary level test** – Employees must earn a salary that meets or exceeds the minimum requirement. This requirement is subject to change from year to year.
- **Salary basis test** – With limited exceptions, the employee receives their full salary for any week in which they performed work, regardless of the quantity or the quality of the work completed.
- **Duties test** – The employee's primary job duties must meet certain criteria, which are generally those associated with what are considered "white-collar" positions.

Exemptions exist for executives, administrative employees, learned professionals, creative professionals, certain computer-related positions, outside salespeople, and highly compensated employees. It is important to thoroughly review your company's pay practices ensuring compliance with the FLSA and any state employment laws that may apply. Also, it is necessary to make certain that your pay and incentive programs are managed equitably and that all decisions regarding raises, promotions, and bonuses are based upon fair and objective criteria.

Labor law posters are required to be displayed at a place in your office where employees can easily see them. These posters are readily available online and do change from year to year, so it is important to update them annually. In addition to the mandatory federal labor law posters, your state might have additional items that must be posted.

An unpleasant topic but one that must be dealt with from time to time is the topic of employee discipline. Disciplinary actions and terminations are the birth mother of lawsuits, so it is imperative that your handle these situations correctly to protect your business. First, be certain that all your policies and procedures pertaining to employee discipline are set forth in writing, clearly defined, and communicated to your employees. A quality employee policy manual is the key to this communication. Second, every interaction or communication involving employee discipline must be carefully documented. This includes but is not limited to write-ups, reprimands, warnings, and sanctions.

If ordinary disciplinary and remedial actions have failed to produce acceptable progress, involuntary termination of employment could be necessary. When conducting a termination meeting, the employee should be informed of the reason for the termination. This is not the time to unload on the employee and say a great deal. The employee will doubtlessly be upset and displeased with you. Know that the terminating employee will be paying attention to every word you say and that anything you say may be turned against you in some way. This situation calls for very professional and matter-of-fact communication. The employee's emotions will certainly be running high and accordingly your emotions must be kept in check to de-escalate what could become a heated situation. If feasible, it is advisable to have an impartial party present to witness the termination meeting and notes from the meeting should be kept in the employee's personnel file.

When terminating an employee, they must be provided with a written summary of accrued benefits and any information regarding benefits post-termination. Compensation for unused paid time off, continuation of health insurance coverage, and retirement plan information must be addressed. Also, arrangements should be made for the delivery or deposit of the employee's final paycheck. Additionally, your company should have a checklist of company property that is to be returned in the event of termination, such as office keys, work in progress, credit cards, cellular phones, electronic devices, the employee policy manual, reference materials, and equipment. A terminated employee should not be permitted to return to their workstation unsupervised to collect personal items. You may permit them to return to their workstation briefly if supervised to collect personal photos, clothing items, keys, etc., but under no circumstance should they be granted access to their computer. The potential for mischief is too great. The employee should be assured that their workstation will be examined and that any personal items found will be returned to them immediately. Do not collect their items and then invite them back to your place of business to pick them up. Nothing good can possibly come from a return visit. As stated before, it is best if this unfortunate process is carried out as cordially and as professionally as possible. Your terminated employee is likely to feel embarrassed and humiliated, so causing a spectacle in front of their coworkers will only make matters worse for them and cause unease among the rest of your staff.

Troubleshooting

This section will address common problems associated with human resources, how to spot them, and how to take care of them before they become serious.

The ability to find and hire good employees is a widespread problem in business, particularly when the national economy is thriving, and unemployment rates are low. A good practice is to make recruiting a year-round process instead of advertising only when you have a position to fill. It can get expensive, but it is productive to keep online advertising in place even when you don't have a particular need. This will allow you to build a stockpile of resume`s and develop a list of potential people to contact when a hiring need arises. This way, as soon as one of your employees gives notice of their intent to leave, you have a short list of contacts to reach out to at your fingertips. Also, it is wise to keep resume`s and applications on file indefinitely. Someone who was not selected for a position in your firm initially may make more sense in the present. Some people improve and evolve throughout their careers, so your pool of past applicants might produce some good candidates. Employee referrals should be encouraged. In the surveying profession in particular, people tend to know one another and maintain familiarity with other people's businesses. Your employees might know of a qualified person who is looking for a change or they might have caught wind of potential layoffs at another firm. If you foresee a hiring need, do not hesitate to ask your employees if they know of anyone that might fit. While they may be reluctant to approach you with that information, they will probably be more than willing to share it with you if you break the ice. Consider offering a cash bonus to incentivize successful employee referrals.

Inadequate benefits are a morale killer in the workplace, particularly as it pertains to health insurance. With premium costs going up rapidly and consistently, it has become increasingly difficult for business owners to afford top-shelf insurance packages. If your employees are paying a portion of their premiums as part of a cost-sharing program, their experience has been one of increasingly higher premiums and reduced benefits over the years. Many people have seen any salary increases they have received eaten up by increases in health insurance premiums. A business owner will always be vigilant for a better deal, but insurance costs continue to rise and, significantly better deals are not to be found. One thing that can be done is to try and customize your offerings as much as possible. If your provider will allow, try to offer a choice of multiple policies rather than just one. Some people might spend a lot on prescription medications so a plan with reasonable prescription copayments works best. Other employees might be in a state of excellent health and require very infrequent medical care so a plan with higher deductibles and lower premiums would be more suitable. If your business is small, your options in this area are likely to be limited but it is worth checking into. A business owner should keep his or her ears open and try to learn what benefits are working well for their employees and which benefits could use improvement.

Sooner or later, every workplace will have a difficult employee. If your difficult employee is also not a particularly useful or productive employee, that problem can be dealt with easily enough. However, if you have an employee with a difficult personality but at the same time, they are valuable to your business, you must try to manage the situation. A good step toward improving the situation caused by a difficult employee is to challenge them with a heavy workload. If someone is busy and focused on their work, they will have less idle time to cause problems around the office. Also, if possible, try to control who they are working with most of the time. Perhaps they work well enough with some people but not others. If you have the means to separate, to some degree, the people who are in frequent conflict, do so. Some people simply work better when they are working alone instead of as part of a team. As a manager you must know your people and their personalities and do whatever is in your power to put them into positions where they can succeed.

As anyone who has been part of a sports team or a military unit will attest, morale is a key indicator of the overall health and potential of your organization. A group of people with good attitudes pulling in the same direction is a powerful force. A group with high morale and a good level of job satisfaction will take pride in their work and the company's success. When morale sinks, discontent, apathy, and employee turnover are sure to follow. The management of company morale is a so-called soft skill that is possessed by the most successful business owners. There are several ways to boost and maintain morale.

Putting people in favorable positions allows them to do their best work and achieve job satisfaction. Of course it is not always possible to place people on the tasks that they prefer, but an employer can be aware of the strengths and weaknesses of employees and try to put them on projects where they are likely to excel and keep them off of projects where they are certain to struggle.

Employees need to see that there is room to grow within your organization. They should be constantly encouraged to take on new challenges and to broaden their skill sets. Nothing kills morale like the realization that you are in a dead-end situation. Your business should encourage growth and development by allowing people to attend continuing education courses, seminars, and demonstrations. If they are in a profession, such as surveying, engineering, or architecture that offers professional licensure, they should be encouraged, reimbursed, and rewarded for proceeding along that track. Their growth will make your company stronger and even if they leave you at some point you have still helped someone move forward and probably gained a professional friend.

Sincere appreciation of your employees is a time-tested morale booster. When and employee has done excellent work or demonstrated the qualities that your company values, thank them in person. Tangible gifts of cash, meals, and awards are always welcome, but a heartfelt conversation with your employee to let them know that you have noticed and appreciate their efforts will give them a lasting emotional lift. The desire to be appreciated is hard wired into our human nature and an employee who is giving you their best effort and going unnoticed is eventually going to suffer a decrease in morale, and decreasing morale tends to be contagious throughout an organization.

Another morale killing issue is the development of an "us versus them" mentality, usually meaning the staff versus the management/ownership. This arises when the employees feel like they cannot freely communicate and share information with their supervisors. Employees need to feel a sense of belonging and that their voices are being heard. This does not mean that every time an employee comes to you with a complaint or suggestion that it must be acted upon, but it does require that you, as the business owner, at least take the time to listen and try to understand where they are coming from. Maybe there is a problem they are dealing with that you can help somehow. Or perhaps you cannot help them in any other way besides listening to them and allowing them to get whatever was bothering them off their chest. Either way, your employees should be made to feel comfortable in communicating freely with you, without fear of backlash, criticism, or retribution. When employees feel involved, they feel like they are an integral part of the company.

As a business owner, you should be the hardest working person in your organization. Morale will suffer if your staff sees you coming in late, cutting out early, and otherwise not working while they are at work. This is not to say that you must become a workaholic who has no life away from the office, but your employees should be able to look up to your work ethic as a positive example. As a rule, you cannot rightfully expect your employees to give a greater effort than you give.

A positive corporate culture is the underlying structure that maintains a high morale. Work is work and is not designed to be fun, but at the same time your people should not dread coming to work each day. A positive corporate culture is built by people who take satisfaction from their work, working alongside people who they like working with. Your culture can be improved by encouraging your people to do things together apart from their work, such as volunteering during regular work hours. Scheduling volunteering or outside activities after hours or on the weekend may be met with resentment as your employees may feel an obligation to participate but also feel that you are eating into their valuable free time. If they can get away from the office for a day, they are much more likely to volunteer willingly.

Another part of fostering a positive culture is to make sure that your employees feel like they are part of a family. Acknowledge weddings, births, graduations, anniversaries, etc. If someone in your company experiences the loss of a loved one, attend their services if you can, and if you cannot, at the very least express your condolences personally. Close-knit groups of people celebrate together and mourn together.

When your company succeeds, be generous in crediting your employees both privately and publicly, and in sharing with them financially if you can afford to do so. Your employees know you are successful and assume you are making a lot of money even if you are not. If they perceive that their level of production does not significantly affect their compensation, you may expect flagging morale.

Finally, be aware of how your lifestyle appears to your employees. There is nothing wrong with living well. In fact, a successful businessperson should live well, but if your employees see you living a lavish and flashy lifestyle and they feel as though they are scraping by, resentment is sure to build. Be careful not to brag about your house, vehicles, vacations, etc. Your employees know about it and there is no reason to try to keep secrets, but at the same time they do not need to be reminded by you how much better your life is than theirs. Strive to be level-headed, humble, and unassuming.

Section 4 – Marketing

Marketing a Service Business

A surveying business is a service business rather than a traditional product-oriented business, and accordingly you will need to develop a clear vision of the services you are offering to provide. Whether you intend to be a company that provides a wide array of services or a company that thrives in a niche market, a big part of your marketing strategy is to define the services you are offering and then figure out how to get that message to potential clients.

If just starting out, it is crucial that you let potential clients know that you are in business. A professional looking marketing flyer or brochure followed up by a phone call is an effective way to introduce your business. A surveying business does not necessarily need to market itself to everyone all the time since surveying is not a service that most members of the public require on a regular basis. A targeted marketing strategy is likely to yield results more efficiently than a broad newspaper or radio ad campaign. Consider making direct contact with:

- Real estate agencies
- Engineering firms
- Construction companies
- Utility companies
- Residential and commercial developers
- Attorneys
- Bank loan officers
- Loggers or timber buyers
- Mining operations
- County Surveyors in your service area
- Surveying professionals for teaming opportunities

The marketing efforts required to get your business off the ground will give you a good indication of what works, where the need lies, and where you may wish to focus your efforts going forward.

An appropriate social media presence is an effective and inexpensive marketing tool. Social media platforms provide an opportunity to present your business in a positive light and to let the public see a little bit about who you are and what you do. Consumers in the younger demographic range are likely to turn to social media when in the market for services. It is important to make sure your social media presence does not deal in controversial topics or argumentative comments. These things are more likely to turn off potential clients than they are to help your business in any way. As is the case in polite society, discussions of religion, politics, or personal matters may be considered unwelcome.

The marketing of a service business is not merely a specific campaign of letters, emails, phone calls, visits, and social media posts, but rather it is an every-day responsibility shared by all employees of a company. In short, everything you do influences how your business is perceived and is therefore a part of your marketing effort.

From the appearance of your office and vehicles to the way in which you and your staff conduct yourselves in your personal lives, everything is marketing and marketing is everyone’s job. As the owner of a business, you must always be mindful of how your employees are representing your organization. You obviously cannot control what your employees do after hours, but you can manage where they use your logoed vehicles. A vehicle with your company’s logo parked at a bar is a bad look. You must also insist upon the safe and courteous driving of your fleet vehicles. The simple maintenance of professional appearances and behaviors should be the foundation of your marketing effort.

Your reputation is the cornerstone of your marketing program and must be tended to diligently. Satisfied clients have at the very worst a neutral effect upon your reputation and at best, a positive one. Conversely, a client who feels as if they have been ripped off or thinks the quality of your work is subpar, is likely to spread the word. Public opinion is often very fickle and once a reputation is tarnished, it may never return to its prior status. If problems with a project arise, get out in front of them with quality communication. If the fault is yours, do everything in your power to make it right for your client. Even if the fault is not yours, assist in whatever way is practical to bring resolution to your client. No matter who is at fault, you are associated with the project and as such, any problems with the project could adversely affect your reputation. Build your reputation as someone who is a steadfast problem solver and not someone who runs away from problems and lays the blame on others.

The holiday season is a normal time for focused marketing efforts. A business owner should seek to contact all existing and likely future clients at this time. At the least, a greeting card is appropriate, but consider also sending a small gift. Branded calendars, branded planners, and edible items are popular choices. If your budget permits, it may be worthwhile to host a nice dinner banquet for your main clients. Whatever you can afford, always do something for your clients during the holiday season. All your competitors certainly will.

Note that the employees of some government agencies are not permitted to receive gifts of any monetary value. This may include anything beyond a greeting card. Familiarize yourself with your local laws to avoid putting your clients in an uncomfortable position with their employers.

Pay careful attention to telephone etiquette across your organization. Be certain that incoming phone calls are answered promptly and cheerfully. No one in your company must ever adopt the "if it's important, they'll leave a message" mentality. A potential client might only try your number once and if their call goes unanswered, they are likely to call another professional. If you are unable to take a call, be sure to return the call as soon as possible. You do not want the reputation of a person that does not return phone calls. Emails should likewise be answered promptly. If you must be away from your office, be sure to set up an automatic reply so your clients know you are not ignoring their messages.

A professionally designed website is a must in today's business world. This will be how potential clients find you, learn about your services, determine your location, and obtain your contact information. A business website does not need to be elaborate, but it does need to convey correct information. Meticulously check your website and all your marketing materials for correctness.

Every point of contact you have with a client is part of your marketing program and a chance to make a good impression, whether it be in person, in writing, by telephone, or by email. The little things matter.

SECTION 5 – SUCCESSION PLANNING

Developing a Succession Plan

As a business owner reaches mid-career, succession planning must be contemplated. A sole proprietor may wish to simply work until the point of retirement and then close the business, but an owner of a corporation must exercise forethought in developing a succession plan that will provide the realization of the monetary value of the company. A succession plan also provides for the continuity of the company, even as the original owner or owners complete their careers.

There are many compelling topics to consider in the development of an effective succession plan. Among these topics is your tax strategy. Should a business owner die without a succession plan in place, the tax burden upon the heirs can be extremely unfavorable. However, with some skillful tax planning and a structured succession plan, a higher portion of the owner's wealth may be passed down to his or her heirs.

A succession plan is an excellent way to mitigate risk. As a small business owner, or even a major shareholder in a medium-sized business, you must realize that the continuing success of the business relies heavily on your state of health. Many small businesses have been irreparably harmed by the occurrence of a singular accident or health crisis. This is a precarious position for a business to find itself in.

It is important to avoid the urge to delay succession planning. However unpleasant it may be to consider mortality and life changes, the longer you wait to address it, the more your options will be limited. The likelihood of your death or disability increases with each year of age, and as such so do your options for securing income in retirement and for providing the opportunity for your employees to continue their careers at your company even after you have left.

A business owner who does not implement a plan of succession prior to his or her disability or death is certain to have the value of his company diminished severely. So many times, a small business dies when the owner does because of a lack of planning and the owner's beneficiaries are deprived of the full value of a company that took a lifetime to build.

The first step a business owner must take in developing a succession plan is the identification of his or her goals. An owner must determine their retirement income goal, their post-retirement level of involvement in the business, their investments, their values, and their legacy. Next, the business owner must determine the goals and expectations of the other stakeholders involved in the process.

If the perpetuation of the business after the owner's retirement is important, a management succession plan will be needed. The business owner must identify people who can assume the responsibilities associated with the management of the business. This process may necessarily include incentives in the form of salary increases, bonuses, or company stock to encourage and reward your potential successors. In the best case, you will be able to control the winding down of your career and transfer ownership and responsibility in a gradual manner up to the point of your retirement. Sadly however, the end of your career may come abruptly with little or no warning and you must be prepared for that possibility.

Key Man Life Insurance

A corporation with more than one shareholder should possess key man life insurance policies for each owner. The absolute minimum death benefit for each policy should be equal to the value of each shareholder's stock. These policies are crucial in the event of the untimely death of a shareholder, as they provide the needed cash to pay off the shareholder's beneficiaries. This prevents and unwelcome drain on cash reserves, or worse, the shareholder's beneficiaries assuming ownership of his or her stock.

Cash value life insurance policies are generally more expensive because a portion of the premiums are directed into an investment component. While many investment advisors are opposed to this sort of policy, it is worth noting that given enough time, a cash value life insurance policy will mature into a significant asset on your balance sheet, improving your overall financial picture. Furthermore, a life insurance policy with built up cash value is an excellent item of collateral if you need bank financing.

Methods of Succession

There are several effective methods of business succession that provide the owner a way to realize the value that he or she has created, while at the same time permitting the business to continue. One of the more common means of succession is to pass ownership along to family members. This works well if the owner's younger family members have been working their way up through the business with the intent of taking it over someday. When the goals of the owner and the family members have been agreed upon, it is important to develop a written agreement to govern the purchase of the company. In general, a value for the company is agreed upon and the incoming owner makes regular installment payments to the outgoing owner until the full amount is satisfied.

In a corporation with multiple owners, there are two different ways to approach succession. If the goal is to keep the company as-is, the more senior shareholders should identify younger professionals that possess the capability and willingness to take ownership of the company. These junior professionals may be given the opportunity to buy shares of company stock, usually over an extended period of time, from the senior shareholders. In time, the senior shareholders will have received the value for their stock shares while phasing out and making room for the junior shareholders to take over the majority ownership of the company. In this way, the company continues to function as normal even as the older owners move on and the younger owners move up.

The selection of junior shareholders in this situation is critical. You must exercise tremendous diligence as you assess the abilities, aptitudes, and skills of your company's potential successors. As a transitioning owner, you are essentially betting all your built-up wealth in your company on the shareholders coming behind you being able to perpetuate the company successfully enough to complete your buyout. If the company would happen to fail during your buyout period, you could be deprived of your stock payments.

Another option to consider is an Employee Stock Ownership Plan or ESOP. An ESOP is a plan by which a company is sold to its own employees. This type of plan allows the company to remain closely held and can provide the remarkable tax advantage of a tax-free rollover for the owners, providing they roll the proceeds of their sale directly into qualified domestic securities. An ESOP also provides a way for the employees to share in the future success and profitability of the company. This benefit may tend to make the employees more efficient and conscientious in their work.

To form an ESOP, a company establishes a trust fund and contributes shares of its own stock or cash with which to buy existing shares. Shares of this trust are then allocated to individual accounts held by the employees. Allocations are typically made to the employees based upon their relative rate of pay. When employees leave the company, they receive their stock which must be purchased by the company at its fair market value, unless the shares may be sold in a public securities market. All private companies must have an annual valuation to establish the price of the company's shares.

Since ESOPs are a tax-qualified benefit plan, they must satisfy certain requirements set forth by the United States Internal Revenue Code of 1986. For an ESOP to be deemed qualified, it must cover enough employees to satisfy a nondiscriminatory classification test or a ratio-percentage test. The ratio-percentage test requires that the percentage of non-highly compensated employees in the plan be equal to at least 70 percent of the number of highly compensated employees. If the ratio-percentage test cannot be met, the plan will be deemed qualified only if it can be proven that the group of employees covered by the ESOP is not discriminatory in favor of the company's highly compensated employees, its officers, or its shareholders.

ESOP participants must become vested according to one of two vesting schedules. They may become 100 percent vested after three years of employment or they may become vested on a schedule of 20 percent after two years of employment, and 20 percent over each of the following four years, achieving 100 percent after six years of service.

A qualifying ESOP is required to invest mainly in qualifying employer securities in the form of common stock readily tradable in a securities market, or employer-issued common stock that possesses a combination of voting power and dividend rights that are at least equivalent to the corresponding class of common stock possessing the greatest voting power and the class of common stock with the greatest dividend rights.

An ESOP is required to permit its participants who have participated for ten years or more and who have reached the age of 55 to diversify a quarter of their accounts each year, with the limit raised to 50 percent in the sixth year of diversification.

Aside from the ordinary methods of business succession, a business owner may elect to sell their company to another company. This oftentimes provides a clean break to retirement and allows the business owner to receive the maximum monetary value for their business. If you are considering selling your business, you may wish to approach colleagues in your area, or you may wish to engage the services of a broker. A broker will come with significant fees, but they may also have the ability to connect you with more potential buyers, giving you more options than you might have developed on your own. As with most things in business, a good professional will provide value well in excess of their fees.

When selling your company, the buyer will most likely require that you and any other owners remain with the firm for a minimum period of time to facilitate an effective ownership transition. A surveying business is generally maintained upon strong client relationships, so it makes sense that a new ownership group would desire to keep the key people from the outgoing ownership group engaged for a while. An employment agreement is an effective way to clearly define the expectations and the employment terms for the outgoing owners.

The sale of a service-oriented business can be complex. There are two common ways in which service businesses are sold. The first type of sale is a stock sale, whereby the buyer and seller determine a value for the company as a whole and then divide that amount by the number of outstanding shares. At the closing of the sale, each shareholder is paid for their shares according to the valuation. The value of your business may be established by one of several methods. An outline follows:

Market Valuation Method – This is a very subjective method by which a valuation is established by comparing your business to similar businesses that have recently been sold.

Asset-Based Valuation Method– This is a more objective method in which a company's net asset value is computed. The net asset value is the total value of the company's assets minus the total amount of the company's liabilities.

ROI-Based Valuation Method– This method evaluates a company based on its profit potential and what return on investment a potential investor is likely to receive for investing in the business.

Discounted Cash Flow Method – This method values a business based on its projected cash flow, adjusted to its present value. This method works best for businesses that do not expect to have consistent profits in the future.

Capitalization of Earning Method – This method calculates a company's future profitability based on its cash flow, annual return on investment, and expected value.

Multiples of Earnings Valuation Method – This method, also known as the "Time Revenue Method" computes a company's maximum value by assigning a multiplying factor to its current revenue. The multiplier may vary based upon numerous factors including the economic climate and historical industry data.

Book Value Valuation Method – The book value method calculates the value of a company at a given moment by analyzing the company's balance sheet. By this method, your company's assets, minus its liabilities equals the value of the owner's equity, or the value of the company. This method is very simple if your accounting is up to date and tends to favor businesses that possess valuable assets.

Another type of sale is an asset sale. In an asset sale, a value is assigned to all of a company's assets and liabilities. This method differs from a book value valuation because generally a goodwill payment is added, which is to compensate the owner for the intangible value of the business. This is meant to compensate for the owner's brand name, client contacts, reputation, old records, and professional goodwill. The amount of this payment is entirely subjective and is frequently the main focus of negotiations.

When selling your business on an asset basis, you will essentially be liquidating all of your bank accounts, real estate, insurance policies, vehicles, accounts receivable, and unbilled work in progress. For many business owners, this represents the final payoff to send them into retirement.

Whichever way you may choose to sell your business, remember to obtain professional liability coverage to protect against problems that may have begun while you still owned the company.

Preparing Your Business for Sale

Once the decision to seek a buyer for your business has been made, there is much work to do toward the goal of preparing your business for sale. First and foremost, all building and grounds maintenance should be tended to. A neat lawn, attractive landscaping, and a tidy office space will make a good first impression for any would-be buyers.

Secondly, dedicate some time solely for the purpose of cleaning up your accounts. Send any invoices that can be sent, close out old jobs, and write off any uncollectible accounts. Clean books will make a transaction much easier for all parties.

Finally, make an earnest effort to make personal contact with your regular clients to inform them of the transition. This will serve to foster goodwill between your clients and the new business owners.

Conclusion

Business ownership is stressful, demanding, and risky, but at the same time offers a path to a fulfilling career, replete with rewards both personal and financial. With a fair amount of determination and grit, coupled with the counsel of trusted professional advisors, and armed with a strong work ethic and a good attitude, business ownership can provide a life-changing source of satisfaction.