

SMALL BUSINESS



SUCCESS STORIES

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SECURITY FOR YOUR SMALL BUSINESS

Learning from the Big Guys

In June of 2005, MasterCard International reported a breach of payment card data, which potentially exposed more than 40 million cardholder accounts to theft and fraud. It was a nightmare for the huge financial services company.

Security breaches like these are all too common today. Organizations such as LexisNexis, ChoicePoint, PayMaxx, Bank of America, San Jose Medical Group, California State University at Chico, Boston College, the University of California at Berkeley, and DSW, the shoe retailer, have all reported losses of sensitive data. Millions of people have been affected.

"Protecting customers, preventing fraud, and safeguarding financial information is a top priority at MasterCard," the company said later. Of course it's a priority, just as it should be for any small business. In this day and age, security is a complex and expensive proposition, as well. Small businesses need to learn their lessons from what's been going on with big businesses today.

"As a small businessman, it's frustrating that we have to spend all this much time and effort protecting ourselves and our clients," says Mike Ridgway, President of Universal Title of Rockville. "I'm in a service business, and security is very expensive." Universal Title handles mortgage applications, with a tremendous amount of sensitive financial information in them. But the company has a clear and strict security policy, and takes client confidentiality very seriously.

First, unlike other businesses, Universal Title never shares or sells data or other information, says Mr. Ridgway. They safeguard confidential mortgage information through a thorough shredding policy. The company also spends a lot



Mike Ridgway
Universal Title of Rockville

on their IT systems. They employ all the latest in anti-virus, anti-spam and spyware for their e-mail and computer systems. Mr. Ridgway says they are now investing in a new FTP site that adds extra levels of security for receiving loan packages. "We're always looking towards creating more secure systems nowadays," says Mr. Ridgway. "Our IT people make sure that we're well taken care of."

But that leads to another important point, says Mike Ridgway. "People need to understand that the bad guys are creating higher costs for clients and consumers. In any industry, you now have to spend more for physical security, whether it's anti-terrorism, anti-hackers

or anti-information loss."

The Small Business Technology Institute conducted a recent study of 1,000 companies with between 1 and 100 employees. It found that small businesses are reactive. They usually make purchases of information security products only after suffering an information security incident. The study also found that:

20 percent have yet to implement virus scanning on their e-mail.

56 percent report at least one security incident in the past year, including unexplained changes to system data; systems failure; information loss or data corruption; theft or fraud involving computers; staff misuse of information systems; unauthorized access by insiders and outsiders; viruses, spyware or other malware.

The biggest impact of information security incidents is on personal productivity.

The message for small businesses? Don't ignore the threats. Prepare now, or pay later.

Small Business Computer Security Checklist

Microsoft Small Business recommends these steps as a guide:

Protect Desktops and Laptops

Keep software up to date, protect against viruses, and set up a firewall.

Keep Data Safe

Implement a regular backup procedure to safeguard critical business data. Setting permissions and using encryption will help.

Use the Internet Safely

Unscrupulous Web sites, as well as pop-ups and animations, can be dangerous. Set rules about Internet usage to protect your business and employees.

Protect the Network

Remote access is a security risk to closely monitor. Use strong passwords and be especially cautious about wireless networks.

Protect Servers

These are your network's command center. Do not let them become compromised.

Secure Line of Business Applications

Make sure that software critical to business operations is fully secure from internal and external vulnerabilities around the clock.

Manage Desktops and Laptops from the Server

Put stringent administrative procedures in place so users do not jeopardize security measures.

A CONVERSATION WITH A SPECIALIST

Small Business & Government Contracting

Managing a small business has its interesting challenges. But add in government contracting and you get a whole new ball game for many companies.

The greater metro area is a hotbed for government contractors, with companies from a few employees to enormous, multi-national conglomerates bidding and working on a multitude of contracts for federal and state government agencies.

Ron Hobson served in the Clinton administration, overseeing the government's 8a program, and has more than 20



Ron Hobson
Provident Bank

years of experience in working with government contractors. The Small Business Administration's 8a program was established to help disadvantaged entrepreneurs, such as minorities and disabled people among others, get a start in government contracting. Today, Mr. Hobson is Vice President at Provident Bank in the Commercial Division.

What makes an effective contracting business?

"Successful government contractors all have a few elements in common. Critical

among these is solid accounting, legal and banking help, and very effective human resources facilities. It's the basic infrastructure of any good company, but it's so important in this business niche. Companies need to build their infrastructure, such as management, marketing, contract administration and proposal writing. But most important is the finance and accounting piece. When you have this in place, you can go out and effectively bid the right price for performing government work."

Do contractors have any unique needs?

"There tends to be a major need for working capital for many government

contractors. You can pick up contracts that are substantial in dollar volume, and then you need to ramp up fast and meet payroll. This is particularly important for labor-based companies that deliver many workers for time-sensitive contracts."

What kind of work is out there?

"Government buys everything from milk to missiles. You can get high tech or low-tech work. Around here there seems to be a tremendous amount of IT consulting work. After 9/11, there was a major surge in need for intelligence-based companies for homeland security work, but there's also low-end type work in the

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THE BUSINESS PLAN How It Works for You

You're starting a business. You're all excited. Can't wait to get going. But hold on... where's your business plan?

That's the first thing a bank, a loan officer or an investor is going to ask. It's also of interest to any salespeople or supplier. It should also be a critical part of your new company. Mary Wamsley is a Provident Bank Senior Vice President and Maryland area Small Business Sales Manager. She says, "A business plan is the most important part of starting a business. It includes a description of the business, your management experience, marketing strategies, and financial projections, and any obstacles to success. Its purpose is to make an owner review every aspect of the business at one time in one format."

Like most professionals and business consultants, Ms. Wamsley recommends you consult with professionals when preparing your business plan. "There are agencies at county, state and federal government levels that can help draw up your plan. For instance, the Small Business Administration conducts seminars on how to write a good business plan, and have a group called the Service Corps of Retired

Executives (SCORE) that will give you guidance in writing a business plan." There are also a variety of software packages available which can guide you step by step through development of a plan.

The U.S. Small Business Administration (www.sba.gov) says that a business plan precisely defines your business, identifies your goals, and serves as your firm's resume. Plans help you allocate resources properly, handle complications, and make good business decisions. Because it provides specific and organized information about your company and how you will repay borrowed money, a good business plan is a crucial part of any loan application.

Plans can sometimes take as long as 12-18 months to formulate. Entrepreneurs and business owners should always go back to their business plan and evaluate their company's performance versus projections. Strategic planning is equally as important to small companies as it is to larger ones.

To see some sample business plans of successful organizations, go to www.bplans.com/sp/businessplans.cfm.



Mary Wamsley
Provident Bank

Basic components of a business plan include:

- Description of the business
- Marketing
- Management
- A current and pro forma balance sheet/financial projections
- Income statement
- Cash flow analysis
- The SBA recommends that, before you begin writing your business plan, consider four core questions:
 - What service or product does your business provide and what needs does it fill?
 - Who are the potential customers for your product or service and why will they purchase it from you?
 - How will you reach your potential customers?
 - Where will you get the financial resources to start your business?

HOBSON

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many facilities around the metro area. Contracting companies provide almost all of this."

What kind of profit margins can a company expect?

"Different types of work generate different margins, and margins also depend on the type of contract. These can range from cost-plus to time and materials and also fixed price contracts. If you're going to bid on a contract, you need to make sure it's profitable. But government work is a low margin business. The market dictates this. Because government is not a profit-driven business, net margins typically run three to 10 percent. For the IT market in commercial areas, margins can sometimes run 10 to 20 percent."

How can a business get started in government contracting?

"There's lots of prep work needed before you actually get to a bank and the financing stage. Luckily, there are a lot of groups around to help you in growing your business. The SBA, National Capital Minority Business Opportunity Committee, and Small Business Development Centers at George Mason and Howard University are just a few. These can help companies prepare business plans and plan for cash flow needs and much more."

How does a contractor control cash flows?

"Yes, cash flow cycles and cash needs can be different for government contractors. But there are ways to help yourself. For instance, if you can negotiate payments up front, then you may be able to set up electronic billing on a bi-weekly basis instead of monthly. The advantage of this is a positive effect on cash flow, and a lowering of the amount of money a business must borrow. If you bill your government customers monthly, you're incurring the costs of your employees for an entire month. Because government clients don't pay then for another two weeks or so, you're carrying those employees for six weeks before you see payments. That's just one of several alternative ways of financing particular work."

What can a banker offer a government contractor?

"In my capacity at Provident Bank today, I'm more than just a banker. We act as a trusted advisor to owners, actually helping them build their business. I'll often attend procurement conferences and sometimes market for clients, making introductions and recommending partners and vendors. We have a lot of people with extraordinary government contracting business experience. It's a unique value that Provident brings to the table for government contractors. Typical loan products for contractors include lines of credit and equipment lines of credit and cash management services like internet banking."

Thanks to my bank,
I can get to those
**HARD TO REACH
PLACES.**

Janet: wife, dentist,
business owner

Wouldn't it be nice if there were a small business loan just for Janet? Janet opened her own dental practice a few years ago. Now she's ready to move to a larger location. But to do so, she needs a small business loan. Luckily, Provident makes borrowing easy. As a preferred SBA lender, Provident requires minimal paperwork. And the approval process is faster than other banks. So when it comes to long-range growth, Janet has something she can really sink her teeth into.

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THE NEW MOM 'N' POP SHOP: *O'Keefe Communications, Inc.*

Catie and Kevin O'Keefe are the husband and wife team who run O'Keefe Communications. Based in Washington, DC, their company of 15 specializes in communicating a company's targeted messages through media and live event production.

In the notoriously fickle industry that they're in, they've managed to hold onto some very notable clients for a long time, including Fannie Mae, the Food Marketing Institute, the U.S. Postal Service and Clark Construction, among others. OKC works with several local and nationwide associations, corporations, government and non-profit clients.

"I think our success must be attributed to our decision to invest in the infrastructure required to make good on our promises to our clients," says Kevin O'Keefe, who serves as Creative Director and CEO. "The trend to use freelancers and virtual production houses offers little stability or accountability for companies who require a higher level of performance. We get to know our clients' industries and their needs and we invest in the personnel and equipment necessary to offer consistency and quality assurance.

Catie O'Keefe is the company's Executive Producer and President. "Another reason we have survived over the years is by resisting the impulse to shape our business model around a particular industry. Every industry is vulnerable to

hard times and by working with a wide variety of clients, we ensure our long-term stability. It also allows us give our employees a more rewarding and diverse set of projects."

O'Keefe has remained adaptable and flexible with client needs over the years. When clients began needing video production capabilities, O'Keefe developed a video department to produce creative visual design with cutting edge media production techniques to produce memorable videos and DVDs. Their multimedia department creates sophisticated graphics, electronic presentations and broadcast quality 3D animations. "It's a constant challenge to weed the technology that offers the newest bells and whistles from the technology that will add long term value to our clients projects," says Catie O'Keefe.

Because so many clients require staging and event management services, O'Keefe offers complete live-event production services, for events ranging from small intimate meetings for a few dozen attendees to large general sessions with audiences over 10,000.

The company philosophy is: "We think creatively, produce effectively and act honestly to deliver the results our clients rely on," says Mr. O'Keefe. OKC, on the web at www.okeefecom.com, has won over 100 awards since founding the company in 1979, with 14 in the last two years alone.



Catie and Kevin O'Keefe, O'Keefe Communications

RISING FUEL COSTS

An Impact Small Businesses are Just Beginning to Feel

Pressures on profits and the bottom line are a fact of life in business. But then came 2005's amazing jumps in gas and fuel prices. Anyone's margins will be squeezed in some way, but small business owners have to stay profitable. Fuel costs aren't going to be going down too far in the near future. So how do you cover the costs when your drivers, deliveries, freight carriers and your own vehicle need \$3 per gallon gas? What do you do with your employee reimbursement policies for driving, often \$.25 a mile or a similar figure?

Even before Hurricane Katrina's effects on fuel costs were felt in September of 2005, Provident Relationship Manager Bob Frey had heard from a few of his customers. In the trucking industry, obviously fuel is a huge percentage of business costs. One firm's owner has effectively insulated himself from high costs. The customer maintains a fleet of trucks and has large hauling contracts with several companies, including the US Postal Service. In his standard con-

tract with customers, he has included specific language covering his company against fuel price inflation. The clause says that, every time there is a five-cent or more rise in fuel costs, the hauler gets to raise his prices to cover it. "There's no markup, and it's not making him any extra profits," says Provident's Bob Frey. "But it covers him for times like these we're having now." Frey says that these types of agreements are fairly common in larger contracts and regional and national carriers and firms.

But, says Mr. Frey, there are other firms that aren't so fortunate to be covered. He has another customer who is a regional grocery produce distributor. The firm is now paying almost twice what they were last



Glen Cade
G & G Towing

year at this time in fuel costs – and not making up the revenue yet. "Think about it everything that goes into their bringing a tomato to market," says Mr. Frey. "Everything they do takes gas, whether they're plowing, planting, fertilizing, harvesting, freighting and delivering. The only way he can make up his costs are to pass on the cost that the market will bear." Mr. Frey points out that we have not seen those passed-along costs yet in our groceries.

Glen Cade is President of G&G Towing in Rockville. They have contracts with various parking lots and shopping centers all around the region, and they also work a lot with the Montgomery County police. He says that his company's fuel bills have gone

from \$5,000 every two weeks last year, to more than \$10,000 nowadays. "Last year, gas was \$1.40 a gallon! That kind of jump is impossible to make up. The cost comes right from the bottom line."

Everyone's hurting with these prices, says Mr. Cade. The towing company's problem is that the county regulates it. "The police give us designated rates for much of our business that are set by the County government," says Mr. Cade. "We're not allowed to change them." He says the police have just passed an increase to the gas allowance, and he hopes the regulated rates will keep pace with the inflated cost of fuel today.

Fuel surcharges automatically kick in when gas prices hit certain levels in many areas. Montgomery County, Maryland has already added \$1.50 to limo and cab fares. In Washington, DC, ironically, a \$1 fuel surcharge expired on August 31, 2005, but

See **Fuel**, page 7

LENDING FOR SMALL BUSINESSES — *The SBA Loan*

Small businesses have many opportunities available to them, and when they need startup and working capital, they have Small Business Administration (SBA) Loans. Don't think they're not for you. After all, giant successes like Nike and Under Armour were started with the help of SBA Loans.

Jennifer O'Brien started Clover Contemporary Women's Boutique with an SBA Loan less than a year ago. The store is located in the Lakelands office building on Main Street in The Kentlands in Gaithersburg. She sells upscale, contemporary women's jeans, accessories, fun bags and casual and cocktail-type clothing. "We wouldn't be where we are today without the SBA's help," says Ms. O'Brien. "We never had a loan before, but we did a lot of research first, and we didn't find it that hard or difficult." She met with Provident Bank relationship managers and SBA volunteers who helped her figure out what kind of loan she needed and gave them the advice she needed. "An SBA loan has been great. It's probably the easiest option for a small business, because you get it right away. There's no waiting period, and you get the funds immediately."

The SBA has a number of programs that allow banks to make loans to businesses

that may not have qualified under conventional terms for reasons related to collateral or repayment terms.

Yes, you do need to put more thought and effort into developing a business plan and projections, but no, it's just not that difficult to navigate the process and paperwork, says Mary Wamsley, a Provident Senior Vice President and Maryland area Small Business Sales Manager. "Your banker really has to be comfortable with the process, however. If your bank isn't familiar, it can be a painful process, with lots of T's to cross and I's to dot."

Provident's Mary Wamsley says that many people are unsure what SBA guaranteed loans really are. "An up to \$2 million SBA loan can help you bridge a collateral shortfall when you don't have hard assets to pledge. This kind of loan is especially good for service businesses that normally do not have lots of saleable collateral available, such as restaurants, medical professionals, retailers and service stations."

"One of the misconceptions is that you work directly with the SBA to get your loan," she says. "But, instead of getting bogged down with government forms, you work directly with your local banker who will handle the application process for you, a process that usually takes no longer than

picture to come

Jennifer O'Brien and ???

applying for a regular commercial loan." In fact, says Ms. Wamsley, banks that have "SBA preferred lender status"—like Provident Bank—can often get loan approvals in 48 hours.

In November of 2004, Provident purchased Southern Financial Bank, the largest Virginia-based bank and a leading SBA lender in the Washington, DC and northern Virginia markets. The purchase brought additional expertise in SBA lending to Provident and the bank is expanding

penetration in the SBA market today.

The SBA was officially established in 1953, and has delivered about 20 million loans, loan guarantees, contracts, counseling sessions and other forms of assistance to small businesses. The SBA's current business loan portfolio of roughly 219,000 loans worth more than \$45 billion makes it the largest single financial backer of U.S. businesses in the nation. Last year alone, the SBA backed more than \$12.3 billion in loans to small businesses.

SELLING THE FAMILY BUSINESS Prepping to Pass the Torch

Experts say the number of family businesses sold in next ten years is going to be greater than ever before in history. About 39% of family-owned businesses will change leadership within the next five years as their leaders retire or semi retire, according to a recent MassMutual Financial Group/Raymond Institute American Family Business Survey.

These are not just small businesses either, but firms of all sizes. The baby boomer demographic of entrepreneurs is retiring and selling the small businesses that were handed down to them by their families. Most business owners say their preference would be to pass it down to next generation, but family and financial matters often won't allow that.

Selling can be daunting. You need to know all the aspects you need to consider, how to find the true value of your business, and how to evaluate potential buyers. Often, buyers are an employee, a relative, a



Richard J. Hunt Jr.
Small Business Banking

friend, a supplier, or a customer. But just as often, you'll need to reach out to a bigger pool of buyers and put ads in newspapers, trade publications, and business-sale websites. Then, you need to understand how to evaluate a deal and assess whether or not that deal is fair. You'll need help with financial planning after the sale.

But before that comes emotional issues says Provident Bank's Richard J. Hunt Jr., Senior Vice President/Division Manager, Small Business Banking. "The psychological barriers to selling are amazing. You can't even get to planning and structure phases until you deal with them." Often small businesspeople see their business as an extension of themselves. It can be hard to imagine life without it. Family dynamics also play a big role. In some cases an entire family may have depended on the business, talked about it around the dinner table, and

See **Family**, page 7

Business owners, you don't have to suffer
TO BE SUCCESSFUL.

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FREE INTERNET
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FOR ONE YEAR**

Offer expires Oct. 31



*Andy: father, architect,
small business owner*

Wouldn't it be nice if there were small business services just for Andy? Andy is frustrated with his current bank. He feels he's been giving up good service to get the products he thinks only big banks can provide. Luckily, at Provident, Andy can have it all. From now until October 31st, if he opens a Small Business Checking Account and orders a Business Debit Card, he'll get free Internet Banking for a year. To Andy, that's the solid foundation he's been looking for.

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A CONVERSATION WITH A SPECIALIST

Be Cost-Efficient and Still Provide Valuable Benefits to Employees

Until last year, when Congress finally passed critical legislation for small businesses, a company owner's options were fairly limited in what they could offer their employees. In fact, today you can offer employees some valuable benefits without dramatically increasing your expenses – you may even be able to reduce them. These include Health Savings Accounts (HSAs), payroll direct deposit, 401(k) planning and employee Bank at Work programs, among others.

Don Sheeler is President of Provident Investment Company and an expert in small business benefits. "Recent legislative changes have made retirement planning much more acceptable to small business owners and their employees," says Mr. Sheeler. "Sit down with your retirement advisor to review your options, because there's a lot more flexibility today."



Don Sheeler
Provident Investment
Company

Mr. Sheeler says Provident Bank recommends looking closely at HSAs. "While not meant to be retirement planning-oriented, HSAs are a great way to grow money in a tax-free manner. All small businesspeople should be looking at them."

HSAs are a smart addition to an affordable qualified High Deductible Health Plan (HDHP). These allow you and your employees to pay a lower premium than other health plans, while paying a higher deductible. When you combine an HDHP with an HSA, the funds in the HSA can then be used to pay qualified medical expenses not covered by the health plan, such as deductibles, dental and vision services. It means that companies can now more easily afford health care coverage.

Contributions to the HSA are tax-favored, which means they can be made pre-tax or deducted on an employee's tax

return. The HSA will grow tax-deferred, and if you only use your HSA funds for eligible medical expenses, you never have to pay taxes on those funds.

HSAs are just one of the benefits small businesspeople should consider. Another benefit that keeps employees happy is the 401(k). This is a type of retirement plan that allows employees to save and invest for their own retirement, and save on taxes. Through a 401(k), the employer deducts a certain amount of money from paychecks before taxes are calculated, and invests it in options employees can choose. It allows you to save on a tax-deferred basis, unlike an ordinary savings account or mutual fund. There's also profit sharing, another type of retirement plan. These allow an employer to share profits of the company with employees by contributing a percentage of the company's annual profits to the plan.

These are just a few of the measures you can take to keep your employees happy and motivated.

CHOOSING TRUSTED ADVISORS GET GOOD PEOPLE, KEEP THEM WITH YOU

Accountant...attorney...banker... payroll... insurance expert... At some point, every small businessman needs one or more of these areas of expertise for their business. You have to give them your financial information, and trust them to do their jobs. But your business is your life. So how do you choose an advisor?

In fact, choosing the right advisors is a critical component of a successful business plan and its ongoing management. John L. "Skip" Sullivan, President & General Manager of Ask Tax. Located in Columbia, is an advisor today for almost 700 Maryland area small businesses. His company, Ask Tax, handles accounting services, live payroll, individual and business tax services, incorporations, legal contract services, SBA Loan assistance, Minority Business Enterprise (MBE) certification and more.

In choosing an advisor or consultant, Mr. Sullivan says he would never give a telemarketer his business, and would avoid picking someone who is that important out of a phone book. He says you get the best information from referrals, and adds that referrals are solely how he has grown his business since he began in 1992. "I would trust a referral from others in my position. You can pick their brains, find out how good an attorney or accountant is, what they have accomplished for others, and how much they charge. You can only really get an idea of quality and cost of service from a referral."

Mr. Sullivan says he frequently refers particular customers to services he likes.

He sends many of them to Provident Bank, for instance. "We have some Mom and Pop-type customers who have lots of cash at the end of a business day. I don't want them going into any dark, night-drop situations. So I tell them to use Provident Bank." He says customers appreciate that they can deposit their cash and receipts at Provident's brightly lit and safe locations at Wal-Mart and Shopper's stores.

Mary Wamsley is a Provident Bank Senior Vice President and Maryland area Small Business Sales Manager. She says that outside services and advisors are critical to any small business – if not now, then definitely in the future of the business. "I see this a lot in our customers and any smaller business. They're all very good – experts at what they do for business. But they're not experts at other things, like payroll, legal needs, or insurance, for instance, and they don't want to be."

Ms. Wamsley says she typically recommends a business see an attorney first, and get a business structure developed. Then, accountant needs are usually next. After that comes insurance needs, a banker, and others. "All these resources for the small business should have the best interest of the business in mind. The businesspeople should never feel uncomfortable with these resources."

Running a business is a huge undertaking, no matter what, says Ms. Wamsley. "You need good people on your side that you can trust, then stay with them. If you're ever not comfortable with them, look around."

FROM A TINY SBA LOAN TO NATIONAL FIRM The Evolution of WTS International

Talk about riding the fitness boom to the top. Gary and Annette Henkin started a tiny tennis company in Alexandria, in the back of the Old Town Tennis Shop. As the health club boom evolved, so did they, moving into fitness and spa facilities and building their business over the next 30 years.

Today the husband and wife team are principals of WTS International, a leading spa, fitness and leisure consulting and management firm. Based on Prosperity Drive in Silver Spring, they work with hotels and resorts, golf and country clubs, residential developments, commercial facilities and master-planned communities. "He's our guiding force and vision," says Annette, "I'm more day to day-oriented, like getting the bills paid."

WTS International started out with a tiny \$24,000 SBA Loan. They have taken advantage of their Provident Bank relationship for lines of credit and various business loans over the years, for office equipment and other needs. They're a premier name in their business, but it wasn't always that way. Annette remembers one of their lowest points. They were still located in the Old Town Tennis Shop. Their first good employee, a smart young guy who had helped Gary start the firm and manage the shop, announced he was leaving. Annette and Gary had been looking over a series of mounting bills when they got the bad news. "Then,



Gary Henkin
WTS International

suddenly, in the middle of all of this, the lights all went out," recalls Annette. There was another point not too long afterward when the couple had to go into their brokerage and sell their only stock to keep the business going.

The high point is now, say the Henkins. Because every time Gary makes a pitch, calls another industry professional, or meets people in the business, he gets respect. "Gary is highly regarded in the leisure business," says Annette. "The people he's worked with, the things he's written, and the

relationships we've built over the years, all open doors for us." He's still very excited about the company he has created, and is still working seven days a week, and even worked through prostate cancer a few years ago.

The Henkins didn't know that much about business when they started. But, since the fitness industry was literally born with them, they learned as they went in their business, in the school of hard knocks, as Annette calls it. "Gary didn't know much about the fitness market back then. No one did, really. But he sure saw it coming," she says. "He hired good people that knew various areas of the business and we learned from them, like tennis pros and leisure facility managers." All that experience, assembled over three decades, makes for a powerful corporate entity today.

INVENTORY CONTROL SYSTEMS

The ROI is Well Worth the Cost



Jennifer Thompson
Cheerio Printing of Rockville

One of the great challenges in managing a small business is keeping track of the various inventories of equipment, components and materials — from forms to products and parts.

Sure, you're aware of the large, state-of-the-art inventory management control systems available today. But you probably aren't aware of why, while they appear too expensive, they may actually prove critical to your bottom line.

Best Foreign Car Parts (www.bestforeigncarparts.com) is an excellent example of a small business that's getting a big return from their inventory management system investment. The company began in 1984 as a family salvage yard, and soon began specializing in foreign car parts. They need to be as responsive as possible to their car owner, mechanics, body shops and insurance company customers. Realizing this, they committed to careful tracking and inventory management early, and invested in an off-the-shelf salvage vehicle management system from Hollander Yard Management, says owner Lewis Cohn.

The Windows-based system has been used for the past 10 years on all the PCs at their Frederick shop and salvage yard. With the computerized parts location service, they can supply ordinary and hard to find parts to meet a customer's needs. There are some 200 to 300 vehicles spread over their 3-acre lot and in their dismantling shop at any one time. The Hollander Yard Management system lets them catalog each vehicle, each part that comes off of it, its cost, and more. The system is tied into the company's website in an online parts, engines and transmissions request form.

Provident Bank's Mary Wamsley says that inventory challenges have changed dramatically in the last decade or so. "In certain industries, so many companies are going to Just-In-Time systems, where they order the

day before they need a component or product. Most of the time a business owner doesn't have to carry the inventory they used to have to carry."

Just in Time is a way of life now for Cheerio Printing of Rockville. Owner Jennifer Thompson took over the company from her father, who ran it for years, and says business has changed dramatically from when she was growing up in it. A small, web-based printer, they used to have a 7,000 square-foot warehouse stocked with paper. Ms. Thompson says she is now renting that building to an auto parts business. "We don't have the luxury of having lots of inventory sitting around these days. Profit margins are too low. We can't predict what jobs we have month to month. You can't have that kind of inventory sitting on your floor." Cheerio's paper vendors have become much more customer service-oriented. Today, they stock the paper for most printers, and printers, in turn, get their paper per order, usually in one or two days.

Webb/Mason is a distributor of business forms, printed products, office supplies and promotional products. They are experts in warehousing resources and technology, allowing for centralized processing order fulfillment, and near real-time inventory tracking. They streamline inventory issues for many clients, such as printed materials and promotional items, and make them more efficient with inventory management, tracking and fulfillment. They created an online print on demand system that has been very successful.

Doug Traxler is Webb/Mason's Executive Vice-President of Sales & Marketing in their Oakton, Virginia office, and says the impact of not managing inventory well can be very expensive. "Automated systems can save a lot, often 50% or more," he says. "The more complex the organization, the bigger the problems, and the more that can be done."

When Webb/Mason looks at a business, says Mr. Traxler, they look for opportunities for savings and speed. They look at areas like the carrying costs of the inventory, storage and transportation expenses. They also look for ordering abuses, such as people that order small amounts every few days who could be ordering once a month, and people who use overnight when they could use standard ground shipments. They help businesses set up efficient central control systems that still offer easy access for everyone involved.

The National Purchasing Association has recently estimated that it costs the average company \$125 to process an average invoice. Multiply that times dozens or hundreds of invoices you pay for vendors and services. Cutting into that cost offers savings can be felt throughout your whole organization.

FAMILY

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used it as an education and proving ground for their children. Unlike every other business decision made, however, you only sell your business once. There's no opportunity to take a trial run or build up any experience. You get a single chance to put a price tag on years of effort — and once you sign the sales documents, it's over.

The firm of McLean, Koehler, Sparks & Hammond (MKSH) has locations in Hunt Valley, Frederick and Columbia and has focused on serving entrepreneurial, owner-managed companies since 1943. They have a large family business practice, with an investment banking unit that specializes in merger/acquisition transactions for family businesses. Terry Weller is Managing Partner of MKSH. He says that determining a company's true value is critical. "In the world of entrepreneurial and family held businesses, the value of the business is often times a significant portion of the owner's wealth."

Maximizing value is a longer-term proposition, says Mr. Weller. He says that the process of preparing the business for sale should actually start at least three years before the contemplated transaction. "The owner needs to put his financial house in order and show strong trend lines for the business earnings." Buyers, whether financial or strategic, are most concerned about the earnings potential of the acquired business in assessing value. "Having a track record of recent earnings that demonstrates this best serves the potential seller's purpose."

Mr. Weller acknowledges that this can be a paradigm shift for business owners. "Most owners concentrate on what they can do to operate the business in a manner to mitigate taxes as much as possible rather than showing as large a bottom line."

Mary Wamsley is Senior Vice President and Maryland area Small Business Sales Manager for Provident Bank. She says that selling your business is not a job you should attempt to do alone, even if you've been a determined do-it-yourselfer. "We hear people frequently say that they don't know where to turn when trying to decide what to do with their business." Even for small businesses, there are federal, state, and local regulations and tax issues to consider, plus extremely important contracts to negotiate. Selling can take time, which takes you away from actually running the business, at the very time when you need your business to run most successfully. Sales often require the services of different experts. These may include:

- An Accountant
- A Lawyer
- Business Broker
- Business Appraiser/Valuation Expert
- A Tax Expert
- Banker or other Financier, if Third-Party Funding is needed

It all depends on the size and nature of the company. But even a small one or two-person company will need a lawyer to look over the sales contract. If it's not worded correctly you could fail to get all your money, plus be exposed to potentially huge liability claims by the purchaser, creditors, customers, and employees. Sales have tax consequences, too, and state laws require certain papers to be filed whenever a business sells all or most of its assets.

Experts say that, even if you think you're many years away from selling out, you should consider what your heirs or successors would have to do if you died unexpectedly. "You always need a succession plan," says Provident Bank's Mary Wamsley.

FUEL

Continued from page 4

the taxi commission will be reinstating it soon. The Taxicab, Limousine and Paratransit Association says that with fare increases and surcharges, everyone can expect to pay more for services.

Another new challenge for small businesses is gas thefts. Gas is a much more precious commodity in recent weeks and months, especially in our

area. AAA Mid-Atlantic reports that the DC area had the most expensive gas in the U.S. in September. Before the hurricane and summer price jumps, the Maryland State Police received only a few reports a week about gas theft. Now the call volume is two a day or more, with lots of calls from construction sites about fuel tanks being drained. The National Association of Convenience Stores has reported increasing thefts. In September, Wawa stores began making drivers pay cash in advance for gas.

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