

# BUSINESS LINE

## To Your Success

### SECURING DATA IN A SMALL BUSINESS:

#### A PRACTICAL GUIDE TO SMALL BUSINESS DATA SECURITY

Joseph O'Donnell, President, Data Security Solutions, LLC

#### **T**he Data Security Problem

Internet and email technologies have become critical tools in the small business world, presenting opportunities for increased efficiency, flexibility, and communications. However, the same open-door architecture that allows for those gains also presents risks.

The 2006 Computer Crime and Security Survey published by the FBI and Computer Security Institute shows just how pervasive security threats are for organizations:

- 88% of respondents detected computer security breaches within the last 12 months
- 74% acknowledged financial losses due to computer breaches

#### Local Backup Solutions

All too often businesses are using tape backup. Tape is unreliable. Industry data show that 50% of the tape backups are not retrievable. Floppies and Zip drives (magnetic media) can be worse. Businesses not using tape, CD, or Zip drives are likely relying on cheap sub-\$200 external hard drives that have no internal cooling mechanism, making the average life span far shorter than high quality hard drives, which can last for many years. We recommend quality external drives in the \$500-\$600 range which will reliably capture your backup and be there when you need it.

#### Off-Site Backup Strategies

Most businesses have no reliable off-site backup system in place and are at severe risk to natural disasters (fire, flood, etc.), theft, and malicious viral infections that can destroy critical business data. For example, with no reliable off-site backup system in place, a fire could destroy a business. The cost to that business is incalculable, yet many take the risk. We recommend all businesses put in place a business-grade off-site backup system.

#### Network Security Implementation

Too many small businesses rely on inexpensive (\$50-\$90 range) and poorly made router hardware that lacks the necessary security tools to protect their network and their data. Typical are the less expensive Netgear and Linksys routers. In fact, the majority of small businesses are setup only to

74% of surveyed businesses acknowledged financial losses due to computer breaches.



wait for network attacks, then hope their desktop anti-virus software is working, up to date and able to extinguish the threat. Unfortunately, there are threats that can pass through an inexpensive router (which has no virus or intrusion detection services) undetected and take secure control of a company computer and cannot be extinguished by anti-virus software. We recommend routers that have built-in anti-virus, anti-spyware, and network intrusion services detection. Instead of putting a guard inside business and hoping it can stop an intruder, we recommend upgrading to routers that put a guard at the door of your business stopping threats before they ever materialize inside your business.

#### Software Encryption

Nearly every week, the news reports another laptop lost or stolen (2,000 per day to be exact) that had credit card numbers, or Social Security numbers exposed. If those computers had employed data encryption solutions, then the data on those computers would be useless to those who stole them. Yet, too many small businesses store sensitive data, such as medical records, on computers that can be easily compromised by employees, hackers or thieves. Data Security Solutions recommends both hard disk sector-based and file or folder encryption based solutions ensuring that disk data remains encrypted and hack-proof.

#### Power Source Protection

One area of data security not often thought of is power protection. Many small businesses use simple surge protectors to defend their businesses from power fluctuations, power loss, or damaging power spikes that can destroy a computer and all the data

(continued on page two)

### IN THIS ISSUE

Valuable Information for your business including:

- *Get Valuable Data from Your Accounting Software*
- *Improving Your Client List*
- *The Right Start for Your Business*
- *Data Protection*

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The contributors to this newsletter are independent professionals providing general information. Business owners should consult an experienced professional for assistance suited to their particular needs.

# THE RIGHT START FOR YOUR BUSINESS

By Attorney Judy Gedge

**H**ello, Attorney Gedge, my name is Bob Swift and I'm planning to start a small business. I'm thinking about forming an LLC but I'm not sure. Can you help me?"

As a small business attorney, I receive calls like this nearly every day. My approach to counseling start-up business owners is to help the client formulate a game plan designed to minimize the legal risks that are specific to his particular business. Forming and properly maintaining a limited liability entity is an essential part of the game plan to minimize legal risks.

If you're starting a business, you may have some idea about the LLC and the corporation. But if you're at all confused about your options, let me explain some of the basics of business entities in Connecticut.

**Sole Proprietorship.** If you're in business and have not formed a business entity, by default, you are operating as a sole proprietorship. There is no legal distinction between you and your business. This means that all of your business and personal assets are exposed to the risks of your business. A sole proprietorship does not have continuity of life so the death of the owner essentially terminates the business. This form of business entails significant exposure of your personal assets.

**Corporation.** The primary benefit of operating as a corporation is that it will provide you protection from personal liability. In general, it is the assets of the corporation and not your personal assets that are exposed to the risks of your business. The corporation is comprised of its shareholders, directors and officers. The shareholders invest the initial capital in the corporation. They also elect the Board of Directors of the corporation. The Directors vote on corporate policy decisions and they appoint the officers of the corporation. It is the officers that oversee the day-to-day operations of the business.

In Connecticut, one person can fulfill all of these functions. As the sole shareholder, the owner can elect himself as the sole director. Then as the sole director, he can appoint himself to be the President, Treasurer and Secretary of the corporation. The corporation maintains a Corporate Minute Book containing the corporate Certificate of Incorporation, Corporate Bylaws and other organizational documents as well as

Minutes of Meetings of Shareholders and Directors.

## **Limited Liability Company.**

The LLC provides the same kind of protection from personal liability as the corporation. In general, it is the assets of the LLC and

not your personal assets that are exposed to the risks of your business. The legal structure of the LLC is less complicated than the corporation. The owners of an LLC, referred to as its members, can operate the business directly (like partners in a partnership). Or the members can appoint an officer of the LLC to operate the business. (The title of an LLC officer is Manager.) The members of the LLC adopt an LLC Operating Agreement which details their rights and responsibilities as LLC members. Whether an LLC has one member or multiple members, it is essential that an Operating Agreement be adopted. Single-member LLC's are now permitted in Connecticut. The LLC maintains an LLC Minute Book containing the Articles of Organization, LLC Operating Agreement and Minutes of Meetings of Members.

There are numerous other business entities under Connecticut law. These include the limited partnership, general partnership and limited liability partnership (LLP). However, these entities generally would not meet your needs in starting a small business. If you're starting a business, you'll want to look at your options carefully but don't be surprised if the LLC comes up top on your list.



## SECURING DATA

(continued from page one)

in it. Contrary to common belief, surge protectors are not adequate for protecting electronic equipment. Data Security Solutions deploys top of the line APC (American Power Conversion) power protection solutions, including customized software management tailored to your business. APC battery backup comes with warranties to your equipment should it ever be compromised by a power related issue.

### **Conclusion**

Most small businesses are understandably concentrating on day-to-day issues and are not focused on long-term strategies to maintain business continuity. Data

Security Solutions is committed to bringing the best, most affordable technologies and expertise to secure data for the small business community. Deploying strategies like those discussed in this paper will ensure that business data is secure and the business will not suffer a deadly blow that can bring a powerful end to profitability and have a disastrous impact on customers.

*Joseph O'Donnell is the President of Data Security Solutions, LLC which specializes in implementing a 5 Point Data Protection plan for the small business community. For more info see [www.datasecuritysolutions.net](http://www.datasecuritysolutions.net) or call 860-651-7023.*

# DIG BELOW THE SURFACE WITH YOUR ACCOUNTING SOFTWARE

By Annabel Pedemonti, Accounting Software Services

**A**ll accounting software systems generate information about a company's income, expenses, and profitability as well as information about what you owe your vendors and the money that your customers owe you. However, you can also use QuickBooks, or whichever accounting software you use, to give you information that lies below the surface that will help you manage your business more successfully.

These are some of the questions your company file can answer for you :

- Are a few customers generating most of the revenue?
- Are a few (different) customers creating most of the problems?
- Are the clients bringing in the most revenue also generating most of the profit?
- Did much of the annual revenue come from one large, non recurring project?
- Did you hire more employees to handle this?
- Which services are generating the most revenue/profit?
- Are you using your employees and subcontractors in the most efficient way?

This last question is a concern to many business owners.

A couple of years ago, one of my service clients came to me for help. He felt that his profitability and efficiency were suffering because of poor scheduling. All too often decisions about scheduling were made at the last minute, without proper planning in terms of location of different jobs and who was the best employee for the job. It often happened that whoever was available was the one sent, and that jobs were not scheduled with attention to location. He suspected that the wrong employee or subcontractor was being sent on jobs and that he was paying for too much unbillable travel time.

We decided to use QuickBooks to track which employees were doing which projects, and how much was being paid for travel time. We also wanted to see how much time was being spent on errands and administrative tasks. We did this by creating items for the different kinds of services offered, knowing that each one required a different level of expertise. We also set up items for administrative time, billable and unbillable travel time.

Having done this, each employee or subcontractor entered each week's work on a QuickBooks timesheet, showing the kind of work done and for which customers. This timesheet was then automatically used to generate payroll in QuickBooks.

Another of my clients had similar concerns but she did not do her own payroll and used an outside payroll service. This meant that she could not use her weekly payroll to generate the kind of information she needed. We set QuickBooks up in a similar way, but each employee was set up with a 'weighted' rate; gross wage plus payroll tax expenses, worker's compensation, insurance, and any other costs directly linked to

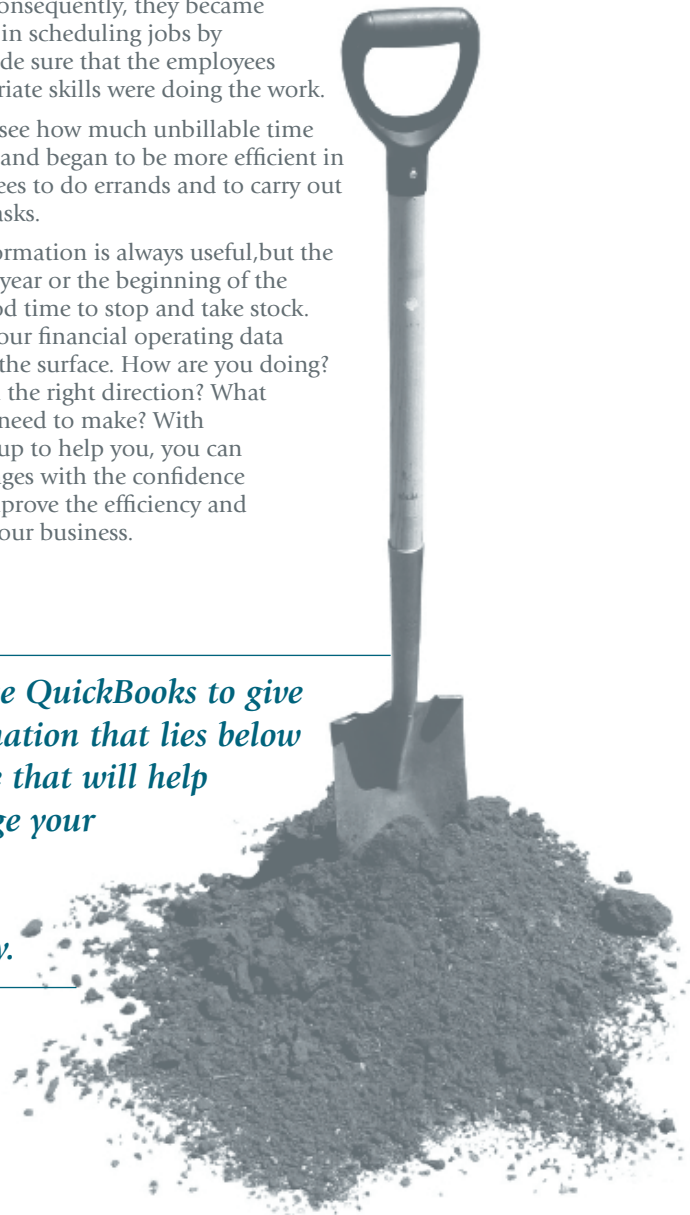
employment. As well as continuing to enter payroll from the reports from her payroll service, she also ran a weekly 'fake' payroll. No money came out of any bank account, but all the job, time, and employment costs were captured.

As a result of this my clients could see if the appropriate employees and subcontractors were working on services and projects. They could also see the true labor costs per type of service and project, and how much money was being spent on administrative tasks and non billable travel. With this information, it was easy to see where money or expertise was being misallocated. Consequently, they became more consistent in scheduling jobs by location and made sure that the employees with the appropriate skills were doing the work.

They could also see how much unbillable time was being spent and began to be more efficient in sending employees to do errands and to carry out administrative tasks.

This kind of information is always useful, but the end of the fiscal year or the beginning of the new one is a good time to stop and take stock. Have a look at your financial operating data and look below the surface. How are you doing? Are you going in the right direction? What changes do you need to make? With QuickBooks set up to help you, you can make these changes with the confidence that they will improve the efficiency and profitability of your business.

*You can use QuickBooks to give you information that lies below the surface that will help you manage your business more successfully.*



# A CLIENT LIST THAT INCREASES PROFITABILITY

By Yvonne Bruno, CPA

**P**eriodically I call my clients to see how their business is going. Typically, the answer I receive is, "I'm so busy." Busy can mean anything from having a wonderful year, to a key employee quit and the owner is trying to clean up their mess. When a business owner becomes overwhelmed, it is time to stop and look at what is causing the stress. Many times it is customer related.

Once a company progresses beyond the start-up stage, it is necessary to periodically review the customer base. This will ensure that the company's efforts are focused in the areas providing the most benefit.

Customers usually fall into four categories:

- 1) Clients who pay their bills on time, refer other customers to you, are pleasant to work with, and never complain unless there is a genuine problem. ("A" clients).
- 2) Customers who pay their bills, have a good working relationship, but very rarely, if ever, refer additional business ("B" clients).
- 3) Clients who usually pay their bills, but not always timely. There is more effort from the business to take care of these customers. ("C" clients).
- 4) Customers that are almost never satisfied. They require the most time due to collection problems, constant handholding, or other issues demanding significant attention. ("D" clients).

Once categorized, look at the previous years' sales to determine which products or services were the most profitable. Remember that this does not necessarily equate to the product with the higher dollar amount of sales. It is also critical to determine the costs involved in selling a particular product or service. The important formula to remember is "Sales - cost of sales = gross profit - operating expenses = profit. Only by understanding this formula's components will the owner know whether a product or service is profitable.

Next, associate these sales with the appropriate customer. What commonly occurs is that approximately 70% to 80% of the business profit is coming from the "A" or "B" clients. Then determine which clients require more of the busi-



nesses time and effort. If employees track their time by client, it is easy to calculate by analysis of the time records. Too often, the most time is spent with the "C" and "D" customers, and the least time with the customers generating the most profit.

Why does this make sense? If the "C" and "D" customers take more time for less profit, why not get rid of them? Although this suggestion is scary to most business owners, start slowly, so the benefit can be illustrated. Choose a few customers at the bottom of the list. Write a letter thanking them for their business in the past, but you will be unable to service them in the future due to changes in the company's focus. Suggest another company they can do business with. Alternatively, raise the price of the goods or services provided, so this customer becomes more profitable. If the customer continues to use your service, at least the client is now generating a profit. If they leave, you have created more time for your better clients.

Once the business owner tries this process a few times, they become more comfortable using it on a regular basis. This strategy can increase the profitability of a company, and ultimately creates a happier workplace with less stress.

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