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## Lending to Small Businesses Outpaced Lending to Large Businesses in 2001

Although overall business lending slowed in 2001, lending to small firms increased more than lending to large businesses for the first time in many years, according to *Small Business Lending in the United States 2001*. The study examines the supply of credit to small businesses by commercial banks and bank holding companies. The report is designed to inform business owners and banks of major participants in the small business loan market.

### Lending by All Banks

- Small business loans outstanding (loans smaller than \$1 million) amounted to \$460 billion in June 2001, a 5.4 percent increase over the June 2000 level.
- In comparison, total business loans outstanding in June 2001 amounted to \$1.3 trillion, an increase of 1.9 percent.

- The amount of loans under \$100,000 increased by 4.4 percent; loans from \$100,000 to \$250,000, by 4.1 percent; and those from \$250,000 to \$1 million, 6.4 percent.

- The largest loans, over \$1 million, increased by a meager 0.9 percent.

- Preliminary results indicate that the increase in non-credit card loans under \$100,000 was 2.3 percent in the amount and less than 1 percent in the number of loans.

### Lending by Bank Holding Companies

- Of a total of \$460 billion in small business loans outstanding from all banks in June 2001, \$206 billion was from the 56 large bank holding companies (BHCs).
- These BHCs increased their share of the small business loan market from 44.0 percent to 44.5

*Continued on page 3*



At a recent town hall forum in Los Angeles, a distinguished panel discussed entrepreneurship and business success with small business people. From left to right, GC Micro Corporation CEO Belinda Guadarrama, Chief Counsel for Advocacy Tom Sullivan, SBA Administrator Hector Barreto, and Staples founder and Chairman Tom Stemberg. (See story on page 6.)

## Tax News

### Upcoming IRS Compliance Audits Should Be Taken Seriously

Over the next few months, 50,000 taxpayers (including some 30,000 small business owners who file Schedule Cs) will be audited by the Internal Revenue Service to compile information for the agency's audit selection system. These audits are part of the National Research Program (NRP), a comprehensive effort to measure payment, filing, and reporting compliance for different types of taxes and various sets of taxpayers. The NRP's purpose is to help the IRS build better compliance programs to more effectively catch tax cheating and help ensure everyone pays a fair share.

Although the primary purpose of the NRP's discretionary audits is to gather information, their effects are as real as any enforcement audit. Any disparities that are uncovered during these audits may result in additional taxes, fines, and penalties. Revenue agents will be using federal and private databases to collect as much information about the taxpayer as possible prior to the face-to-face audit. This means that the agent will already know a formidable amount about you and your business before the audit even starts.

If you are selected for an audit we recommend you do the following.

• **Read all materials carefully.** The IRS materials should inform

you of your rights, the scope of the audits, and the materials and process they will use to get the information they need.

• **Familiarize yourself with your current and past returns.** Take time and be thoroughly familiar with your recent returns. By doing your homework before the audit, you can anticipate questions that might arise and reacquaint yourself with the facts and decisions that support your return.

• **When in doubt, seek professional advice.** Unfortunately, any audit will cost a business owner time and, quite likely, money. The IRS is using computerized information to compile as much of your data as possible. If you are uncertain about items on your return, consult a professional or have them represent you at the audit. Remember that information that may appear insignificant to you may be a "red flag" for an experienced tax auditor. A professional tax advisor will know exactly what the revenue agent is looking for.

• **Stop, look, and listen!** The Office of Advocacy met several times with the IRS in an effort to minimize the imposition of the NRP on small businesses selected for audits. The IRS acknowledged that a taxpayer involved in a NRP audit

### If Audited, Know Your Rights

The Office of Advocacy has met repeatedly with the IRS to ensure that the NRP's impact on the taxpaying small business is minimal. Although the primary purpose of these discretionary audits is to gather information, their effects are as real as any enforcement audit. Disparities that are uncovered during these audits may result in additional taxes, fines, and penalties. If a small business owner feels that the questions are unclear, beyond the original scope indicated, or uncomfortable for any reason, the IRS has agreed that the taxpayer can stop the audit, leave, and schedule another appointment. This will allow the business owner time to review the facts more closely or seek the needed help and information.

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may want to stop the audit if he or she feels that the questions are unclear or beyond the original scope indicated. Consequently, the IRS has agreed that *a taxpayer who becomes uncomfortable for any reason during the NRP audit can stop the audit, leave, and schedule another appointment.* This will allow the taxpayer time to review the facts more closely or seek the needed help and information as appropriate.

For more information, contact Russell Orban, assistant chief counsel for tax policy, (202) 205-6946 or [russell.orban@sba.gov](mailto:russell.orban@sba.gov).

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# Message from the Chief Counsel

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## Counting Small Business Blessings

by Thomas M. Sullivan, Chief Counsel for Advocacy

In a year when the challenges for Americans continue to be plentiful, there is also much to be thankful for in the small business community. So before we disturb the bounty of another Thanksgiving table, I hope you'll take a few minutes with me to look back over the year and count a few small business blessings.

- **Strengthening small business is a national priority.** My Thanksgiving list starts with a President who's a big fan of small business. Last March, he announced his Small Business Agenda, which called for more information to be made available to small businesses electronically, tax incentives for small business, initiatives to help small firms provide health care, and new efforts to tear down regulatory barriers to small business, in part by strengthening the Office of Advocacy.

- **Regulatory flexibility enforcement tools just got better.** As part of his Small Business Agenda, President Bush's Executive Order 13272 is helping us tear down regulatory barriers to entrepreneurial growth. This month, we issue a new guide for federal agencies as they work to comply with President Bush's call for greater accountability to small business in their rulemakings.

- **Relief is in sight from unchecked federal contract bundling.** The Office of Management and Budget unveiled an aggressive strategy for holding agencies accountable for eliminating unnecessary contract bundling and mitigating the effects of necessary contract bundling. These measures offer welcome relief to small contractors who have been excluded by record levels of federal contract bundling.

- **Small firms got a boost from tax changes in 2002.** A half million small businesses were able to take advantage of a simpler way to file their 2001 forms (cash accounting method versus the accrual method). Also, there was reduction in estate taxes that will allow small business owners to more easily pass a business on to their heirs.

- **Small businesses are taking advantage of new forms of information available to them.** The President's emphasis on making information more available to small business is having an effect. For example, visits to *Firstgov*, the federal government's customer-centered Internet portal, number more than 6 million per month.

- **State governments are finding ways to address small business concerns.** Oklahoma recently

passed its own regulatory flexibility law, joining a majority of states that have some form of RFA requirement. We'll continue highlighting developments at the state level that support a strong small business base.

- **Private sector providers are also taking more notice of small business needs.** Our banking study released this month notes that small business lending has recently been on the increase at a more rapid pace than business lending overall.

- **Last—and best—research continues to document small businesses' remarkable strength as the engine of our economy.** Small firms represent an important share of our country's economic wealth and produce more than half of private economic output. They lead the way out of economic downturns and make important contributions to innovation and employment. It continues to be clear that small businesses drive the economy.

Finally, on a personal note, I'm thankful to be serving as small businesses' Chief Counsel for Advocacy. It's hard to believe that I've been in this job for almost a year—it seems like just one week.

So there you have it—my small business Thanksgiving list for 2002. Pass the cranberry sauce!

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### Lending Study from page 1

percent, while their asset share declined slightly, from 71.0 percent to 70.3 percent between June 2000 and June 2001.

- The largest part of the increase came from the smallest loans, where the loan amount increased from 36 percent to 38.9 percent, while the number of loans increased from 35.6 percent to 38.6

percent. Increases in small business credit card loans accounted for most of the increase.

The study is based on data reported by banks to their regulating agencies through call reports for June 2001 and Community Reinvestment Act reports for 2000. The total number of banks submitting call reports declined from 8,459 to 8,158 between June 2000 and June 2001. This decline

came from banks with assets under \$100 million.

### For More Information

Advocacy's senior economist, Dr. Charles Ou, can be reached at (202) 205-6966, or by email at [charles.ou@sba.gov](mailto:charles.ou@sba.gov). The complete report is available on the Advocacy website at [www.sba.gov/advo](http://www.sba.gov/advo).



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## Regulatory News

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### OMB's Office of Federal Procurement Policy Releases Action Plan to Address Contract Bundling

On Oct. 30, 2002, the Office of Management and Budget's Office of Federal Procurement Policy issued a report and action plan to reduce contract bundling in executive branch agencies, pursuant to President Bush's Small Business Agenda. The report is titled, *Contract Bundling: A Strategy for Increasing Federal Contracting Opportunities for Small Business*.

OMB's strategy for unbundling contracts seeks to avoid the paperwork and labor-intensive system of the past without unfairly reducing small business opportunities. "The challenge," the report states, "is to strike an appropriate balance between operational efficiency, opportunity, and fairness." Most proposed regulatory changes under the plan are to be prepared by Jan. 31, 2003.

The Office of Advocacy participated in many stages of the comment process. Advocacy-sponsored

research on contract bundling was cited in the report. And in early October, Advocacy published a new report, *The Impact of Contract Bundling on Small Business*, which studies the issue through fiscal year 2001. The complete text of the OMB report is available at [www.acqnet.gov](http://www.acqnet.gov). Here are excerpts from the action plan's nine items.

**1. Ensure accountability of senior agency management for improving contracting opportunities for small business.** Agencies will be required to report to OMB's deputy director for management on the status of agency efforts to address contract bundling issues. The first agency status reports will be due Jan. 31, 2003.

**2. Ensure timely and accurate reporting of contract bundling information.** Recording and distributing timely and accurate information on contract bundling is the key to accountability. OMB, agen-

cies and the SBA can use this information to monitor contract bundling trends and adjust practices as warranted. The President's Management Council (PMC), composed of deputy secretaries and administrators from the 26 major executive branch departments and agencies, will ensure agency accountability for timely and accurate reporting on contract bundling efforts and statistics.

**3. Require contract bundling reviews for task and delivery orders under multiple award contract vehicles.** The definition of contract bundling in the Federal Acquisition Regulation (FAR) and SBA regulations will be clarified to require contract bundling reviews by the agency OSDDBU (Office of Small and Disadvantaged Business Utilization) for task and delivery orders under multiple award contract vehicles. Because contract

*Continued on page 5*

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### Compliance Guide Gives Federal Agencies New Direction in Considering Small Business Impact

On Nov. 13, the Office of Advocacy unveils the new Regulatory Flexibility Act (RFA) compliance guide for federal agencies. Advocacy is issuing the guide to implement President Bush's Executive Order 13272. It is an easy-to-follow tool that enables federal agencies to better identify regulations subject to review under the RFA. The executive order also requires all federal regulatory agencies to submit their plans and policies for protecting small business in their rulemaking to the Office of Advocacy for review. The deadline to submit these plans to Advocacy also falls on Nov. 13. The executive order gives Advocacy 60 days to comment on the draft agency

plans. Agencies are required to publish their final RFA policy documents in the *Federal Register* by Feb. 13, 2003.

The executive order requires Advocacy to train regulatory agencies on how to comply with the RFA. These intensive training sessions will enable agencies to learn more about how to analyze their rules' impact on small entities and to ask specific questions of Advocacy regarding RFA compliance. The Office of Advocacy will begin RFA training after agencies have published their new policies and procedures next February.

The purpose of the executive order is to bind federal agencies together in a common goal—ensur-

ing that small business issues are addressed as early as possible in the regulation writing process. Early intervention in the rulemaking process makes all the difference to small businesses. The Office of Advocacy is excited about this opportunity to work more closely with federal agencies toward reducing the small business regulatory burden.

*The Regulatory Flexibility Act: An Implementation Guide for Federal Agencies* is available on Advocacy's website, [www.sba.gov/advo](http://www.sba.gov/advo). If you have any questions or concerns regarding the executive order or the RFA, please contact Claudia Rayford Rodgers, senior counsel, at (202) 205-6804 or at [claudia.rayford@sba.gov](mailto:claudia.rayford@sba.gov).

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## Economic News

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### Two New Reports Focus on Innovation and Small Business

Research and development expenditures by America's universities are a primary driver of small business formation and new jobs according to a new study by BJK Associates. Titled *The Influence of R&D Expenditures on New Firm Formation and Economic Growth*, the study was jointly commissioned by the Office of Advocacy, the National Commission on Entrepreneurship, and the Kauffman Center for Entrepreneurial Leadership.

The authors examined a number of socioeconomic factors that could drive new firm formation and job creation in the labor market areas surrounding research universities. Once the researchers controlled for these variables, they concluded that the lag between university R&D investments and local new firm formation is the most statistically significant at two years. Moreover, they found that these effects last as long as five years.

The research also determined that new firms form around univer-

sity research activity centers much in the same way as they form around local industry clusters. The authors attribute this formation to information "spillover," which is most important in knowledge-based industries.

A second study published by the Office of Advocacy in October 2002 is *E-Biz.com: Strategies for Small Business Success*, by Joanne H. Pratt Associates. The study found that small businesses continue to embrace Internet technology, and smaller niche businesses are covering their website costs with increased revenues.

The report documents current trends in small business e-com-

merce and generates new statistics based on interviews conducted by the executive interviewing group of the Gallup Organization. The study also found that 65 percent of small, niche firms make a profit or cover the costs of their websites, and the smallest firms (those with fewer than 10 employees) benefit the most from their online presence.

"Leading edge entrepreneurs are demonstrating that the Internet offers unparalleled opportunities for small business by developing imaginative ways to conduct e-business," said Joanne Pratt, author of the study. "As these trends accelerate, so too will small businesses' role in the virtual economy," she said.

#### For More Information

The full text of both reports is available on the Advocacy website at [www.sba.gov/advo](http://www.sba.gov/advo). Paper and microfiche copies of all Advocacy reports are also available for purchase from the National Technical Information Service at (800) 553-6847 or through the NTIS website at [www.ntis.gov](http://www.ntis.gov). Please cite the following order numbers: *Influence of R&D Expenditures*: PB2003-100698; *E-Biz Strategies*: PB2003-100131.

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#### Contract Bundling *from page 4*

bundling reviews are not specifically required by the FAR or SBA regulations for agency multiple award contracts (MACs), multi-agency contracts, government-wide acquisition contracts (GWACs), or the General Services Administration's (GSA) Multiple Award Schedule Program, these contracts and the orders placed under these contracts effectively escape review. Recent and significant increases in this type of contracting make contract bundling review essential.

**4. Require agency review of proposed acquisitions above specified thresholds for unnecessary and unjustified contract bundling.** SBA regulations and the

FAR will be modified to require contract bundling reviews of proposed acquisitions above agency-specific dollar thresholds. Individual agency review thresholds for acquisitions between \$2 million and \$7 million should be established based on an agency's volume of contracts and in consultation with the SBA and agency OSDBU.

**5. Require identification of alternative acquisition strategies for the proposed bundling of contracts above specified thresholds and written justification when alternatives involving less bundling are not used.** SBA regulations and the FAR will be modified to require agencies to identify alternative acquisition strategies

that involve less bundling when an agency contemplates a bundled contract above a certain threshold. Where a bundled contract is used, a written justification will be required. Individual agency thresholds will be established based on an agency's volume of contracts and in consultation with the SBA and agency OSDBU.

**6. Mitigate the effects of contract bundling by strengthening compliance with subcontracting plans.** In acquisitions where contract bundling is determined to be justified, actions will be taken to mitigate the effects of bundling by increasing subcontracting opportunities for small businesses. To encourage greater small business

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## News Update

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### Entrepreneurship: America's Economic Foundation

"Small business is the heart of the American economy," said Tom Stemberg, founder and chairman of Staples, the office supply superstore, at a town hall forum cosponsored by the SBA and Staples on Oct. 24 in Los Angeles. The forum was titled "Entrepreneurship: America's Economic Foundation" and featured Stemberg, SBA Administrator Hector Barreto, Chief Counsel Thomas M. Sullivan, National Ombudsman Michael Barrera, and two small business owners, Belinda Guadarrama, president and CEO of GC Micro, and Isabel Valdivia, founder of Dendera HR & Benefits.

The group addressed an audience of about 150 small business owners. The lively dialogue between the panelists and business owners focused on how small businesses can survive and thrive in today's tough economy. Questions from audience members ranged from how to apply for SBA loan guarantees to how to deal with the ever burgeoning mass of red tape and paperwork that small business owners have to file with various federal agencies. The town hall also pro-

vided the official launch to a new e-newsletter, *SBA Solutions*, which offers problem solving information to small business owners.

Staples may not be a small business now, but back in 1986 when Stemberg started his first store in Brighton, Mass., it was. Sixteen years later with revenues of \$11 billion and 55,000 employees, Staples is a huge small business success story. Stemberg still takes the business of small business very seriously. As he noted, he started Staples because he found that businesses, and small businesses in particular, were not getting a good deal on office products, and office supply stores didn't operate on an entrepreneur's schedule—24 hours a day, seven days a week. The idea that small businesses would flock to a warehouse-style office supply store with low prices has been the reason for Staples' enormous success.

Stemberg had plenty of advice to give to the small business owners in the audience and said, "We are excited to work with the SBA to provide easy access to the information and resources to help small businesses maximize their potential

success." He urged small business owners to listen to their customers and take advantage of the information and resources available to small businesses from SBA.

#### Subscribing to *SBA Solutions* Newsletter

Small business owners can now access the latest news and information on the U.S. Small Business Administration's loan programs and services direct through the new email newsletter, *SBA Solutions*. This free, interactive tool is designed for potential and established entrepreneurs, and is the result of a cosponsorship between the SBA and Staples, Inc. It features an easy-to-navigate format and several regular sections: What's New@SBA, SBA Loans, Disaster Assistance, SBA Classroom, FAQs, and links to articles designed to help small businesses succeed. For a free subscription to *SBA Solutions*, visit <http://web.sba.gov/list/>.

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#### Contract Bundling *from page 5*

participation as subcontractors in bundled acquisitions, the FAR will be amended to require agencies to use contractor compliance with subcontracting plans as an evaluation factor for future contract awards. These procedures will include specific requirements for agency monitoring of contractor efforts to comply with subcontracting plans for MACs, multi-agency contracts, GWACs, and GSA's Multiple Award Schedule Program contracts and orders under all of these types of contracts.

#### 7. Mitigate the effects of contract bundling by facilitating the

#### development of small business teams and joint ventures.

In acquisitions where contract bundling is determined to be necessary and justified, actions will be taken to mitigate the effects of bundling by encouraging the development of teams of small businesses to effectively compete for bundled or consolidated contracts that might be too large or diversified for individual small businesses to perform.

8. Identify best practices for maximizing small business opportunities. Some agency acquisition plans and justifications for bundling contracts include success-

ful strategies for maximizing prime and subcontracting opportunities for small businesses.

#### 9. Dedicate agency OSDBUs to the President's Small Business Agenda.

In accordance with these recommendations, agency OSDBUs are expected to significantly increase reviews of proposed acquisitions for contract bundling as well as monitor contractor compliance with subcontracting plans.

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## Regional Roundup

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### Region 10 Advocate Comes on Board

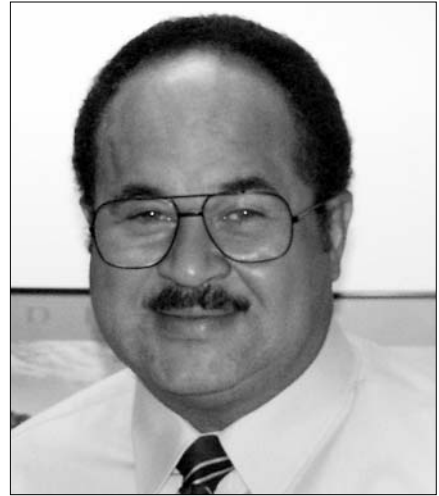
Norman E. Proctor is the Office of Advocacy's new regional advocate for the federal government's region 10, covering Alaska, Idaho, Oregon, and Washington. As regional advocate, Norm will be the direct link between small business owners, state and local government agencies, state legislators, small business associations, and the Office of Advocacy.

"Small business owners in the Northwest and Alaska have an outstanding advocate in Norm Proctor," said Tom Sullivan, chief counsel for advocacy. "Norm's experience in governmental relations and his wealth of business, trade association, and local government contacts will allow him to immediately contribute to Advocacy's role as the federal office that stands between small business owners and unnecessary or overly burdensome government regulations."

Proctor is a graduate of the University of Washington School of

Law and has more than 20 years' experience in government relations. Most recently, he was director of government affairs and public affairs for PACCAR, a worldwide manufacturer of trucks headquartered in Bellevue, Wash. Proctor has a wide circle of professional and volunteer contacts. He has been chairman of the Washington Highway Users' Federation, deputy to the chairman of the Washington State Roundtable, and active in the Association of Washington Business, the American Trucking Association, National Association of Manufacturers, American Automobile Manufacturers Association, and local and state chambers of commerce.

"I am pleased to be part of President Bush's team at the Office of Advocacy," said Proctor. "I look forward to working closely with small businesses in Region 10 and bringing their concerns to Washington, D.C."



### Region 10 Contact Information

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### Region 8: Housing and Finance Authority Finances Colorado's Entrepreneurial Spirit

A unique state-level initiative has allowed the Colorado Housing and Finance Authority (CHFA) to play a key role in the small business marketplace. In 1982, the Colorado General Assembly passed legislation permitting CHFA to utilize its bond proceeds to finance small and moderate-size enterprises. Subsequently CHFA created its Business Finance Division, which developed and administers several lending programs that help meet the needs of Colorado businesses.

CHFA's direct lending programs aid diverse businesses—from rural businesses to manufacturing companies. They assist in the acquisition of such major fixed assets as

real estate and equipment, and they provide fixed rates with terms up to 20 years. Rural businesses may be eligible for reduced interest rates.

Over the past five years, CHFA's Business Finance Division has provided \$152 million in financing to 569 small businesses, helping to create or retain almost 8,000 jobs. Over \$86 million (or 57 percent) of the loan proceeds were used to assist small businesses outside of the Denver metropolitan region. For information on this program, contact Jaime Gomez, director of the Business Finance Division, at (303) 297-7329.

### Easier Access to Electronic Resources

Access all four Advocacy electronic Listservs from a single address. The email notices you receive supply a hotlink to the new material, so your in-box won't fill up with large documents.

From this single webpage, <http://web.sba.gov/list>, choose

- Advocacy's news releases,
- Advocacy's monthly newsletter *The Small Business Advocate*,
- Advocacy's small business research and statistics, and
- Advocacy's regulatory actions.



## New In Print: A Small Business Guide to Internet Marketing

Here's a short publication that's helpful and full of relevant, practical information for business owners. *How To Really Market on the Internet* is as a matter-of-fact, non-technical introduction to some very sophisticated tools.

The free publication was created by the SCORE Association and Verizon Information Services, which have formed a national alliance to provide small businesses with educational materials on Internet marketing. Together, they have developed a practical guide to email marketing, web identity and website development and promotion.

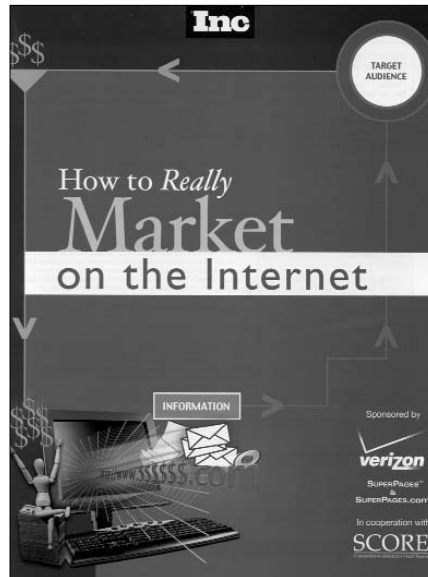
*How To Really Market on the Internet* covers essential components for using the web as a dynamic marketing channel. Topics covered include: managing email marketing, registering a web domain name, developing a website, and promoting a website. The workbook provides tips on how to

choose an Internet service provider (ISP), how to decide on a web developer or a do-it-yourself approach, and key decisions for website goal setting. To help determine the strategic nature of a business's online presence there is a

checklist for determining "where's your online business headed?"

According to SCORE CEO Ken Yancey, "Small businesses should be able to use the Internet as a viable business marketing and customer service tool." Yancey adds, "*How To Really Market on the Internet* gives entrepreneurs the practical knowledge that they can turn into a powerful Internet presence."

Free copies of the workbook are available at all of the 389 SCORE chapters nationwide. Call (800) 634-0245 to find a SCORE office near you. Entrepreneurs are encouraged to use the workbooks during SCORE business counseling to help them plan for business. Visit SCORE on the web at [www.score.org](http://www.score.org).



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