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Spring 2002

Course Notes: Engineering Entrepreneurship

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IMSE 498/898: *Section 4*

Engineering Entrepreneurship

Spring 2002

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Login using the user name: *savory2000* and the password: *savory2000*
or use your UNL student account

Class Time

This class is scheduled for Wednesday evening from 6:45 pm to 9:20. Class begins at 6:45 p.m..
Due to potential problems with traffic and parking, be sure to allow yourself adequate time to arrive to the classroom before the beginning of class.

<i>Class Days:</i>	<i>Day 1:</i> January 16	<i>Day 6:</i> February 20	<i>Day 11:</i> April 3
	<i>Day 2:</i> January 23	<i>Day 7:</i> February 27	<i>Day 12:</i> April 10
	<i>Day 3:</i> January 30	<i>Day 8:</i> March 6	<i>Day 13:</i> April 17
	<i>Day 4:</i> February 6	<i>Day 9:</i> March 13	<i>Day 14:</i> April 24
	<i>Day 5:</i> February 13	March 20 – no class	<i>Day 15:</i> May 1
		<i>Day 10:</i> March 27	Final Exam:
			Wed, May 8 (8:15 to 10:15)

Course Objective

This special-topic class will focus on starting and managing a successful business. Topics will include: marketing, finance, human resources, operations, legal issues, initial public offering, and succession and estate planning. Due to the engineering background of the students, special emphasis will be on exploring the legal issues involved in the process of applying for a patent.

The course will enable a student to evaluate his or her own desires and prospects for a career as an entrepreneur. In so doing, it will provide the aspiring entrepreneur with a framework for selecting, funding, and starting his or her own business. While this might not seem relevant to some students, there is a lot of commonality in starting a business to that of managing a large department, developing a new product in a company, and/or being a division manager. At a minimum, students will come out of the course with a more complete understanding of the complexities and issues involved in being an engineering manager.

Given the class will be small, we will have the opportunity to deviate in response to student interest and questions.

Class Format

Our typical 155 minute class will be divided into several parts – classroom exercises, group discussions, classroom discussion, and lecture.

Class Notes

I will be providing you a set of class notes (potentially I will have you purchase these notes). At the moment, it appears that there will be around 300+ pages of notes. I will make sure everything I give you is 3-hole punched. I would strongly encourage you to purchase a large 3-ring binder for holding them.

Class Info

All class presentation slides will be posted at the following web site:

<http://blackboard.unl.edu/>

Login using the user name: *savory2000* and the password: *savory2000*
or use your UNL student account

Course Text and Reading

Rather than have you buy a single *boring* theoretical engineering management/entrepreneurship text book (for \$90+), I have decided to have you read a series of smaller and cheaper books. The unique thing about each of these is that they are all written in the narrative format (*i.e.*, as a story). You can either buy the book at a local bookstore (*e.g.*, Barnes and Noble, Borders) or from an on-line retailer (*e.g.*, Barnes&Noble.com, Amazon.com). ***THEY WILL NOT BE MADE AVAILABLE IN THE TEXTBOOK AREA OF THE UNL UNIVERSITY BOOKSTORE.***

During the course you will be required to read the following books (this is the order in which we will discuss them. *Note:* I will give you a copy of the first book by Tom Park):

- **Runamok: A novel about the realities of a small business** (by Tom Park) - *this book is out of print – I will copy and distribute*
- **Venture** (by Jeff Cox); ISBN: 0446674079; approximately \$15
- **Selling the Wheel** (by Jeff Cox and Howard Stevens); ISBN: 0684856018; approximately \$10.80
- **Miller's Bolt: A Modern Business Parable** (by Thomas Stirr); ISBN: 0201143798; approximately \$12.00
- **Zapp!: The Lightning of Empowerment: How to Improve Quality, Productivity, and Employee Satisfaction** (William C. Byham with Jeff Cox) ISBN: 0449002829; approximately \$11.00

Course Operations

- *Your attendance and participation is mandatory for this class* and is worth a large percent of your final grade - it will be at the instructor's discretion how these points are distributed. If you are going to miss class, ***please let me know ahead of time***. Given this course is only one day a week, missing one of the fifteen class session is significant.

Three absences from the course will result in your being penalized with a lower letter grade than your points would earn. Miss four or more classes and you get an F.

- *If you miss class*, you are required to give a PowerPoint presentation the week you come back - if scheduling will allow it (else I will require that you read an additional book). Given the wide variety of experience each of you have (levels of experience, different types of companies/organization), I think it might be interesting to allow you the opportunity to discuss a topic. For example, one topic we might talk about is performing background check of employees. A topic you could discuss is how your company performs background checks. As an alternative to talking about your company/experiences, you could expand on a topic that we are discussing in class. The only requirement is that I must approve the topic. Hence, if you miss class, e-mail me with an idea and or a request for an idea and we can discuss the timing of when you will give the presentation. In addition to the presentation, you will be responsible for preparing for the coming week's quiz – thus, get the complete notes from someone or download the PowerPoint slides.
- There will be *weekly* quizzes over the previous week's class notes.
- You are to read five books as part of the course. On the day in which we discuss a book, you are to turn in a one to two page review of the book. The first part of your review is to highlight/summarize the book and the second part is to offer your unique perspective of the book – the points you agree with and points you disagree with.
- There will be *two* **closed note** and **closed book** examinations (a midterm examination and a final examination) during the course of the semester. The examinations will test your grasp of the course material and will be short answer.

Point Breakdown

Class points will be divided as follows:

- In-class participation = 20%
- Book reviews = 15%
- Weekly quizzes on previous week material = 10%
- Semester Project = 25%
- Midterm Examination = 15%
- Final Examination = 15%

Grading

Determination of the final grade will be at the discretion of the professor. The final grade *MAY* be curved. No grade distribution is guaranteed.

Semester Project

More details will be given in the coming weeks, but here is a preview of the project:

This class will focus on developing a preliminary business plan for a company. This will entail coming up with an idea, exploring the marketability of the idea, and developing preliminary plans for the business.

Depending upon your interest, the project can be an individual or group effort.

Preliminary Calendar of Events

Date	Class Activity
Day 1: January 16	
Day 2: January 23	Quiz #1 – previous week class material
Day 3: January 30	Quiz #2 – previous week class material Discussion of Book: Runmok Book review due
Day 4: February 6	Quiz #3 – previous week class material
Day 5: February 13	Quiz #4 – previous week class material
Day 6: February 20	Quiz #5 – previous week class material Discussion of Book: Venture Book review due
Day 7: February 27	Quiz #6 – previous week class material
Day 8: March 6	Midterm Examination
Day 9: March 13	Quiz #7 – previous week class material Discussion of Book: Selling the Wheel Book review due
Day 10: March 27	Quiz #8 – previous week class material
Day 11: April 3	Quiz #9 – previous week class material
Day 12: April 10	Quiz #10 – previous week class material Discussion of Book: Miller's Bolt Book review due
Day 13: April 17	Quiz #11 – previous week class material
Day 14: April 24	Quiz #12 – previous week class material Discussion of Book: Zapp! the Lightning of Empowerment Book review due
Day 15: May 1	Quiz #13 – previous week class material
Wed, May 8	Final Examination

Academic Honesty

Cheating or any act of dishonesty will not be tolerated. Penalties for cheating will range from receiving a zero to receiving a failing grade for the course. The decision will be at the discretion of the instructor.

Section A Developing an Idea

A.1 Reasons for Business Failure

- _____ of new businesses fail after two years.
- _____ fail within four years.
- _____ fail within six years.

Source: http://www.understandingsmallbusiness.f2s.com/fail_assist.php

In the 1930s in the US, management deficiencies were claimed to be related to business failure by Cover (1933) who said that ‘discernible errors in management’ were a major cause of retail bankruptcies. Dun and Bradstreet studies have consistently found that causes due to poor management predominate in failures (Peacock 1985c):

- US business failures, 92% due to management,
- US 17,000 business failures, 94% due to management, and
- Canada 2,598 business failures, 96% due to management.

In the study of South Australian legal failures referred to earlier for 1974-85 the predominant cause of failure was management inefficiency (incompetence and inexperience) - for 81% of companies and 91% of unincorporated firms. According to national annual reports under the Bankruptcy Act, internal factors relating to the quality of management are reported as major or contributing causes of failure at least as twice as often as factors external to the firm (Williams 1986; McMahon et. al 1993). Similarly, business consultants claimed that 90% of business failures were due to management inadequacy (48% incompetence and 42% inexperience) (Perry and Pendelton 1983).

In 1983 and again in 1994, J. Berryman surveyed and analyzed the small business literature regarding small business failure. In 1983 she classified the causes of failure into three categories - *management inefficiency* (endogenous factors), *exogenous factors* and *behavioral aspects of owner-managers*, and in 1994 she added a fourth category of *characteristics of the firm*. Tables were compiled in each paper indicating the percentages of surveyed references giving specific causes of failure. In combining the two tables, 76% of causes were attributed to management inefficiency, 16% to exogenous factors and 8% to behavioral characteristics of the owner-manager and characteristics of the firm.

In Williams’ (1986) study, 5,456 failed owners were asked to provide up to 5 reasons why their enterprise had failed. Of all responses...

_____ percent comprised exogenous (uncontrollable) reasons, and
_____ were endogenous reasons (subject to management control).

Williams used the whole of his data base of surviving and failed firms to statistically investigate the relationship between a number of variables and "survival-ability" of firms. He found the duration and relevance of management experience (as an employee prior to starting a business) greatly increased the probability of survival. 19 factors were used individually to analyze the management practices and business dynamics of all firms.

There is agreement between small business owners and the small business literature that management inefficiency is the underlying root cause of small business failure, and therefore probably the main cause of many of the problems of surviving firms.

Another key cause of failure could be a lack of finance. Of the South Australian legal failures, 17% of companies and 13% of unincorporated firms claimed that lack of finance was a cause of failure. In the Williams' survey 8% of owners said that an inability to borrow needed funds was a major reason for failure. According to Berryman, lack of finance was a causal factor in 6% (1983) and 2% (1994) of references. However, it needs to be noted that failed owners were the source of evidence in some of the studies, so that the problem may still be at least a managerial one because of an unawareness of fund sources and an inability to present adequate proposals for funding - this tended to be the view of the Wiltshire Inquiry (1974). The Beddall Inquiry (1991) agreed, but conceded that more research was needed regarding the availability of finance. The results of subsequent research suggest that it is not clear that financing problems lead directly to failure. Many financing problems are more likely to arise from the needs of growth firms wishing to expand further.

Poor financial management.

In the Berryman surveys the predominant aspect of management inefficiency (76% of references) responsible for failure was financial management in 45% of references. Within the finance function, accounting was the biggest problem (13% of references in 1983 and 5% in 1994), because of 'inadequate or no accounting records' and deficiency in accounting knowledge. Other key aspects of the finance function ranked in order of importance were:

1. Credit management
2. Inventory control
3. Cash flow analysis / liquidity
4. Lack of initial capital
5. Control of accounts payable
6. Administration of fixed assets
7. Lack of finance

The finance function is again shown as the predominant cause for concern within the small business failure literature.

Williams (1986) placed the major reasons for failure given by failed owners into major groups ranked as follows: (9)

Rank	Reason	% of all responses
1	Financial management	28%
2	Accounting	16
3	Management incompetence and inexperience	15
4	Employment relations	15
5	Inflation and economic conditions	12
6	Sales/marketing problems	11
7	Failure to seek and use external advice	3

As found by Berryman, the main causes of failure were in the finance functions of the firms - 44% of responses including 16% in accounting.

Poor aspects of the finance function were found below in failed firms by Williams. There were poor accounting records in 55% of firms and an inability to use financial statements in 18% of firms.

	% of failed firms
1 Accounting - inadequate, inaccurate, non-existent books and records	_____
2 Excessive private drawings	_____
3 Undercapitalisation (particularly at start)	_____
3 Overuse of credit (bad debts and slow collections)	_____
5 Inventory problems	_____
6 Accounting - inability to use/understand financial reports and statements	_____
7 Lack of financial planning	_____
8 Inability to borrow needed funds	_____
9 Unproductive use of assets	_____
10 Acting without adequate risk assessment; over reliance on gearing; inability to assess risk associated with expansion and new investment	_____
11 Premature expansion	_____

A.2 Your Company's Identity

Choosing a Name for Your Company

Studies show that up to 75% of consumer purchases are made because of a company name or brand, and even business-to-business customers are increasingly brand-conscious. Although there are already about 2.5 million registered trademarks in the United States, a good name for your company and its products and services, leveraged at every opportunity, can grow your business faster than any other single factor.

Most likely, you currently have a name of some type for your company and possibly its products or services. Look at your identity from your customers' standpoint -- and with brutal honesty. What does it mean? Is it really supporting the key benefits of what you are trying to sell? Have you outgrown it? For instance, a family name may be fine for a small, local business, but what will it mean to national or even international customers? Does that name clearly illustrate what your company does? Successful family brand names like Orville Redenbacher are a rarity these days and must be supported by expensive marketing programs. Don't remain married to a name that isn't working every day to increase your recognition.

Naming companies and products involves logic, creativity and a bit of luck. Even branding professionals differ in their exact naming strategies. You can hire a professional firm for about \$25,000 to \$100,000 and up per name, or you can try it yourself using these tips from the pros:

- _____
Don't apply labels such as "Imperial" to value-priced products or services, or "Budget" if your offerings are actually not. When Oldsmobile recently launched a midpriced sports sedan, the conventional wisdom was to choose a name similar to its luxury vehicles such as Supreme and Royale. But the company re-examined its target market of upwardly mobile younger buyers and named it Achieva, underlining the notion of career-driven achievers.
- _____
Short names are easier to remember and use in marketing materials. George Eastman invented the word "Kodak" because it could be pronounced in any language. Sometimes customers will even dictate a better name for your company, as when Federal Express shortened its name to FedEx to reflect how everyone referred to the firm. Also make sure your name translates well in any targeted foreign markets. One legendary marketing faux pas was Chevrolet's disastrous attempt to introduce its Nova — which means "does not go" in Spanish — into the Latin American market.

- _____
One of the most successful recent examples is Viagra, the drug used to treat impotency. The name Viagra connotes vitality with the force of Niagara Falls. There is low-cost software available that can generate every possible combination of words or phrases it is fed, but consider whether you wish to sift through thousands of candidates, most of which won't be usable. A newly formed word must not only be unique, but it must be able to create an impact in your target market. Beware of overused "wired" words such as "cyber" and "tech"; they are becoming cliches these days.
- _____
Employees, friends and relatives are often the worst sources for input on a potential name because they will often say what they think you want to hear. Ask your customers; they are the ones you want to entice with your new identity.
- _____
Nothing is worse than launching a new corporate or product identity, only to be sued by someone who already owns the name. Check with appropriate government trademark offices or private search firms to make sure you can use your chosen name, then register it to ensure that nobody else can. You can sometimes use a name owned by someone in a noncompeting industry, but it can be risky. If there's any question, involve your attorney in the process.

Logos can be as critical as company and product names in growing your business. Follow these guidelines in creating a winning logo for your firm or products:

- (1) _____
Think about the message such a bargain-basement approach sends to customers. Hire a designer to create a custom logo; it's money well spent.
- (2) _____
The most instantly recognized symbols, such as McDonald's golden arches or the Mercedes circle, are beautiful in their simplicity (see Real-Life Example). Design your logo to be easily reproduced and attractive in any medium, from fax to the Internet.
- (3) Once you've established a corporate and product identity, consider these suggestions for giving it maximum power:
 - Use it everywhere; not just in marketing materials and on company letterhead and packaging, but on vehicles and clothing of employees who deal with customers.
 - Create an automatic e-mail signature that includes not only your name, but also your company name and possibly a short slogan.
 - Make sure your name and logo are always used according to established standards, from size to color.
- (4) Consider licensing an already famous name or character to support your product, such as Ford Explorer's Eddie Bauer Edition.

- (5) Try to work your company name into your products and services, as American Airlines has successfully done with its AAdvantage mileage program.
- (6) Adopt a descriptive 800 or 888 number, a tactic that propelled 1-800-FLOWERS to riches.
- (7) If you sell others' brand-name products, market a value-priced house brand alongside them. This strategy will build awareness of your own brand (as experienced in the case of retailers such as Gap Inc.), causing it to become a strong profit center in its own right.

REAL-LIFE EXAMPLE

In 1964 former University of Oregon track athlete Phil Knight launched Blue Ribbon Sports to sell running shoes. Although he soon developed a revolutionary, lightweight waffle-soled shoe designed by his former track coach, he was having trouble making headway against Adidas, the European shoe giant that invaded the mainstream U.S. market a few years earlier.

Knight decided that Blue Ribbon Sports, or BRS for short, was boring as a company and product name. He changed his identity to Nike, the winged goddess of victory in Greek mythology. And he accompanied the simple word with an ingenious symbol — the now-famous “swoosh” perfectly suited to the sleek, fast look of Nike shoes. By 1979 Nike had become the number one selling athletic shoe in the U.S., and with the help of dramatic celebrity tie-ins such as Air Jordans, is now an international leader. The swoosh has become such a powerful symbol that it is frequently used without the Nike name on apparel and in advertising.

HOW TO DO IT

- (1) Define your selling proposition in ten words or less, and decide on a short list of company or product names
- (2) _____
Then conduct trademark searches on the three most popular candidates and settle on a name. Hire a professional designer to create a logo based on your name and market. Set precise standards for the use of your new identity.
- (3) Use your new name and logo whenever and wherever you can. Seek joint marketing opportunities with other companies that can expose your brand even further.
- (4) Conduct research among your customers at least once a year to test the strength of your brand image compared to competitors. Refine your name, slogan and look whenever necessary.

How to Create Your Company's Identity

This module examines the importance of your company's identity and explains how you can create and project an image that will help you sell your product or service.

Your company and/or product identity impacts your bottom line. A positive company and product identity will enhance your sales and your entire marketing communications plan.

Is Your “Company Identity” The Same As Your “Company Image?”

The two purposes of this discussion are very close in meaning but somewhat nuanced. Your company identity can be defined as the various characteristics by which you and your product are recognized and known. Your company image therefore, is how your business identity is perceived by customers, professional associates, the media and the public at large.

Apple Computer, for example, is known for pioneering state-of-the-art computer products. Most consumers are familiar with the Apple logo. The production of computers and computer technology is one aspect of their corporate identity. But how is this company perceived? What image does it project? Opinions may vary, but generally, Apple Computer is considered a pioneer, a company that several years ago set out to change the world with computers, and did.

What Specific Characteristics Comprise My Business Identity?

There are many characteristics that establish your business identity: your product or service, logo, and advertisements are the most obvious. But there are many additional elements that contribute to your image including your office location, the paper you use for correspondence and even how you speak over the phone. Your identity is affected by everything you do that your customers and potential customers might become aware of.

Why Is My Business Identity So Important?

There may be a temptation on the part of new business owners to think: “If my product or service is good, that's all that counts.” While a quality product is essential to a quality image, the reality is that in today's business arena, image sells. If you're a financial planner and extremely adept at investing other people's money, you need to communicate that you're not only financially smart, but that you're reliable and trustworthy. You wouldn't visit a client's office dressed in jeans and a t-shirt. You would probably wear a conservative suit because that attire conveys a dependable, reliable image — the kind of person who can be trusted to handle finances. People don't want to give their money to someone who conveys via their dress, that they aren't serious in a business situation. For this type of business you wouldn't have a business card printed in neon colors either. A white card with a traditional type face would be a more appropriate choice.

The process of creating your company's identity will follow these stages:

- Determine Your Business Identity

- Design Your Business Identity
- Communicate Your Business Identity
- Determine Your Business Identity

Ask yourself this question: What do I want my customers to say and think about my product and company? Answering this question will help you determine what kind of identity you want to establish. For example, do you want your image to be that of a pioneer, innovative, high tech, reliable, full of status, conservative? When determining your identity, you must also evaluate and consider three important factors:

Type Of Business and Product.

If your business is providing entertainment to children's parties your identity is likely to be fun and lighthearted. Your logo would encompass bright colors and it would be highly appropriate to have balloons in your office. If you sell expensive custom watches, your image must communicate status and elegance, but a tire wholesaler has to convince his customers his product is reliable and durable. In general, professions dealing with finances project conservative images, companies dealing with advanced technologies project modern images and advertising agencies and design firms reflect artistic identities.

Target Market.

A rule of thumb to follow in developing your identity is that it should match the identity of your customers and potential customers. If you own a corporate cleaning service and are targeting Wall Street firms, you should project the conservative image of your potential customers. You might be tempted to think, "I'm not handling the money, I'm just cleaning their offices," but that would be a mistake. People like to deal with people who reflect their own image. It makes them more comfortable because they are dealing with a known entity, someone they can relate to and understand. It's important to remember that there is always a subtle, yet pervasive psychology operating as a potential customer makes a decision to buy. Although the quality of your product and service is a major factor in the outcome of the process, they judge your company by its image. If you become business associates. That's why businesses are careful about who becomes associated with them.

Your Competitors.

There are two schools of thought on this issue. One that says your own business identity should come close to your competitor's and the other that says you should stand out from your competition. For an identity with the greatest impact, you want an appropriate blend of the two. If you're a new pharmaceutical company and your competition has been in business for several years and has an excellent reputation, you will not be able to match their image in terms of consistency and reliability. You shouldn't try. Certainly, you'll want to project an image that like them, you have smart and trustworthy people working for you.

What you need is an image that can give you a competitive advantage. In this situation you would construct your identity to suggest that you're an "innovator." You would turn to the fact

that you're a new, fresh company with a different approach to research and development to your advantage. Your advertisements would stress that because you don't have to deal with a tangled bureaucracy, you can spend more time coming up with cutting-edge products. Write down what you would like your business identity to be:

Create Your Identity

In order to project the identity that's right for your type of business and target market, you must create it. You do this by establishing a consistent look and feel to all your communications. While there are many important elements that will help you establish your identity, none is more critical than your logo. Your logo appears on all of your correspondence, your business card and in your advertisements. The purpose of a logo is to instantly convey the essence of your company's identity.

If you think you can't afford professional help, think again. An inappropriate logo will cost you far more in the long run in terms of sales. If your budget prohibits hiring a design firm there are many talented free-lance designers you can hire to work with you. As you work with a professional designer, here are some basic guidelines:

- (1) _____
Take a stack of magazines and do some easy research. Look at them critically and ask yourself what kind of image they convey and why.
- (2) _____
Graphic emblems or complex geometric patterns usually don't work for logos. In fact, the simpler and more understated your logo, the more impact it will have. Graphics and patterns will complicate your logo when its purpose is to quickly make a statement about your company or product.
- (3) _____
Bright colors are strong attention getters and excite people. Blue and gray are conservative colors. If you want to convey an image that your company is hot, trendy and on the cutting edge, use red, yellow and orange. You can use the same color as your competitor uses but vary the shade to differentiate your business.

For example, American Express uses a consistent typestyle in all of their communications. They employ the same shade of the color green throughout all of their marketing communications involving their basic credit card. The color green is a significant, inseparable aspect of their logo.

- (4) _____
Bold blocks of text invoke the image that the company is strong and large. Italic type can convey a classic or upscale image. Whatever typestyle you choose, it should be simple to read. Once you have a successful combination of color and type, you may then consider embellishing your name with a single, simple graphic element such as a line, border, or box.

For example, The Gap uses a dark box to great affect in their logo. Or, you may alter or manipulate one letter to communicate the idea that your company is like your competition's, established and trustworthy, but that there's something different and exciting going on. Intel employs this technique effectively by dropping the letter e in their name below the rest of the letters. It's eye catching and makes a powerful statement.

- (5) _____
The short and snappy sentence or words that appear underneath a logo is the tagline. Taglines are considered to be an intrinsic part of the logo offering a brief explanation of a company's philosophy. While you want to adopt an effective logo and stick with it permanently, taglines can change as the company grows, evolves, and expands their product line.

Here are some examples of taglines:

General Electric: "We Bring Good Things To Life."

Hyatt Hotels: "We've Thought of Everything."

Lexus: "The Relentless Pursuit of Perfection."

British Airways: "The World's Favorite Airline."

Each of the above taglines doesn't merely suggest an identity, it explicitly tells people what the identity is. If a company is successful in creating the right logo and tagline, the consumer will believe it. When writing your tagline, first isolate two key words you want associated with your identity. Quality, Perfection, Favorite, Innovative, Luxury, Solutions, Affordable, Inventing.

Choose the word that you want to sum up your business. Now write a short sentence no more than six words to encompass or explain your key word.

Think...If you isolated the word "Solution" your tagline might be: "Financial Solutions For Small Businesses." It's very clear from this tagline who this company's market is and what they're doing for them.

Project Your Identity

Now that you've created your logo, it must appear on all of your communication vehicles including letterhead, invoices, envelopes, business cards and packaging. The "look" you establish in your logo in terms of color and stylistic elements must then be integrated to all of your communications. If you use the color red in your logo, your stationary should too. If you use a typestyle, your sales brochures and company literature you must use a compatible typestyle. Consistency and repetition are how you will firmly root your image into the minds of your target market and the public at large.

Integrating your logo into your communications is the first step, next you must also employ your marketing tools carefully and correctly:

(1)

If a prospective customer called you today and asked you to send information about your product or service what would you do? Send them a letter and three product sheets stapled together explaining your business and product offering? Even if your material is well-written, you will convey an image that you're a small, possibly not well-established organization. It doesn't matter if that's true or not, the point is in the eyes of your prospective customer it's a possibility.

You should have a sales brochure to communicate the following:

- Who you are
- What business you're in
- Your product is or service's features
- The benefits a client will yield by doing business with you

If your budget isn't going to permit using an outside agency to produce your brochure, you can create a simple, yet effective, piece using a laser printer and a pre-designed brochure format available with almost all desktop publishing programs. After, you've established yourself, however, a laser-printed brochure won't be suitable. You should hire a design agency to create one for you with photographs and graphics. It's an essential component of a professional organization's sales materials.

(2)

Generating local or national media coverage, or publicity, can greatly enhance your image and impress your clients. People have a tendency to assume that if you've been featured in a magazine or appear on television, that you must have something worthwhile going on in your business. You can't just call a journalist and say, "I have a great product, write about me," you have to convince them your company is worth writing about. One of the ways you do this is by sending them a media kit. You can create a media kit by filling a folder with relevant information about your business. The folder doesn't have to be slick, but it should be the same color you're using for your "look." Put your logo on the outside cover.

A media kit contains the following:

- A press release that explains what is new, different, or exciting about your
- product or service
- A sales brochure
- Product testimonials
- A product sample or photograph
- Related literature such as articles from newspapers or magazines.

(3)

Supporting a local cause or charity, another PR function, will contribute to the favorable image in your local community. Public relation programs can help correct an organization's negative public image.

For example, after an oil spill, a chemical company might make a large donation to an environmental agency in order to counteract the unfavorable impression that they're ruining the environment.

Many companies hire public relations agencies or publicists to help them secure publicity in print and broadcast media and manage their public image. After you've established yourself, you may want to consider consulting or hiring a professional PR person. Your local Public Relations Society can help you pinpoint an appropriate firm or free-lancer.

(4) _____
All of your written material, whether it be a letter to a professional associate, a sales letter to a potential client or a press release to a journalist all reflect your image.

(5) _____
Everything you write that's read by a customer is a window into your organization, telling them about you and the way you handle your business. A sales brochure can be beautifully designed, but if the copy isn't effective or if it's too long and doesn't follow a logical sequence, you will damage your image. Many new businesses make the mistake of thinking they know best how to write about their products and services. You must make an effort to learn the principles of sales and business writing. For example, it's easy to confuse a product's features with benefits. Benefits are what sell a product, not its features.

For example, you would never write: "You'll love our electronic checking account." You would write: "The electronic checking feature means you never have to worry about getting your check in your account on time."

If you have good writing skills you can learn how to write effectively to appeal to your target market. If sales writing is not one of your strengths, or a particular strength of any of your employees, you should hire a copywriter to assist you in all of your communications. Copywriters are trained in the art of writing copy that sells.

Again, you must think of the consequences of not paying a professional to do a job when you're not qualified to do it yourself. Executing one ill-conceived, poorly written sales letter will encourage a potential client to decide to take their business elsewhere.

(6) _____
It's difficult to catch your own mistakes. Consider how you will look if you accidentally sent a sales brochure with typos. You'll appear unprofessional and careless.

A final word about your communications: To produce low-quality marketing tools is to broadcast that you're a small operation with low standards and few resources. A laser printer, combined with a good word processing program, will give the ability to produce attractive and professional materials. If a laser printer is an impossible purchase for you right now, you still have the option of using your local print shop.

Make sure you use high quality bond paper for all external communications and reserve the less expensive paper for in-house correspondence. Most companies use a 70-pound bond paper. Make sure to choose a color that fits with your logo and look.

Physical aspects of your company's identity.

Aside from business communications, you communicate a great deal about your business in physical ways:

- (1) Your location. If you establish your business in a professional office park or building, you're telling everyone that you're serious about your business. If you rent office space in a shopping center, however, it may be cheaper, but your potential clients won't view you as favorably. You should be extremely careful about working from home if your clients and potential customers will be meeting with you there. Many businesses such as doctor's offices are located in houses because doctors want to be accessible to where their patients live and they almost always have a separate entrance. Unless you have a separate room dedicated solely as office space, you should avoid professional meetings in your home. Suggest instead that you will meet at your client's office or schedule lunch meetings at a restaurant.
- (2) Your office furniture. Don't furnish your office with leftovers from home. If your budget is a problem, take care of first things first. Since it's the first view potential customers get when they enter your office, a reception area should be your first decorating priority. There must be a few comfortable chairs and a table. Go for quality rather than quantity. Art work that reflects your identity is a consideration too.
- (3) Next, concentrate on your conference room rather than your office. This is especially important if you have people who work for you that also need to meet with clients. There should be at least one private, well-furnished room everyone has access to. You can always keep prospective clients out of your offices, but you will need a comfortable, functional and appealing area to meet with them in.
- (4) If you work from home, consider installing a separate business line that only you have access to. The phone company also provides businesses with convenient phone numbers with zeros in them. This makes a listing in the yellow pages more convenient. You should have voice mail or an answering machine installed for your business line. Voice mail is now accessible to everyone and provides better sound quality than an answering machine. Answering machines frequently encounter mechanical problems too. If you're a one-person operation, have a friend of the opposite sex with a professional phone voice record the message for you. It will give the appearance that you have employees working for you. An answering service is an even better alternative because your customers will always reach a live person and they'll think you have a receptionist.
- (5) Office Equipment. A full-size business copier will not only give you superior quality for photocopies, but it will add a dimension of seriousness to any office environment.

- (6) Trade Shows. When you attend a trade show, your company booth says a great deal not only to potential customers, but also to your professional associates. People tend to size up companies by the size of their space at trade shows. Therefore, small space = small company. Even if your budget affords only a small space, that doesn't mean your booth or set-up can't be thoughtfully designed and impressive. Invest in well-designed equipment, banners and signs. Consult with a company specializing in this business.

Your Business Behavior

Would you feel comfortable hiring a financial planner who drinks too much at social functions? Probably not. You communicate as much about your company as your product or logos by the way you handle yourself in business situations.

- Dress For Success. Even if you work at home in a sweat suit, when it's time to meet your clients or prospects, you need to encompass your company "look" as well. That's why blue business suits are associated with conservative financial company's such as banks. If your identity is modern, artistic and cutting-edge a blue suit isn't the right style for you. Brightly colored dresses, jackets and ties are more suitable to express your company's identity.
- Answer your phone in a uniform, professional manner. All of your employees should answer their phones the same way. Whether it be, "Good Morning, the Hayes Advertising Company," or "Hayes Advertising, how can I help you," the point is to be professional and consistent.
- Your Employees. Word gets around about a company that treats its employees poorly, or a company that has a staff of unhappy people. It makes your associates and clients wonder why. To them it signals that there might be a problem in the way the company is run. People want stability when they're making significant purchases or contract for long-term services.

SOME LAST THOUGHTS ABOUT DEVELOPING YOUR IMAGE

If you feel you've made an error in developing your image, correct it quickly — that means starting from scratch with a new logo, business cards and stationary. It's worth it because of the power of image to help you sell.

It's likely that, as your business grows and expands, you'll need to adjust your tagline and your identity as you go. Don't make the mistake of outgrowing your image. Anticipate changes in the market and always consider what image issues you need to address with a new target market.

A.3 Finding the right words to describe your business

Among the most memorable business descriptions ever created comes from a man in the septic business.

He summed his business up this way:

While this description is somewhat crass, it is a powerful marketing tool for the entrepreneur who coined it. He operates in a competitive market for septic services and needs a succinct, memorable phrase that will help him capture customers and referrals by clearly explaining the service he provides.

A good business description will help you expand your business by enabling you to clearly convey its focus and purpose. When people understand the product or service you offer, they become potential customers or sources of referrals. This may sound obvious, but good business descriptions are extremely rare. Many business owners use jargon or vague terms to describe their business and others speak plainly but are not compelling.

If you are skeptical about the rarity of good business descriptions, think about the last time you were at a trade show or networking event. Chances are plenty of product or service descriptions left you scratching your head. The same goes for marketing material which often leaves people wondering exactly what a business sells. Most people fail so miserably at clearly describing what they do that you may not even be sure exactly what kind of work your family and friends do.

Your business description does not have to be as pithy as the one used by the septic service provider. A clear and easy to understand description is a good start and can be the foundation for the development, over time, of a more memorable description.

Follow the steps below to create a business description that you can use to attract customers and generate referrals:

- (1) Without worrying about how it sounds or how long it is, write a description of your business and what makes you different from the competition. Concentrate solely on making it understandable. This will provide a foundation for your final product.
- (2) Take out all the jargon and the words that would make your eyes glaze over if you heard them from someone else. Examples of glaze-inducing words are: strategic objective, re-position, custom-design. For example, if you help companies get press and shape their marketing plans, avoid calling yourself a marketing communications firm. This term is general and can mean many things. There is nothing in that description for people to latch onto and ask questions about. Someone who doesn't understand the term may not ask you anything more about your business. A simpler description for a marketing communications firm is one that "helps companies promote themselves."

- (3) Remove your title from the description. People are less interested in whether you are president, vice president or director, than they are in what you actually do.
- (4) Make your description benefit-oriented. Do you save your customers money by expertly completing their tax returns (accountant). Enable people to create the home of their dreams (architect)? Provide products to help people protect their children (manufacture child car seats)? Descriptions focused on benefits are more compelling than ones that list services or products.
- (5) Shorten your description to a sentence or two by stripping away anything except the most basic and unique aspects of what you do. Instead of saying you are, “An events coordinator for annual shareholder meetings focusing specifically on the Fortune 500 market, including catering, promotion, transportation and other details of events planning,” tell people you plan big parties by taking care of small details. Only elaborate once your listener shows an interest.
- (6) Try your description out on a few people who don’t know what you do and are not in your industry. Continue fine-tuning until you hit upon a description that conveys enough information that your listeners either understand your business or are encouraged to ask more questions. You’ll know by peoples’ reactions when you’ve got your description right.

Here are some examples of short, engaging business descriptions:

-
-
-
-
-
-

A.4 Gathering Market Research

Gathering information about your market is critical to your company's success. Ongoing market research lets you discover how your company actually meets, exceeds or falls short of your customers' or clients' expectations. You can learn to anticipate your customers' needs and reduce the risk of introducing poorly received products. Additionally, your research can act as an early warning system to identify competitive threats and opportunities.

Even if you think you understand your market now, changes in the business environment can lead your customers away from your business. Continual market research is extremely important if you wish to stay competitive.

Identify Your Data Sources

There are two categories of market research data. Primary market research is based on data you collect from your customers, competitors, employees and suppliers. Secondary market research is extracted from industry studies, books, journals and other published resources. You should look to both sources for a complete picture.

What to look for

- (1) _____
The age, sex, geographical region, marital status and so on of your existing and potential customers and clients. More in-depth demographic information provides details on their personal preferences and buying habits.
- (2) _____
Information such as product quality preferences, motivators of buying decisions, color preferences, and so on.
- (3) _____
Do they buy weekly, monthly, yearly? Are the purchases spontaneous or planned? Is it a purchase for self or a gift for others?
- (4) _____
What needs do they want to have filled? What's missing in the marketplace?
- (5) _____
Who else is doing what you do? What companies could complement your product or service offerings if you worked together?
- (6) _____
What's important to your customers -- Price? Quality? Features? Prestige?

How to Gather Customer Information

- (1) Focus groups and surveys. Unless you have experience in this area, hire an organization to conduct these projects for you. Focus groups give you the chance to talk directly to your customers and have them talk to each other. Your job is to listen to what they have to say about your products. Focus groups usually are small, and you typically have to pay customers for their time. Surveys give you a wider audience and cost less, but they don't allow you to as much flexibility in your questioning. Surveys rely on multiple choice questions that can be quantified.
- (2) Industry studies. These will provide the results of studies conducted by your industry group. The questions won't be tailored to your specific needs, but the study can give you insights into the customers in your industry.
- (3) Internet discussion groups. Chat rooms and forums can give you a sense of what your customers' frustrations are. People tend to be blunt and honest on the Web so you can get plenty of unfiltered feedback about your products.
- (4) Talk to your employees. Your sales team, administrative assistants and front-line staff deal firsthand with your customers and distributors. Ask them for feedback on what customers want.
- (5) Study complaints. Complaints are possibly your best opportunity to understand what customers expect and how your products are not measuring up. Remember, for every customer who takes the time to complain, there may be many others who feel the same but don't tell you.

How to Gather Competitor Information

- (1) Read your competitors' annual reports, newsletters and sales literature.
- (2) Tap competitive intelligence-gathering databases.
- (3) Check the Internet. This can clue you in to new competitors as well as let you know what kind of marketing plans your competition has going.
- (4) Talk to your clients and suppliers. Ask them what your competitors do well (and what they do poorly), and you may uncover a wealth of information.
- (5) Hire M.B.A. students to do research for you. M.B.A. students are trained to do competitive research, and they have access to university resources. They get experience; you get information; and the cost is relatively low.
- (6) Off-the-shelf reports. Their usefulness may be hit-or-miss, but they're worth checking out. Get a business librarian at your local library to help you find appropriate reports. Or look on the Web.

How to Gather Information on Suppliers

You are dependent on your suppliers to provide your goods and services. Suppliers who go out of business can leave you in the lurch. Alternately, suppliers who are doing well may raise prices. Monitor your suppliers' pulse by:

- Asking questions about their operation and business flow.
- Visiting them regularly to observe their business processes.
- Reading industry journals.
- Talking to your business peers. Your business network can help you keep up with what is happening with suppliers in your industry.

Compiling this data should be an ongoing process, so you'll need to have a system in place for storing and maintaining your information. Some organizations have a business librarian to search for and filter data just to keep the CEO apprised of developments among customers, competitors and suppliers. Or you may have one person in your marketing team whose primary responsibility is keeping on top of these areas. A third option is to hire a market research organization. They can handle a portion or all of your market research needs, but expect to pay \$5K-\$100K to retain a good quality firm. Make sure there is a follow-up process to deliver your findings to the appropriate parts of your organization.

REAL-LIFE EXAMPLE

Example 1

If you cannot afford formal market research, consider one entrepreneur's bootstrap approach. When Karen Scott got started in the mail-order baby products business, she put together her own focus group — using the local newspaper. Scott clipped 250 birth announcements, and then contacted the new moms. She sent them surveys and conducted phone interviews, asking what products these young mothers sought. Based on the responses, Scott added more travel products at her company, Chelsea & Scott, in Lake Bluff, Ill. Ten years later travel products are still top sellers for the \$28 million business.

Example 2

When researcher Mike Mitchell and his team contemplated launching a new E-commerce site, for a division of Portland General Electric, he knew its success would be based on more than a good idea.

“The idea is half of it, but then you have to research and identify the scope of the market,” Mitchell said. For the site mytownnet.com, the market would be targeted to the people in Northwest Oregon who are relocating.

After identifying the market, research and development teams dug deeper to examine the needs of the people in that market. Mitchell sought answers to some very specific questions including:

Is there a demand for a service like this? How do people in the target market spend their money? What else is happening in the industry? He evaluated growth projections and looked at company data. And he considered the financials, making cost assessments and revenue projections.

Sometimes the research shows a project is not needed and work should be suspended. But too often business leaders launch products or services that they like, without doing the research to determine if anyone else does. This opens the business up to far greater risk. While money and time may be spent on research and development only to discover the project is a bust, it means fewer expenses and less opportunity or negative exposure than pushing forward with an inferior or unnecessary product.

With many proposed projects, research conducted in only a few days can determine whether the project has merit and the process should continue. But R&D should be invested in any product or service that the company has an interest in producing and marketing, particularly one thought to be a revenue-generating element. Research may show otherwise.

“Research is always cheaper than a failed business,” Mitchell says.

HOW TO DO IT

- (1) Survey your regular customers at least quarterly. Design a one-question poll, asking everyone during a designated week or month.
- (2) Challenge an M.B.A. team with your market research project. Locate a Small Business Institute (SBI) program at a nearby college or university. Qualified students are available to tackle real-life problems or projects from local businesses.
- (3) Check out your competitors online. Subscribe to listserv discussion groups for your industry. You will be able to hear or read about the happenings and challenges in their businesses and the strategies they are using to grow.
- (4) Contact your industry or trade association. Inquire about research reports or recent survey data available to members.
- (5) Get on critical mailing lists. Give yourself an advantage by regularly receiving information for your industry. Sign up for free electronic alerts, newsletters or bulletins offered by your competitors, suppliers, or other information sources you rely on.
- (6) Exhibit at specialized events. Business-to-business events give you an opportunity to sell, promote, network and check out the competition all at once.
- (7) Turn unflattering feedback into an opportunity to profit from change. When a customer or client complains, listen to their comments about how to make your business better. It may lead you to another profit center for your business.

- (8) If you have data on sales from point-of-sale scanners and computers, analyze it to find purchase patterns and trends. Is there a demand cycle for selected products that should determine when what gets advertised? Are most purchases made on weekdays? Late in the week? On weekends? What products should be offered in greater variety or greater quantity?

A.5 Competitive Analysis

Effective Competitive Analysis

For your small business to succeed, you need to know almost as much about your competitors as you do about your own company and customers. Unfortunately, many small business owners make the mistake of waiting until a competitor has opened up shop across the street and is cutting into profits to find out who and what they're up against.

A competitive analysis allows you to identify your competitors and evaluate their respective strengths and weaknesses. By knowing the actions of your competitors, you will have a better understanding of what products or services you should offer; how you can market them effectively; and how you can position your business.

Competitive analysis is an ongoing process. You should always be gathering information about your competitors. Look at their Web sites. Read their product literature and brochures. Get your hands on their products. See how they present themselves at trade shows. Read about them in your industry's trade publications. Talk to your customers to see how they feel about competitive products or services.

Step 1:

Every business has competitors, and you need to take the time to discern who your customers can approach to get a product or service that fills the same need as yours does. Even if your product or service is truly innovative, you need to look at what else your customers would purchase to accomplish this task. For example, you may be opening a Website that offers online Bingo. Your competition would be other Bingo sites, other Web gaming sites, the Bingo hall down the street, and any other businesses that are competing for the same leisure-time dollars.

Begin by looking at your primary competitors. These are the market leaders, the companies who currently dominate your market. They are probably the ones who you find yourself bumping up against in your search for new customers. If you're a florist, it would be other florists in your neighborhood. If you're a computer consultant, it would be other consultants with the same specialty.

Next, look for your secondary and indirect competitors. These are the businesses who may not go head-to-head with you, but who are targeting the same general market. Sticking with the florist example, it might be a small local roses-only store, a national floral delivery service, or the flower/plant department of your local supermarket or discount store..

Finally, look at potential competitors. These are companies who might be moving into your market and who you need to prepare to compete against. For example, you might have an independent frozen yogurt stand; you will need to prepare to compete against national frozen yogurt franchises, even if they are not yet in your market.

Step 2:

After you've figured out who your competitors are, determine their strengths and find out what their vulnerabilities are. Why do customers buy from them. Is it price? value? service? convenience? reputation? Focus as much on "perceived" strengths and weaknesses as you do on actual ones. This is because customer perception may actually be more important than reality.

It's a good idea to do this strengths/weaknesses analysis in table form. Write down the names of each of your competitors. Then set up columns listing every important category for your line of business (price, value, service, location, reputation, expertise, convenience, personnel, advertising/marketing, or whatever else is appropriate to your type of company). Once you have this table set, rate your competitors, and be sure to put in comments as to why you've given them that rating. You might even want to put strengths in red and weaknesses in blue, so you can tell at a glance where each competitor stands.

Step 3:

Strengths and weaknesses are often factors that are under a company's control. But when you're looking at your competition, you also need to examine well prepared they are to deal with factors outside their control. These are called opportunities and threats.

Opportunities and threats fall into a wide range of categories. It might be technological developments, regulatory or legal action, economic factors, or even a possible new competitor. For example, a photo developing store needs to know how well its competitors are prepared to deal with the advent of digital photography. Or a company that sells over the Web should analyze how its competitors are prepared to deal with online security issues.

Again, an effective way to do this is to create a table listing your competitors and the outside factors that will impact your industry. You will then be able to tell how they can deal with opportunities and threats.

Step 4.

Once you figure out what your competitors' strengths and weaknesses are, you need to determine where to position your company vis a vis the competition. Some of this may be obvious from the results of your analysis, but it also pays to take a hard look at how your business operates.

One of the most effective ways to do this is to create a strengths/weaknesses opportunities/threats analysis of your business. Rank your company in the same categories that you ranked your competitors. This will give you an even clearer picture of where your business fits in the

competitive environment. It will also help you determine what areas you need to improve, and what characteristics of your business you should take advantage of to gain more customers.

The bottom line: look for ways to leverage your strengths and take advantage of your competitors' weaknesses.

How to Conduct and Prepare a Competitive Analysis

An in-depth investigation and analysis of your competition is one of the most important components of a comprehensive market analysis. A competitive analysis allows you to assess your competitor's strengths and weaknesses in your marketplace and implement effective strategies to improve your competitive advantage. This training module will take you through a step-by-step process of competitive analysis, helping you to identify your competition, determine and weigh their attributes, assess their strengths and weaknesses, and uncover their objectives and strategies in your market segment.

What Types of Organizations Should I Consider as Competitors?

Any business marketing a product similar to, or as a substitute for, your own product in the same geographic area is a direct competitor. Firms offering dissimilar or substitute products in relation to your product or service are considered indirect competitors. Indirect competition would exist between the manufacturer of butter and a manufacturer of margarine selling to the same customers.

Another example is the manufacturer of eyeglasses who competes indirectly with contact lens manufacturers. Stated in other terms, indirect competition will satisfy the customer's need with a particular product or service, although the product or service used may be different from yours. If a firm has similar products and distribution channels, but has chosen to operate in different market segments, they are not at this time your direct competitor. However, it's important to monitor the marketing activities of such firms because they may decide to move into your market segment, just as you may decide to move into theirs. Take a moment and identify your direct and indirect competitors:

Why is a Comprehensive Competitive Analysis an Important Part of a Marketing Plan?

To achieve and maintain a competitive advantage in reaching and selling to your target market, you must possess a thorough knowledge of your competition. An in-depth competitive analysis will provide you with the following:

- An understanding of how your existing and potential customers rate the competition.
- A positive identification of your competitor's strengths and weaknesses.
- A mechanism to develop effective competitive strategies in your target market.

Do I Need to Analyze All of My Competitors?

There are several markets where it is relatively easy to name every competitor. These are concentrated markets where only a handful of competitors exist. If this is the scenario for your product or service, you will need to develop an analysis for each competitor. The steel industry and automobile industry are examples of these types of markets.

If you are selling in a market with many competitors, your job of analyzing the competition becomes a little more difficult. Since it is unrealistic to collect and maintain information on dozens of competitors, you will be able to save yourself valuable time, without sacrificing the integrity of your competitive analysis, by using the old 80/20 rule. In fragmented markets with many competitors, it is most probable that 80% of the total market revenues are accounted for by 20% of the competition. It's the 20% you would examine most closely.

For instance, in the computer industry, the personal computer market, is represented by hundreds of clone manufacturers with the majority of the market being captured by a handful of manufacturers such as Compaq, IBM, and Apple. When using this approach it is important to keep abreast of your market for new and upcoming players who through some variable, whether it be new technology or an aggressive advertising campaign, may become a dominant player.

What Means are Available to Limit and Control the Competition?

Marketers of different brands of products will often pursue a particular market segment. Market Segmentation, which is the means of breaking down larger markets into smaller ones requiring different marketing mixes, is a significant vehicle available to you in attempting to limit and control the competition. There are however, a broad range of strategies a business can employ in a competitive environment — from price changing and new packaging to improving customer service and new product development.

CONDUCTING AND PREPARING YOUR COMPETITIVE ANALYSIS

Conduct Research

Professional marketing research, such as focus groups and questionnaires, can provide you with valuable information about your competition. While a marketing research firm can save you time and legwork, it can be quite expensive and simply not a possibility for new and growing businesses. Much of the information you need in order to profile your competitors is readily available to all business owners. As your business grows and expands, you should consider supplementing your own research efforts with some formal research conducted for you by an outside firm. Before you begin seeking out the sources listed below, keep in mind that you need to obtain answers to the following questions:

- Who are my top three competitors?
- On what basis am I able to compete?
- What is the range of products and services they offer?
- Are their products or services aimed at satisfying similar target markets?

- Are my competitors profitable?
- Are they expanding? Scaling down?
- How long have they been in business?
- What are their positive attributes in the eyes of customers?
- What are their negative attributes in the eyes of customers?
- How do current customers view us compared to the competition?
- How can I distinguish my company from my competitors?
- Do they have a competitive advantage; if so, what is it?
- What is their marketing strategy?
- What is their promotional strategy?
- What are their pricing structures?
- Do they operate in the same geographic area?
- Have there been any changes in their targeted market segments?
- What is their size? Revenues?
- What is their percentage of market share?
- What is their total sales volume?
- What is their growth rate?
- How do they rate on:
 - customer service?
 - quality of product/service?
 - hours of operations?
 - pricing, incentives?
 - employees?
 - resources?

- How do current customers rate the following features of your business compared to your competition.

Rate the following as: fair, good or excellent.

Our Company Competition

_____ Price

_____ Quality

_____ Durability

_____ Image/style

_____ Value

_____ Name Recognition

_____ Customer Service

_____ Customer Relations

_____ Location

_____ Convenience

_____ Other

Sources for Obtaining Competitive Information

Secondary sources of information are recommended as an excellent starting point for developing a competitive and industry analysis. Secondary sources include information developed for a specific purpose but subsequently made available for public access and thus alternative uses. For example, books are secondary sources of information as are articles published in journals. Marketing reports offered for sale to the general public also are considered secondary sources. Although, they have been created for a purpose other than your current need, they are still excellent sources of information and data. With the ever increasing speed of document identification and retrieval through electronic means, secondary sources are not only an inexpensive source of information but are readily available soon after publication. Sources of information include:

(1) _____

Not only will an advertising copy tell you a competitor's price and other product information, it provides an indication of your competitor's entire promotional program and budget. When reading a competitor's advertisement be sure to note the following: publication, frequency, special offers, product features and benefits highlighted. If your competitor suddenly places an advertisement in an industry publication that neither of you are currently selling to, it's an indication that they're trying to reach a new market segment. It's also important to notice the design and tone of your competitor's advertisements. What kind of image do they convey? How does your own image compare? Are their advertisements in color while your own are black-and-white? Even if they're not, a clever advertising campaign can communicate that your competitor is an innovative, fresh company.

(2) _____

Sales brochures provide a wealth of product information. You can learn how your competitor is positioning their product and company and what features and benefits they're using to sell their product. Try to obtain all new sales brochures and literature your competitor publishes. Significant changes in the content will indicate that new strategies are being employed.

(3) _____

Articles in newspapers and magazines are a source of information you can use to get an idea of what your competitor is planning for the future, how their organization is run, and what new product information or innovations they have. Journalists may also uncover and reveal

unflattering information about your competitor that may prove valuable to you. Be on the lookout for product reviews in magazines; they will reveal a competitive product's strengths and weaknesses.

(4) _____

If your competitor is a publicly-held company they must make their annual report available. This is an opportunity for you to access financial information, including sales volume, revenue increases, and their total market share.

Annual reports from privately-held corporations are sometimes available through friends, relatives, and business acquaintances who own stock in a competitor's company.

(5) _____

Your sales staff probably has more access to competitive information than anyone else in your organization. Customers often show salespeople sales literature, contracts, price quotes, and other information from competitors. Part of a salesperson's job is to get customers to discuss problems they have with a competitor's product. Customers will also reveal your competition's product benefits, strengths, and customer service programs.

Instruct your sales force to ask for copies of any competitive literature if and when that's possible. Your entire sales staff should keep a record of all competitive information they discover — even if it's just a rumor or gossip. Devote a regular portion of each sales meeting to a discussion of the competition.

(6) _____

Your employees working in other areas of the company also become exposed to competitive information. They interact with others in their industry area and often learn what your rival is doing or hear gossip and rumors. Make sure your entire staff knows they should share any information concerning the competition immediately.

Former employees of a competitor can provide you with insight on: your competitor's new products, marketing strategies, how-to improve productivity and employ other resources more effectively, and what your competitor's general working environment is like.

(7) _____

Most professional trade associations compile and publish industry statistics and report on industry news and leaders through trade association magazines and newsletters. Most trade associations also sponsor trade shows and other professional meetings. This is an opportunity to see first-hand what your competition is producing. It also provides the opportunity to discover new players who may soon become your competition.

(8) _____

If you own a flower shop, you should visit all of the flower shops in your geographic location. Act as a prospective customer, ask questions. You can learn about their selection and service and compare it to your own.

If you produce a product that is distributed to retail outlets, visit the store locations and note the following:

- how much stock is present versus your competitor's
- the placement of your product on the shelves versus your competitor's
- if your competitor is supplying any point-of-purchase display materials
- If you and your rivals have similar products and prices, then it's especially important for you to know how you compare on customer service issues. Call an 800# and pretend to be a customer with questions and problems.
- If you sell products through a catalog, you would not only want to be on your competition's mailing list, you should order a product from them to determine how long it takes to arrive, the method of shipment, and how it was packaged.
- Buy your competitor's products. Products can be evaluated and reverse engineered to provide meaningful information about your competitor's capabilities and weaknesses, technological innovations, manufacturing costs and methods.

Your Competitors

You probably see the owner of a rival organization at trade shows, association meetings, and perhaps even socially. You can garner a great deal of information through a simple, friendly conversation. People like to talk about themselves and share their success stories and concerns with business associates.

Make it a point to interview your customers, suppliers, and industry experts about your competition's product and service.

Federal, state and local governments also provide sources for data regarding your competition:

State governments provide information about the availability of industry directories containing information covering a number of employees, products produced and equipment capabilities.

At the local level, competitive data may be obtained from the local Chamber of Commerce and the city or county clerk's office.

Other data sources easily accessible to all business owners:

- (1) Dun & Bradstreet Million Dollar Directory. Published annually in March, this publication lists over 1,300,000 businesses with a net worth of \$1 million or more. Data is formatted alphabetically, geographically, by line of business, and officers and directors.

- (2) Ward's Business Directory of U.S. Private and Public Companies 2000, an excellent (albeit expensive) resource, reflects the hopes and dreams in actual numbers and cents for over 100,000 privately- and publicly-held companies (small and mid-size companies as well as large corporations) across the U.S. Its alphabetical arrangement includes profiles of each company, assets, gross earnings, revenues, and other pertinent information. This is the kind of reference you would best view at a library, due to its expense.
- (3) Using the technology of online searching of computer databases to obtain information increases the efficiency and cost effectiveness of the research process. Secondary sources for data are available through online retrieval from over 8,000 public computer databases which offer extensive facts covering all aspects of business management and operations. There are public databases available for public use. A charge may be incurred for the information obtained, but anyone knowing how to access the data can obtain it. Private databases also exist and are developed for internal use by an organization such as a list of clients. No public access is normally offered and often the data is not made available under any circumstances. There are additional resources listed for obtaining data at the end of this module.

Analyze Competitive Information

Once you've gathered all of the competitive data you have been able to locate, you need to analyze it. You should analyze to determine product information, market share, marketing strategies, and to identify your competition's strengths and weaknesses.

Product Evaluation

You should know from your sales staff and customer feedback what product features and benefits are most important to your customers and potential customers. A product's or service's competitive position is largely determined by how different and unique a product is and its price.

Make a list of these features and benefits in order of importance and then rate whether or not all of your competitors fulfill them.

For example, Medium-sized companies that purchase copier machines may look for the following product benefits and features when making buying decisions:

Competing Company:

A

B

C

D

Features:

1. Auto paper feed

2. Auto enlarge or reduce

3. Collates

4. Staples

5. 24 Hour Repair Service

6. Warranty

Benefits:

1. Easy to operate

2. Saves money

3. Good print quality

4. Dependable

5. Fast

Price: \$

Next, indicate with a check mark which of your competitors has which features. Features are fairly straightforward, either a product has a feature or it doesn't. Benefits, on the other hand, are not as simple and should only be recorded based on customer feedback. For example, company B may claim in their company literature that their copier is fast, but a user may feel otherwise. Or, company B may indeed have a copier that by industry standards is fast, but you may have a copier that's even faster.

Now, evaluate your competition's product or service. How does your product compare to your closest competitor's product? What features and benefits are unique to your product? To theirs? The more unique features and benefits your product has, the stronger your market position will be. For example, if you produce and market an office copying machine that staples collated copies together and your closest competitor doesn't have this feature, you have an advantage. You can then sell the same market segment the benefit of added convenience and time saved.

However, your competitor may have developed a feature that you don't have on your copier that gives him/her a selling advantage.

Evaluate your competitor's price. Just because you have the same products as other businesses, doesn't mean everyone has the same price. Your own production costs greatly impact your pricing. If your price for a similar product is higher than your competitor's, then your market position is better. A temporary price decrease by a competitor might not be more serious than the fact that they're trying to move excess inventory. However, a trend of lowered prices may indicate that your competition is lowering prices to gain market share and improve production costs. It could also mean your rival is in financial trouble and has been forced to lower their prices. It's in this type of situation that rumors and gossip become helpful. If there's rumors that a company is in financial trouble and you discover price fluctuations, it's more likely to indicate potential problems.

Also, pay attention if your competitor has additional product/service costs other than the purchase price, such as installation or additional equipment required. Some other factors to watch out for are:

- Quality
- Durability/Maintenance
- Image/Design/Perceived Value
- Social Image/(politically correct)

Since customer preference of products is only part of the analysis, there are internal operational factors which can provide a competitive edge as well. Your competitor's product may not have the high quality of yours, but they might offer delivery; or their employees might be extremely motivated and committed to gaining the market share. You need to find out what they are doing on the inside. Some factors to take note of:

- (1) _____
Are they able to withstand financial setbacks? How are they funding new product development and improvement?
- (2) _____
How are they able to reduce time and cost through production and delivery?
- (3) _____
What is their ability to increase revenues by selling related products?
- (4) _____
What kind of relationships do they have with other companies in terms of product development, promotion or add-on sales?
- (5) _____
What is the motivation, commitment and productivity level of the employees?

Market Share

The most widely used measure of sales performance is market share. A competitor may not provide the best product or service; however, if they generate a significant amount of sales to the market, they may:

- Define the standards of a particular product or service.
- Influence the perception of the product or service.
- Devote resources to upholding their market share.
- To determine your company's market share on a percentage basis, the following formula should be used:

Current Market Share -- Company sales/Industry sales

You should then figure out all of your competitor's market shares on an individual basis. It will give you a clear idea of how your sales volume compares to your competition's. If you don't have total industry figures you won't be able to figure out your market share, but you can still get a good idea of your competitive position. Simply compare your total sales volume to your competition's. For example, in 1993-94 Company A sold \$3 million dollars worth of copiers, Company B sold \$5 million, and you sold \$4 million. It's obvious that Company B has the largest share of your market and is your greatest competitor.

Competitive Objectives and Strategies

For each competitor in your analysis, you should try to identify what their market objectives are and determine what types of strategies they are using to achieve them. Are your competitors trying:

- To maintain or increase market share?
- To maximize profits?
- To introduce technologically improved products into your market?
- To establish themselves as the market leaders?
- To protect their market share under attack by strong competition?
- To develop new markets for existing products?

Once you have identified what your competitors are trying to achieve, you will need to determine what type of strategy they have employed so you can eventually counteract with a strategy of your own. There are many specific strategies companies can employ. Some possible strategies your competitor's may be employing are:

- Reducing their prices.
- Advertising in new publications, or advertising more frequently.
- Buying out a competitor to increase market share and customer base.
- Improving a product with a new innovation.

It's important to note your competitor's actions over time. For example, if one of your competitors is consistent with pricing, product features, promotion, and their market share it may mean that they're not exploring or exploiting additional market opportunities. Or, if one of your competitor's has a decline in sales volume it may mean they will be employing new marketing strategies in the near future and should be monitored closely.

Identify the Competitions Strengths and Weaknesses

In order to develop effective competitive strategies, you need to make a realistic assessment of your competitors strengths and weaknesses, as viewed by the market. You need to ask yourself what each of your competitors do very well, better than your own company? Then, ask yourself in what areas are each of your competitors weak. Construct a simple chart. The copier company's might appear like this:

Strengths and Weaknesses of Competitors

Competitor:
Strengths
Weaknesses

A.

Superior customer service
3-year warranty
Higher price

B.

Quick innovator
Unique features
Higher price
Limited distribution channels

C.

Large market share
Lower price
Comprehensive ad campaign
Viewed as market leader by market segment
Slower product
No direct access to parts

Other Factors to Consider

(1) _____

As you analyze your competitive information be on the look out for broad management changes or changes in ownership. This is an indication that major policies and marketing shifts are on the horizon and you should anticipate changes. It may be a good opportunity to

court your competitor's star employees. People often change jobs during management shakeups.

- (2) _____
Your competitive analysis should include any new players, even if they haven't yet captured a significant piece of the market. New companies often bring new ideas and new innovations to the marketplace and can quickly become major players. Don't underestimate anyone.
- (3) _____
In your competitive analysis, you need to make a few predictions about what the competition is going to look like in the future. Competitors are constantly coming and going in the marketplace. Ask yourself: Who are my competitors likely to be? If you are introducing a new widget, how long before the competition catches on? Forecasting future competition will give your potential investors the confidence in the long term viability of your business.
- (4) _____
Companies whose competitive edge depends on new technology, new manufacturing techniques or access to new markets need to be aware of the common barriers new competition faces when trying to gain entry into the marketplace. They include:
- Patents. This provides protection for new products or services.
 - Market Saturation. This reduces the chance of competitors gaining a strong hold on the market
 - High start-up costs. This is a difficult obstacle for small competitors.
 - The need for significant expertise, or manufacturing and engineering difficulties. This makes it difficult for competitors to have the knowledge to compete.

Determine Your Competitive Position in the Marketplace

By now it should be fairly clear to you if you are a: market leader, one of several followers, or new to your marketplace. Once you have identified and analyzed your competition, and understand your competitive position, you are ready to do the following:

- Identify and discuss key areas of competitive advantage and disadvantage. Review the competitive environment for your product or service. Comment on both similar and substitute products or services.
- Summarize the major problems and opportunities facing your firm which may require action. Issues which should be considered include types of market penetration, distribution coverage, product line needs, price revisions and/or cost reductions.

A FINAL WORD

Schedule a competitive analysis on a regular basis, as you do for inventory and other business functions. Depending on what market you're operating in it could be every two months or once a year. Consider employing a college student for the summer or create student internship positions to fulfill the task. You must remember that your competitive research and analysis is never finished. This is on-going, rather than a one-time process. Your competition can change quickly, new players can emerge tomorrow, the economy may upswing or downswing at any moment. It's only when you clearly understand your competition that you can evaluate your own market position. Only then can you exploit their weaknesses to your competitive advantage and seek to improve your own marketing efforts.

A.6 Location for Your Business

Choosing the Right Location for Your Business

“Location, location, location” — You've probably heard this old mantra about what to look for in real estate before, but it may not mean what you think it means.

Yes, it still matters where you locate (or relocate) your business, but it matters for very different reasons today than it did even a decade ago.

Are you sure you need a new location?

Will expanding or rebuilding your present facilities meet your needs as well, at much lower cost? Be sure to compare the costs and benefits of moving to the costs and benefits of improving your present work site or purchasing adjacent property.

If you are considering a new location because you need space, have you already implemented outsourcing, production re-engineering and a switch to just-in-time inventory management to streamline your operations? They can free up to 50% or more of your plant space for production.

What kind of business are you?

Unless you are a local retail business that must be near its customers, your business likely falls into one of three categories:

- (1) _____
Like many traditional manufacturing companies, you will want to locate near your resource base in an area with strong transportation options, such as deepwater ports and extensive rail networks or trucking firms.

- (2) _____
Market access and the availability of natural resources are less important to your business. As long as the community you're contemplating has the technology to support you, you can follow your heart and choose a location based on quality of life considerations.
- (3) _____
You will need to cluster with other companies in technology centers, such as Silicon Valley or the Research Triangle.

So your first big question must be: "Can I be anywhere, or do I have special requirements (such as a dependence on natural resources or the need to cluster with other companies) that demand I locate in a certain region, or even a certain town?" Once you've answered this question, and narrowed your search to areas that meet your general criteria, you'll want a clear demographic picture of your chosen regions or towns to determine which sites are best suited to your needs.

Taking an accurate picture

- (1) What are the critical components of your business? Priorities have changed. A decade ago, professional site selectors looked for cheap land, transportation and power. Now, the most important item on their checklists is the work force. What's the quality, and how available is it?
- (2) Consider your own priorities. Is the cost of power important to you, or are you more interested in whether you can get a T-1 line for high-speed computer access? Here are some factors you should check to get started.
- (3) _____
Will you have to pay top dollar to lure workers away from other companies, increasing your personnel costs and earning the other companies' enmity? Consider your future labor needs, not just present ones.
- (4) _____
What higher education is available in the cities you chose? This will give you some idea of the quality of the local work force, and tell you whether you can plan to partner with institutions to train your workers.
- (5) _____
Some communities are friendlier to small business, while others favor large, industrial business. Check on both residential and business property tax rates. Find out about special fees and taxes. Some cities, for example, charge for a business license and apply a special fee to home-based businesses. Some states tax finished-product inventory and some tax cash receipts as well as profits. Some require significantly higher workers' compensation payments.

- (6) _____
Towns even a few miles apart may have very different telecommunication costs. How much will it cost to have fiber cable laid if you need more broad-band access than a T-1 line? Check with local Internet Service Providers to see if they provide broad-band wireless service, and how much they charge for it.
- (7) _____
How likely are you to be affected by flood, forest fire, earthquake, hurricane, heat-wave brown-outs, and so on?
- (8) Small business resources. Some cities may work to recruit businesses in your industry, offering special services and incentives. Industry or business associations might also be interested in helping your company.

Where can you find all this information? If you know the town you're interested in, contact the local economic development organization. Most are careful to keep inquiries confidential. They probably will have much of this information available on a Web site. If you know the state but not the town, start with the state economic development agency. Banks that deal with businesses are another good source of information on local business conditions, and they too keep inquiries confidential. Your best source, though, will be entrepreneurs. Ask the economic development agency for the names of companies like your own. Call them up, and ask them what it's like to do business there.

- Walk around town. Sometimes you can learn a lot just asking questions in a downtown coffee shop.
- Subscribe to newspapers from the cities you're considering. You'll learn a lot about local problems and attractive features. The want ads can supplement what you are told about the labor market.
- Choosing the city is the first step. What about the location within the city? You'll want to be close to employees, resources and services. Consider the amenities you'd like to have nearby to support your employees. If you're running a start-up company where everybody works long hours, your employees will thank you if there are restaurants, a dry cleaner, several banks, even day care, near your prospective site. Look carefully at what seems a good deal. Office space may be cheap because the only parking is blocks away, or because it's situated over a hamburger joint where you'll smell grilled onions all day.
- Your employees will also appreciate a safe location with well-lighted streets and access to public transportation.
- If you pick a city where rent is on the rise, try to negotiate a long lease, and look for space that will let you expand as you grow. Constantly moving your company from building to building is a giant expense and headache.

- If you're searching for light industrial or manufacturing space, many of the same criteria apply. In addition, though, think about how your company does business. Does your manufacturing process make noise or emit an odor? As urban areas expand, you don't want to find yourself dealing with unhappy neighbors.

Preparing to move

Whether you're locating for the first time, relocating or expanding, it's imperative that you sit down with your financial advisers and discuss the move. If you think it will take a month, double your estimate. If you are moving a manufacturing operation, double it again, at least twice. It usually takes longer than you think to reach full productivity. You'll need to do an honest assessment of your finances to ensure that you have a financial buffer around your downtime. It's wise to schedule your move for your slowest time of the year, but if that's winter, weather may make the move especially difficult.

HOW TO DO IT

- (1) Know that incentives for (re)locating can be found in different places for different-sized companies. Huge corporations can usually contact the secretary of state, whereas smaller firms would have better luck looking to chambers of commerce or local economic development organizations.
- (2) Make a list of the things your company needs to thrive, and then prioritize them.
- (3) Make a list of the things you want in a community for your personal and professional family. Make a list of communities that offer the amenities your lifestyle demands as well as the resources your company needs.
- (4) Develop a list of questions for economic development agencies and local business executives.
- (5) Be sure to communicate with your present local economic development organization about incentives for staying, and evaluate your present location alongside the other sites you consider.
- (6) Develop a plan for how you will deal with your current employees and customers as you move.
- (7)
- (8) Because everyone who moves with your company will need new housing, are local banks willing to work with flexible terms?
- (9)

50 Best Large Metro Areas to Start and Grow a Company

1. Phoenix, AZ

Rapid population growth means more customers and more workers, particularly for high-tech companies, while a renovated art museum, four major sports franchises, and the sunny climate attract residents.

2. Salt Lake City-Provo, UT

The host city of the 2002 Winter Olympics prides itself on its affordable lifestyle and young, educated, often multilingual workforce (reflecting the influence of the Church of the Latter Day Saints).

3. Atlanta, GA

Still the capital of the New South, Atlanta has a range of resources for the entrepreneur: universities, a major airport, a large and educated workforce, and access to venture capital and other funding.

4. Raleigh-Durham, NC

The home of three powerhouse universities (Duke, University of North Carolina, and North Carolina State) and software/pharmaceutical stronghold Research Triangle Park has a strong entrepreneurial infrastructure.

5. Indianapolis, IN

Established local industries such as pharmaceuticals and auto racing are spinning off start-ups in biotech, software, and other technical areas.

6. Dallas-Fort Worth, TX

The base of 19 Fortune 500 companies, with strengths in energy, banking, insurance, and convention business, the Dallas-Fort Worth area is also a hotbed of telecommunications-technology companies.

7. Charlotte, NC-SC

A national sports and banking capital, Charlotte is the big city of the Carolinas but remains livable enough to attract a skilled workforce.

8. Memphis, TN-AR-MS

Memphis's strength as a shipping and air-cargo hub gives its businesses access to customers and suppliers all over the country and the world.

9. Washington, DC-MD-VA

The area's longtime major industry, the federal government, is now facing competition from the Internet service providers, software companies, and Web-hosting data centers clustered in northern Virginia.

10. Orlando, FL

Tourism is still the big moneymaker, but Orlando aims to diversify into high tech, starting with a cluster of laser-related businesses growing out of the University of Central Florida.

11. Denver-Boulder, CO

12. Birmingham-Tuscaloosa, AL

13. Grand Rapids-Muskegon, MI

14. San Diego, CA

15. Minneapolis-St. Paul, MN-WI

16. Louisville, KY-IN

17. Houston-Galveston, TX

18. Nashville, TN

19. Kansas City, MO-KS

20. Milwaukee-Racine-Sheboygan, WI

21. Columbus, OH

31. Chicago, IL-IN

32. Portland-Vancouver, OR-WA

33. Norfolk-Portsmouth-Virginia Beach, VA

34. Seattle, WA

35. Boston, MA

36. Los Angeles, CA

37. Dayton-Springfield, OH

38. Oklahoma City, OK

39. New Orleans, LA

40. Cleveland-Akron, OH

41. Greensboro-Winston-Salem, NC

- | | |
|--|---|
| 22. San Antonio, TX | 42. Sacramento, CA |
| 23. Miami-Fort Lauderdale, FL | 43. Philadelphia, PA-NJ |
| 24. San Francisco-Oakland-San Jose, CA | 44. Bridgeport-Stamford-Norwalk, CT |
| 25. Cincinnati, OH-KY-IN | 45. Pittsburgh, PA |
| 26. Tampa-St. Petersburg, FL | 46. New York, NY-NJ |
| 27. Richmond, VA | 47. Buffalo, NY |
| 28. St. Louis, MO-IL | 48. Hartford, CT |
| 29. Detroit, MI | 49. Rochester, NY |
| 30. Baltimore, MD | 50. Albany-Schenectady-Troy-Glens Falls, NY |

50 Best Small Metro Areas to Start and Grow a Company

1. Las Vegas, NV

Las Vegas offers a low-tax environment and a market of more than 33 million tourists annually.

2. Fargo-Moorhead, ND-MN

Because of low crime rates, a strong commitment to education, and the availability of labor (as the agricultural sector has declined), this area provides a solid base for companies like Great Plains Software.

3. Sioux Falls, SD

A pro-business environment (no corporate or personal income taxes), a family-friendly quality of life, and relatively low labor costs have helped Sioux Falls companies like Gateway thrive.

4. Reno, NV

No personal or corporate income taxes, an outdoors lifestyle, and easy access to transportation (air, rail, and road) have made Reno a regional-distribution and back-office-processing hub.

5. Austin, TX

The live-music capital of the world is now home to a host of hardware, software, and Internet companies, thanks to an active venture-capital community and a ready pool of talent from the University of Texas's giant flagship campus.

6. Charleston, SC

A longtime tourist destination because of its beaches and historic district, Charleston also has a major container port that draws manufacturers and distributors.

7. Wilmington-Jacksonville, NC

Wilmington's scenic location on the North Carolina coast makes the city a popular spot for filming movies and television shows, and also helps attract employees in a range of industries.

8. Montgomery, AL

Montgomery is a major distribution center for the Southeast that also entertains high-tech ambitions, with five local universities and colleges and two air-force bases to supply a technology-savvy workforce.

9. Columbia, SC

A state capital with a university and a nearby military base that ensure a high-quality workforce, Columbia also has a strong financial-services sector.

10. Baton Rouge, LA

Home to two major universities and the country's seventh-largest port, Baton Rouge boasts a thriving petrochemical industry and a growing technology sector, thanks to AT&T's Internet backbone.

- | | |
|---|---------------------------------------|
| 11. Jacksonville, FL | 31. Wilmington, DE-NJ-MD |
| 12. Savannah, GA | 32. Springfield, MO |
| 13. Lafayette, LA | 33. Portsmouth-Dover-Rochester, NH |
| 14. Green Bay-Appleton, WI | 34. Toledo, OH |
| 15. Lexington, KY | 35. Fort Myers, FL |
| 16. Fort Wayne, IN | 36. Knoxville, TN |
| 17. Tucson, AZ | 37. Madison, WI |
| 18. Mobile, AL | 38. Des Moines, IA |
| 19. Omaha, NE-IA | 39. Panama City-Fort Walton Beach, FL |
| 20. Jackson, MS | 40. Corpus Christi, TX |
| 21. El Paso, TX | 41. Gainesville-Ocala, FL |
| 22. Lincoln, NE | 42. Little Rock-Pine Bluff, AR |
| 23. West Palm Beach, FL | 43. Columbus, GA-AL |
| 24. Manchester-Nashua, NH | 44. Brownsville-McAllen, TX |
| 25. Greenville-Spartanburg-Anderson, SC | 45. Cedar Rapids-Iowa City, IA |
| 26. Boise, ID | 46. Augusta, GA-SC |
| 27. Fort Collins-Loveland-Greeley, CO | 47. South Bend-Benton Harbor, IN-MI |
| 28. Topeka-Lawrence, KS | 48. Shreveport, LA |
| 29. Huntsville, AL | 49. Lynchburg, VA |
| 30. Wichita, KS | 50. Pensacola, FL |

A.7 Working with an Advisory Board

An advisory board is different from a formal board of directors. It's less formal and often unpaid but still important in the life cycle of a growing business.

From the outset of any new venture, every entrepreneur relies on the advice of at least one guide. Whether with parents, peers or friends, these mentor relationships are informal, and usually you will grow beyond their advice as your company grows.

As a result, you'll find that you need more specialized guidance. If the growth of your business has reached a plateau that none of your current mentors can help you cross, and if you don't have a board of directors or the board lacks the perspective you need, consider forming an advisory board. Advisers with special knowledge and expertise can help you resolve specific problems or develop aspects of your business that can open up new avenues for growth.

Your business could benefit from an advisory board in at least six ways:

- (1) If you're not ready to incorporate and establish a board of directors, a more informal group of advisers can give you valuable assistance in the meantime.
- (2) Well-selected advisers provide business experience and perspective on the business environment that company executives lack. For example:
 - Advisers can help you get back on track if your business has experienced setbacks or is in financial trouble.

- If you're planning to expand your business, an advisory board can help you avoid mistakes that could leave you overextended or struggling to survive.
- (3) Advisers can be useful mediators of conflicts among company officers.
 - (4) Advisory board meetings provide an opportunity to get to know potential candidates for the board of directors.
 - (5)
 - (6) Unlike directors, advisory board members are paid only meeting expenses and (sometimes) minimal consulting fees. Most advisory board members will assist your company because they believe in your vision and because they want to give back to other entrepreneurs. Even so, some entrepreneurs still pay advisers a token amount or at least will send gifts to the advisers in appreciation for their assistance.

Your advisory board members should offer:

- (1) Knowledge and expertise specific to the problem or issue you want help with.
- (2) A good mix of skills. For instance, you might include people in marketing, finance, human resources or the law.
- (3) Entrepreneurial experience. Have at least one adviser who has started and developed a business and therefore understands firsthand the challenges you face.
- (4) A high level of success. High achievers will have a richer store of successes and failures on which to draw when advising you.
- (5)
- (6) Respect for you and your decisions as the head of your company, as well as for others in your organization.

As you search for the right advisers, you need to:

- (1) Be selective when recruiting advisers. You want to find someone you trust and respect.
- (2) Find advisers through your contacts. Talk to fellow entrepreneurs, your accountant, your lawyer and your banker. Ask them to recommend someone who meets your criteria.
- (3) Tell potential advisers up front that you are interested in having them serve on your advisory board. Explain why you are particularly interested in their help.

- (4) Set up a time to meet face-to-face. Because you aren't paying them, make sure you cover all expenses associated with the meeting.
- (5) Ask yourself why someone would perform this service for little or no compensation.
- (6) The answer is vision. Most entrepreneurs are willing to give some of their time to help a worthy cause. If they buy into your vision, they might be willing to help you as you grow your business. Therefore, make sure you have a compelling vision to share.
- (7) Respect the adviser's right to say no. No one is under any obligation to help you. If the person turns you down but seems positive about your business, ask her or him to recommend someone else who might be a good fit for your board.

After you've picked your board, you need to set some ground rules.

- (1) _____
Their function is to give you advice, not orders. Find a face-saving way to drop advisers who don't respect your decisions or your right to make them.
- (2) _____
You'll learn a lot from their achievements — and from their mistakes.
- (3) _____
You might prefer to meet with them individually rather than as a group. This works well if you want to tap the specific expertise of each adviser rather than have them work as a group on company issues.
- (4) _____
This is particularly important when you put together an informal advisory board to work on one main problem.

How do it:

- (1) Seek advice from members of your personal network or other entrepreneurs who have set up an advisory board. Ask not only for their suggestions regarding the creation of such boards but also for any warnings about things you should avoid.
- (2) Contact a nonprofit organization that can help you. The National Association of Corporate Directors (NACD) advises entrepreneurs on selecting and working with advisers and directors..
- (3) Seriously consider the advice you receive from your advisory board. If you decide to take it, report back to your advisers on the results. They'll be expecting such feedback. If you find yourself frequently ignoring the advice of your board, ask yourself why you are using them.

Either change board members to fit your vision or start listening better. Otherwise you are just wasting the time of busy professionals.

- (4) Give back. Serve on other companies' advisory boards if you're asked. You'll learn plenty about how boards can operate most effectively. At the same time you'll also benefit from expanding your own network and perhaps your client base.

A.8 Board of Directors

Establishing and Working with Your Board of Directors

A young company might not need a strong board of directors. Your own vision, creativity and enthusiasm can be enough to propel you safely through the start-up phase.

But your need for guidance shifts dramatically when your company faces critical turning points in its development. Perhaps a serious fiscal crisis threatens the very survival of the business. Or you find yourself poised for a surge of growth but are unsure how to take your business to the next level.

To navigate such important and difficult issues, you'll need shrewd, reliable advice. Establish a strong outside board of directors to provide the experience, expertise and knowledge necessary to help solve key problems and guide your company's growth.

Fear of losing control of the company is the main reason entrepreneurs resist appointing an outside board of directors. Others feel that a board is just not necessary.

A proprietorship or partnership does not have a board of directors. When a company incorporates, state laws require it to establish bylaws and appoint a board of directors. The board then appoints company officers (president, vice president, secretary, treasurer). Small company boards often serve as officers themselves. Very small companies can have a one-person-board-and-officer team in states in which laws permit a company to incorporate with just one board member.

Company owners appoint boards of directors. As owner or majority shareholder, you may decide to appoint yourself and rely on an informal group of advisers, or even on a more formal advisory board, as described in the Quick-Read "Working With an Advisory Board". Or you might opt for a CEO-friendly board of directors made up of family and old friends.

Yet with a board of directors you can gain even more control over the running — and growth — of your company. Here's what a strong board can do for your business:

- Enhance your company's credibility as well as your own. You'll be seen as a CEO who is eager for input and willing to consider the ideas of others.

- Bring experience and knowledge to bear on issues that may be impeding your company's growth.
- Provide access to resources and contacts, including potential strategic partners, customers and sources for financing.

Selecting Board Members

- (1) _____
They'll bring the most objective approach to the table. Experts advise including 75% to 80% outsiders. Thus you, as CEO, would be the sole insider on a five-member board. If you want another insider, select the head of a key operating function, such as finance.
- (2) _____
An entrepreneur who has been through a growth phase similar to the one your business is entering would be ideal. Board members also should have extensive and useful connections in the business world.
- (3) _____
This will give breadth to your board and contribute to creative thinking.
- (4) _____
Find someone with expertise in sales and marketing, for instance, if that's a weak area for you.

How to Screen a Board Candidate

You might want to hire an executive search firm to help find directors. But if you're conducting the search, ask your business network to recommend top-flight candidates. Then hold as many interviews as necessary to get the right people.

- (1) _____
"Because my experience can help grow your company" is the ideal answer.
- (2) _____
What specifically has the individual contributed? You want an active board, not directors in it for money, prestige and a gilded resume.
- (3) _____
Wait at least until the second interview. People in it primarily for money might even ask about cash or stocks in the initial interview. They won't serve your board well.

- (4) _____
Hold first interviews during breakfast, lunch or dinner at your offices or in restaurants. The relaxed circumstances will help you get a feel for individual personalities and character. Visit candidates' offices also. Observe the culture: Is the atmosphere positive? Do peers and subordinates seem comfortable? How do candidates handle interruptions? Are they gracious to visitors and employees? The answers indicate how well they'll get along with the rest of your board.

Working With Your Board

- (1) Establish bylaws that give the board just the powers you want it to have.
- Will the CEO be board chairman? Will the owner or majority shareholder?
 - Will the board be able to add members? Fire them?
 - Will it set executive compensation? For all executives?
 - Will it determine governance structure (command and control, team, flat, matrix)?
 - Will it decide when to issue more stock? When to go public? When to pursue joint operations or a merger with another company? When to go out of business?

Remember: If you get funding from a venture capital firm, it probably will expect board representation to protect its investment.

- (2) Appoint board members who agree with your business philosophy. For instance, if you plan to accept short-term losses to invest capital in research or expansion for long-term gains, you'll need board support.
- (3) Use the expertise of board members. If you're developing a new marketing plan, consult whichever directors have relevant knowledge and experience.
- (4) Give the board full access to management. Make it clear that the board can contact any member of your management team directly at any time. This will provide a broader picture of the company's operations.
- (5) Be well prepared for board meetings. You want members to deal with key issues during each session. To facilitate this, provide them with adequate background information before the meeting.
- (6) Be honest. Don't paint so rosy a picture of your financial situation, for example, that you distort the facts. Board members can't help grow your business if they're unaware of key problems.
- (7) Work with the board's audit committee. Their job is to keep you out of trouble by making sure your financial accounting matches standard accounting practices. Meetings of the committee should be held at least every six months. Ask open-ended questions that will bring out the information that can help you most: What is your main area of concern? In

what area did your opinion differ most from that of our chief financial officer? Is there anything more I should know?

- (8) Let the board help you. If your company is in any kind of trouble — including financial ask for the board’s input. Follow the advice you get.

HOW TO DO IT

- (1) Consult with other entrepreneurs who have set up an outside board of directors. Find out how they handled the process.
- (2) Contact the National Association of Corporate Directors (NACD) (see Resources). NACD advises entrepreneurs on selecting and working with directors. The group also offers assessments of current boards.
- (3) Be prepared to pay your directors adequately. According to NACD, annual pay ranges between \$3,000 and \$10,000 for an outside director.
- (4) Choose board members who are likely to be personally compatible. They’ll work better as a group on your company’s behalf.
- (5) Limit your board to between five and seven members. A larger board won’t be as productive.
- (6) Be dependable. Don’t cancel meetings arbitrarily. Pay board members’ expenses (travel, accommodation and food) promptly.
- (7) Be open to your directors’ ideas. They will propose changes to benefit your company.

Building the Board of Directors

Is recruiting a board of directors really worth it? Absolutely – if you want your company to grow

How much does a strong (or even a not-so-strong) board of directors really matter to a growth-oriented company? It might be the difference between success and failure.

Just ask Sally J. Smith, the president and CEO of Buffalo Wild Wings Inc., the Minneapolis-based franchisor of Buffalo Wild Wings Grill & Bar restaurants. Smith was recruited to the company in 1994 by a disgruntled investor who had lost faith in the business’s management team and profitability prospects. “There wasn’t any reliable accounting system in place,” she recalls. “Even though some of the restaurants in the chain were doing more than a million dollars’ worth of business a year, the company was losing money -- although nobody knew how much.” One of the biggest strikes against it was a do-little advisory board that lacked sophisticated financial expertise and was unable to challenge the company’s two founders. “We

were on the verge of a major cash-flow disaster,” says Smith, who started out in the role of chief financial officer and was later promoted to the top leadership post.

Working with two new advisory board members, including Buffalo Wild Wings’ outside investor, Smith got to work on forming a strong new board of directors, one with the business qualifications and leadership authority necessary to force the entrepreneurial company back on track. Under the strengthened board’s direction, Smith focused on two key objectives: revamping the company’s accounting systems in order to give board members the timely, accurate financial reports they needed; and creating a series of financial plans to provide the board with specific turnaround goals, time frames, and standards of accountability. And the strategy worked: since 1996, sales have increased by more than 65%, to about \$30 million this year, and the company is once again profitable.

For a private company struggling to navigate its way through the challenges of fast growth and the often treacherous capital markets, a strong board can provide valuable assistance in all kinds of ways. Unfortunately, many entrepreneurs are so worried about control that they either opt for no board at all or pad their boards with longtime friends or family members.

Either approach can become a costly mistake. “What entrepreneurs often don’t realize is that a strong board can help a young or growing company build credibility in the outside world,” explains Bill Vogelgesang, a managing director and principal in the Cleveland office of Brown, Gibbons, Lang & Co., an investment-banking firm. “A good board -- especially one with heavy involvement from other CEOs and decision makers -- reflects well upon a chief executive because it shows that he or she can take criticism and doesn’t just want to impose one business vision on the company.”

Savvy businesspeople often know the benefits of an activist board from past experience. Bruce Fador, president and CEO of Boston-based WorldStreet Corp., a Web-based securities-industry company, learned of the importance of such a board when he was running fast-growing First Call Corp.

“At WorldStreet, I’ve got seven people on my board now -- six of them outsiders,” says Fador. With the three-year-old company in an intensive-growth phase, fueled by a recent \$15-million round of financing, the CEO meets with his board every six to eight weeks. “I have confidence that they will kick my butt in a very focused way, if that’s appropriate,” he says. “We all need to be at industrial strength as we work toward our next level.”

For entrepreneurial companies interested in setting up boards of their own that will build credibility and enhance growth strategies, here are five points to keep in mind:

- (1) Creating an effective board does involve taking some risks. Ben Boissevain, a managing director of E-Technologies Associates, a New York City-based investment-banking and -advisory firm, often sits down with his entrepreneurial clients to warn them that the key issues are “control, credibility, and access.” He explains: “A well-connected board of experienced outsiders will give your company a lot of credibility in the business world as well as potential access to financing sources and other business opportunities. The

countervailing force, which you also need to take seriously, is that you give up some measure of control the more outsiders you put on your board.” Translation: a strong, active board -- with a majority of members from outside the company -- has the power, at least in theory, to replace a company’s management if it loses confidence.

That said, the risk of a total management overhaul should be minimal in a company with a good business plan and a strong management team. “A board isn’t there to replace management but to enhance it,” Sally Smith notes. “My feeling is, if we suddenly went off course, the last thing the board would do is suddenly make massive changes. I would expect our board members to look for ways to help us deal with our problems -- things like ‘Here are the resources we can provide’ or ‘Here’s the way we’ve dealt with this issue in the past.’”

- (2) When considering a prospective board, view it from the outside world’s perspective. “The issue of what constitutes the best board makeup is one of the most heavily debated business issues,” comments Steve Buffone, a partner in the New York City office of the law firm of Gibson, Dunn & Crutcher. “If you’re setting one up -- and want to know how the banking or investment community will evaluate it -- it’s probably helpful to know the prevailing wisdom: the most effective mix is 75% to 80% outsiders.”

Personal chemistry does matter: unless a board is being put together in a crisis situation, it makes sense to take the time to find qualified outsiders who have a good rapport with a company’s leadership, not to mention an informed interest in its industry’s challenges.

If your board has only five seats, then the company’s chief executive will probably be the only insider to serve on it. If there’s room for another insider, he or she should represent a key operating function, typically that of finance or marketing.

- (3) _____
That’s the assessment of Michael E. Frank, a general partner at Advanced Technology Ventures, a venture-capital firm with offices in Waltham, Mass., and Palo Alto, Calif., that typically considers about 5,000 business plans each year -- before choosing 20 or so companies to invest in. With that amount of exposure to the market, Frank has a pretty good sense of what works and what doesn’t.

“What you’re looking for in an effective board is a group of mostly outsiders who have been through the entrepreneurial process many times. They understand the generic operating issues that a growth-oriented company typically faces,” says Frank. “Good board members also have a very broad range of contacts that they can reach out to, which may include possible financiers, strategic partners, or even potential customers.”

Others recommend not limiting your search for board members to your community’s equivalent of Bill Gates or Warren Buffett. “Companies can get tremendous benefit from thinking outside the box, which may mean approaching business executives in very different industries, or someone like a journalist who tracks the world of business from a very

different perspective,” advises Jeff Simmons, a partner at Raphael and Raphael, a Boston accounting firm.

The bottom line here: it’s the breadth of contacts and experience that brings the best payoff to growing companies, rather than specific knowledge of any particular product or tiny market niche. When you have the right big-picture group in place, you can always supplement its expertise with an advisory board. “We might encourage one of those to be set up that would be focused around one particular product or technology, if that seems necessary. But you don’t want to waste a valuable board seat on this level of expertise,” Frank advises.

- (4) Look for board members who can complement, rather than replicate, insiders’ strengths. One helpful exercise recommended by Patrick J. Boroian, a general partner at Sprout Group, the New York City-based venture-capital subsidiary of Donaldson, Lufkin & Jenrette, involves creating a candid list of your own strengths and weaknesses. “Very few entrepreneurs have all skills. It’s rare for someone to understand operations, finance, sales and marketing, and human resources, and to be a great leader as well,” he notes. “So what makes the most sense is finding board members who can complement your own skills set.”

In some cases, especially if your company is small or a start-up, you may not be able to attract the right kind of board members, at least not on your own. In those cases, setting up an informal team of advisers can provide you with valuable outside guidance. But upgrade the group as soon as possible, perhaps with the assistance of an outside investor or with a strategic business partner, once you form ties to more well established companies.

- (5) Remember that your board is your company’s face in the outside business community. According to Vogelgesang, prospective investors frequently analyze the caliber of a company’s board before deciding whether or not to get involved. “It’s not at all uncommon for them to pick up the phone and call board members,” he says. “If they wind up speaking to your brother-in-law and your best friend from kindergarten, that’s not going to speak too well of you or your company.”

Be prepared to make changes if necessary, especially as new investors get involved. Depending on the size of their financial stake in your company, investors will often insist on at least one and sometimes two or more seats. Some venture capitalists and other private-equity firms will go a step further and require reconstruction of the board -- from scratch -- and sole veto power on selecting its members. Although business owners may object to an investor’s inflexibility on that point, the result is probably in everyone’s best interest. After all, strong boards usually help build strong companies.

The ABCs of Building a Great Board

You want to do it, but you don't know how. Here's a blueprint for creating the kind of board that can help your company achieve its growth objectives.

- (1) _____
Depending on state regulations, creating a board of directors can be as simple as filing a descriptive amendment to your certificate of incorporation or corporate bylaws, or including a description when you file for incorporation. So don't delay because you're worried about the cost or time involved.
- (2) _____
If your company is growing fast or facing a range of complex business or financing issues, you may want to meet as often as every four to six weeks. For very young or mature companies, quarterly meetings will probably be adequate.
- (3) _____
Don't load up your board with so many people that you'll never get anything done. A good rule of thumb: Five to seven well-qualified members is all you'll need.
- (4) _____
To attract the best team to your company, be prepared to pay for travel expenses (so that you won't be tied only to local talent), a token stipend (up to \$1,000 per meeting), and a small stock-option package, if that's appropriate to your industry and growth plans.
- (5) _____
Once you've set up a top-quality board, treat its members accordingly. That means holding meetings as scheduled, promptly reimbursing them for expenses, keeping accurate minutes of meetings, and otherwise doing everything you can to help your board work well for your company.

Boards that are not Bored

Every large public company has a board of directors. The news is filled with stories about prominent people joining boards, about boards kicking out presidents and founders, and about personal liability of members of the boards. In a large public company, the board plays an incredibly important, and often controversial role in the governance and development of a company.

Given this, should a startup or small entrepreneurial company have a board of directors? I say, emphatically, YES!

By definition, every corporation has a board of directors. The minimum legal size of the board varies by state. In some states, the minimum size is three people (typically a president, secretary, and treasurer--also referred to as the officers of the company). In other states, the minimum size is linked to the number of shareholders--if there is only one equity holder in the corporation,

there only needs to be one board member. Of course, there are several different types of companies, such as partnerships or sole proprietorships that do not require a formal board.

For many companies, the board of directors ends up being the founders of the company. However, I believe there is huge value in expanding the board to include “outside” directors--those that do not work for the company, but offer their time and advice to help shape and guide the company. These outside directors serve a similar function to those of a public company, but often with a much different approach.

I have been a member of many boards of directors and I have come to classify each board as one of three different types:

- _____
These are boards that role up their sleeves and help the founders and management team of the company get the job done. They meet frequently, have animated, engaged discussions, and offer significant ongoing support and help to the key owners and managers of the company.
- _____
These are boards that meet four to six times a year for a status report on the company. If everything is going well, they tend not to have much to say. If there are problems or issues, they are often critical of the CEO and the management team. If things continue to go poorly, they often take action of some sort.
- _____
These are boards that have no influence on the company. In many cases, they are simply rubber stamp exercises for the CEO or founders.

The only type of board that I believe is useful for a small, entrepreneurial company is a working board. The pressures in an entrepreneurial company are great enough that the founders and the management team need everyone involved doing everything they can to make the company successful. This does not mean that everyone agrees on everything, or the members of the board are not critical of the management team. But, it does mean that there is an active, open commitment to work with the founders and management team to make the company succeed wildly.

Board members come in many shapes and sizes. In my experience, a good size of a board is five to seven people, including the insiders. If there are only one or two insiders on the board, a total board size of five is plenty. If there are more than two insiders on the board, seven board members is more appropriate. I recommend that several of the outside board members be highly experienced entrepreneurs in the market that the company is going after. The rest of the board members should be experienced entrepreneurs in other business segments, but with a particular interest in something about the company.

The chairman of the board is often one of the insiders, such as the president or CEO. However, in many cases, you may want the chairman to be one of the outsiders, especially in a situation where one of the outsiders helped start the company by putting up some of the initial seed

capital. The role of the chairman varies dramatically, but it often raises the level of commitment of the individual board member that is the chairman and the overall board in general.

Significant outside investors, especially venture capitalists, will want board seats. I recommend you limit the number of outside investors on your board, unless they fit the criteria listed above. A venture investor only needs one board seat - if you have a syndicate of venture investors (several different venture capitalists that invested together in the round), consider offering one board seat and extending observer rights (e.g. the right to attend any board meeting) to the other investors. These rights should be negotiated as part of the investment.

In addition to functioning as a regular sounding board for the management team, board members can contribute substantially to the business, both as a group and individually. Board members can be incredibly useful during financings, merger and acquisition activity, general corporate strategy, and executive recruiting. Do not overlook the experiences and skills of each of the individual board members--they can often play high value, short term consulting roles as needed.

Board members should be compensated for their efforts. At the minimum, their travel expenses should be paid. Most entrepreneurial companies should set up an option package for the board members - depending on the level of effort requested of the board, this could be as little as 0.25 percent of the company or as much as 2 percent of the company vesting over four years. In addition, many board members are interested and willing to invest in the company. I always believe that it is in the best interest of a company to have the board members have a meaningful equity stake in the company.

In some cases, the directors that you recruit will have a substantial personal net worth. In these cases, they might ask if the company has "Director and Officers Insurance" (D&O Insurance). This is insurance that protects the director from having personal liability in case the company gets sued. Small companies cannot afford D&O insurance (in fact, most private companies cannot afford this), while most public companies must have this as a requirement of the underwriters in an initial public offering. So, when confronted with the question, the best solution is to make sure that the articles of incorporation of the company provide the directors with the highest limitation on liability afforded by the state the company is incorporated in. Don't waste your time investigating D&O pricing - it won't be economical.

Finally, take good care of your board members. These are busy folks that are making a substantial time and energy commitment to you. They share in the rewards if you are successful, but their time and energy is at risk since their primary form of compensation is equity in your company. Feed them. Make them comfortable. Have fun together! You'll be pleasantly surprised how much faster the relationships evolve and how much more valuable they become when everyone is working hard, but having a good time together. Don't ever let your board get bored.

A.9 Ethics

Why You Need Good Business Ethics

Good ethics make good business sense. Your company stands to profit from a reputation for acting with honesty and integrity.

Enviro-nics International recently surveyed 25,000 people in 23 countries; 50% said they “pay attention” to the social behavior of companies. One in five said they’d protested poor social performance by speaking out against the companies or refusing to buy their products.

Bottom line: Your policies and actions are under constant scrutiny and assessment by those who can make or break your business. Can you afford not to do the right thing?

Having a code of ethics helps your company define and maintain standards of acceptable behavior. A good ethical framework can help guide your company through times of increased stress, such as rapid growth or organizational change, and decreases your firm’s susceptibility to misconduct. Ensuring ethical practices in the workplace, such as with personnel policies, can stave off expensive litigation or fines in the future. Last but not least, it can translate to great PR for your business.

What makes for good business ethics? A few examples:

- (1) _____
Pay fair wages, and keep your promises. Act quickly to put an end to any kind of harassment, and show the same high level of respect for all your employees. Payoff: Low turnover, high employee motivation and productivity. Commitment to growing your company.
- (2) _____
Pay suppliers the amount agreed upon, and on time. Be fair with customers, not over-charging and not inflating the quality or potential of your products or services. Payoff: A sterling reputation that will help sustain your company even when times are tough.
- (3) _____
Don’t pollute the environment; recycle when possible. Heed protests of company policy or actions. Give back to the community through charity fund-raising or other worthy causes. Payoff: Goodwill that enhances your reputation as a positive force in the community.
- (4) _____
Provide what you promise on your service contracts and in your advertising. Example: A Canadian roofing company won’t accept payment on roof replacement or repair until after a rainfall proves the roof doesn’t leak. Payoff: Repeat business as customers learn they can trust you not to cheat them -- and these people tell their friends.

Here are two proven ways to ensure that ethical conduct holds sway at your company:

- (1) Adopt a code of ethics. This is a formal statement that sets standards of behavior for everyone in the company. Your code can range widely, from confidentiality (keeping trade secrets) to dealing with sexual harassment. Specify any penalties for violations. If the company goals in your long-range plan are respected and referred to frequently, add following the ethics code to them.
- (2) Do a quick “ethics check” when necessary. If you’re not sure whether a decision or action would be ethical, ask yourself:
 - Is it legal? Would I be violating federal, state or municipal law?
 - Is it in accordance with company policy?
 - Is it fair? Would anyone lose out?
 - Would I be proud of my action? How would I feel if my family and friends read about it on the front page of the newspaper?
 - How would our customers react? Would they be more inclined to trust us, or feel cheated or betrayed?

HOW TO DO IT

- (1) Model the ethical behavior you expect of your employees. Treat them with honesty and respect if you want them to give one another — and your customers — the same treatment.
- (2) Provide employees with opportunities for personal and professional growth. Tailor incentives to individual needs.
- (3) Educate employees about ethics. Use hypothetical situations: “What would you do if a valued customer kept making suggestive remarks to a junior staffer?”
- (4) Empower employees to treat customers right. Don’t criticize good ethical decisions made on the front line, such as taking returns from loyal customers who don’t have receipts.
- (5) Make sure employees are aware of your code of ethics. Encourage them to discuss ethical concerns with you or another designated individual. Take those concerns seriously, and ensure confidentiality. Consider an anonymous survey of the entire staff asking them to define the organization’s ethical strengths and weaknesses.
- (6) Share your code of ethics with customers. Invite them to be open regarding any doubts they have about the integrity of your company and employees. Don’t react defensively.
- (7) Reward ethical behavior. This can be done through raises, bonuses and employee recognition awards.

Ethics and Conflict of Interest

You've seen the headlines, "Politician caught in conflict of interest" or "professional denies conflict of interest allegations." You probably were thankful that you were not the subject of the newspaper story. But you also may have wondered what exactly is a conflict of interest, why such conflicts are ethically significant, and what you can do to avoid being in one.

A conflict of interest is "a situation in which a person, such as a public official, an employee, or a professional, has a private or personal interest sufficient to appear to influence the objective exercise of his or her official duties."

There are three key elements in this definition. First, there is a private or personal interest. Often this is a financial interest, but it could also be another sort of interest, say, to provide a special advantage to a spouse or child. Taken by themselves, there is nothing wrong with pursuing private or personal interests, for instance, changing jobs for more pay or helping your daughter improve her golf stroke.

The problem comes when this private interest comes into conflict with the second feature of the definition, an "official duty" -- quite literally the duty you have because you have an office or act in an official capacity. As a professional you take on certain official responsibilities, by which you acquire obligations to clients, employers, or others. These obligations are supposed to trump private or personal interests.

Third, conflicts of interest interfere with professional responsibilities in a specific way, namely, by interfering with objective professional judgment. A major reason clients and employers value professionals is that they expect professionals to be objective and independent. Factors, like private and personal interests, that either interfere or appear likely to interfere with objectivity are then a matter of legitimate concern to those who rely on professionals -- be they clients, employers, professional colleagues, or the general public. So it is also important to avoid apparent and potential as well as actual conflicts of interests. An apparent conflict of interest is one which a reasonable person would think that the professional's judgment is likely to be compromised. A potential conflict of interest involves a situation that may develop into an actual conflict of interest.

Leading examples

Consider the following types of typical conflicts of interest:

- (1) _____
For example, you work for government and use your official position to secure a contract for a private consulting company you own. Another instance is using your government position to get a summer job for your daughter.

- (2) _____
Bribery is one example; substantial [non token] gifts are another. For example, you are the purchasing agent for your department and you accept a case of liquor from a major supplier.
- (3) _____
Here, the professional solicits benefits in exchange for using her influence to unfairly advance the interests of a particular party.
- (4) _____
This could be as blatant as stealing office supplies for home use. Or it might be a bit more subtle, say, using software which is licensed to your employer for private consulting work of your own. In the first case, the employer's permission eliminates the conflict; while in the second, it doesn't.
- (5) _____
While working for a private client, you learn that the client is planning to buy land in your region. You quickly rush out and buy the land in your wife's name.
- (6) _____
An example would be setting up a business on the side that is in direct competition with your employer. Another case would be taking on so many outside clients that you don't have the time and energy to devote to your regular employer. In combination with [3] influence peddling, it might be that a professional employed in the public service sells private consulting services to an individual with the assurance that they will secure benefits from government: "If you use my company, I am sure that you will pass the environmental review."
- (7) _____
Here a dicey situation can be one in which a person who resigns from public or private employment and goes into business in the same area. For example, a former public servant sets up a practice lobbying the former department in which she was employed.

Some tests

How do you determine if you are in a conflict of interest, whether actual, apparent, or potential? The key is to determine whether the situation you are in is likely to interfere or appear to interfere with the independent judgment you are supposed to show as a professional in performing your official duties. A good test is the 'trust test':

Trust, in my opinion, is at the ethical heart or core of this issue. Conflicts of interest involve the abuse, actual or potential, of the trust people have in professionals. This is why conflicts of

interest not only injure particular clients and employers, but they also damage the whole profession by reducing the trust people generally have in professionals.

In fact, the 'trust test' suggests one very good way of dealing with a conflict of interest: reveal your private interest in the matter to relevant parties. Often if we let others know what might be influencing our judgment, they can be on their guard and not caught unaware.

But sometimes it isn't enough to know that there is a particular private interest influencing a professional's judgment; the client, employer, etc. expects that the professional will stay out of such situations. So the second way to avoid conflicts of interests is to absent yourself from decision making or advice giving if you have a private interest. So in the case of potential self-dealing, the conscientious professional will say that she can't be involved in a situation where she is both bidding on a government contract and deciding as a public servant who is awarded the contract. She will either step aside and completely [and, I mean, completely] absent herself from determining who gets the contract or refrain from bidding on such contracts in the first place -- which is probably the wisest course of action.

A final word

It may take some skill and good judgment to recognizing that you are in a conflict of interest situation. This is because private and personal interests can cloud a person's objectivity. So it may be a lot easier to recognize when others are in a conflict, than when you are. This suggests that it may be useful to talk to a trusted colleague or friend when you are in doubt.

But once you recognize that you are in or are headed into a conflict of interest situation, the ethical responses are straightforward: get out of the situation, or, if you can't, make known to all affected parties your private interest. These responses will preserve the trust essential to professional objectivity.

It is important to realize that avoiding conflicts of interest is only one part of being a conscientious professional. Another part is the difficult task of making choices when the ethics of the situation aren't clear or when there are good moral reasons for acting in diametrically opposing ways. This is typical in the case of whistle blowing, in which a duty of loyalty to a client or employer counsels confidentiality but this conflicts with a duty to warn the public of a serious harm or danger.

Section B Business Plan

B.1 Getting Stated with a Business Plan

Writing a business plan is a good starting point for anyone with a business idea. The business plan helps a prospective business owner to detail his/her idea by thinking through all the implementation steps. This process helps the entrepreneur to see on paper whether the business has a chance to succeed. The business plan is also written with bankers and investors in mind when the entrepreneur is looking for financing.

The goal of the business plan is to communicate to yourself and others the "story" of your business from the beginning to the end: a description of the products and services that will be or are sold, the way the business will operate or currently operates, and the vision and goals of your business. If another party reads your business plan and has a clear understanding of what your business is all about, it means your business plan is soundly written.

It is important to think of yourself as an investor in your business. As a rational person, you would want to know everything about a business before you invest your money. The business plan will help you to learn everything you need to know about your business. Think of the business plan as a strategic communication tool for your business.

In summary, writing a business plan allows an entrepreneur to:

- Think about the business in detail.
- Focus on specific issues of the business that are not always apparent to a new entrepreneur.
- Be prepared to answer specific questions about the business when contacting a lender for a business loan.

A business plan should be written in third person. Words such as "I", "we", "my", and "our" should not be used. Instead, consider using words and phrases such "management", "the owner", "the company", "Mr. Smith", etc. In this aspect, it might help to pretend you are reporting on the business for a business magazine.

The following section presents an outline of a business plan. Each part of the business plan contains a description of the content and some questions to consider. These questions will help you figure out what you should include in each part. You should incorporate these questions in a paragraph format for your business plan.

B.2 Business Plan Outline

I. Title Page

II. Executive Summary

III. Company Profile

IV. Market Research and Analysis

- a. Customer Description
- b. Market Analysis

V. Competitive Analysis

VI. Marketing Plan

- a. Marketing Objectives
- b. Products and Services
- c. Pricing
- d. Promotion
- e. Place (Location and Distribution)
- f. Ongoing Marketing Evaluation

VII. Operations

- a. Business Operations
- b. Facility
- c. Office equipment
- d. Business Forms
- e. Accounting and Bookkeeping System
- f. Suppliers

VIII. Human Resources Management

- a. Local Labor Market Conditions
- b. Personnel Management
- c. Outside Assistance

IX. Financial Plan

- a. Sources and Uses of Funds
- b. Depreciation Schedule
- c. Sales and Cost of Goods or Services Sold Schedules

- d. Loan Amortization Schedule
- e. Income Statement
- f. Cash Flow Statement
- g. Balance Sheet
- h. Breakeven Analysis

B.3 Business Plan Content

I. Title Page

This page should include the title of the document, the name of the business, the logo if applicable, the address and telephone number of the business, and the name(s) of the owner(s).

II. Executive Summary

The executive summary is a condensed version of the entire business plan. It should be no longer than two pages. *It may be easier to compose this section after the plan has been written in its entirety.* Summarize the plan's most important points from every section in the Executive Summary.

The Executive Summary should address the following questions:

- (1) Give the name and location of your business
- (2) What type of business do you plan to have or already have?
- (3)
- (4) What is the industry/market of your business? Summarize the most relevant industry/market facts that demonstrate that demand for your products/services is strong enough to justify the existence of your business.
- (5) What is unique about your products/services and what proprietary rights does the business have? (i.e. patents, licenses, royalties, distribution rights, franchise agreements, etc.)
- (6) What is the current stage of development for the venture (i.e. start-up, initial operations, expansion, rapid growth, or stable operations)?
- (7) What is or will be the legal form of the organization (i.e. proprietorship, partnership, limited partnership, S-corporation, or C-corporation) and why?
- (8) Who will be the key management personnel and what skills do they have that will help the business? (Include name, title, and qualifications of each person.) List outside personnel such as accountants or lawyers as well.
- (9) Are sales constant or variable throughout the year(s) (i.e. market seasonality)?
- (10) How long will it take the business to reach break-even? Explain how long it will take this venture to generate profits.
- (11) Who is requesting the funds?

- (12) For what purpose are the funds being requested (i.e. start a new business, buy an existing business, purchase additional equipment for business expansion, etc.)?
- (13) What are the expected benefits of this investment to your company?
- (14) How will the funds be repaid?
- (15)
- (16) What collateral will be used to secure a loan (i.e. equipment, inventory, and home)?
- (17) Summarize the financial projections. Indicate financial milestones.

III. Company Profile

- History of your company:
 - Is it a start-up business? If so, when do you plan to open it?
 - If it is an existing business, how long has it been in existence? What has its progress been?
- Structure of your company:
 - Who are the owners and investors and what is their proportion of ownership?
 - What is the legal structure?
- Type of business: retail, wholesale, service, manufacturing, contracting, professional, importing/exporting, etc.
- Mission of the company: a mission statement defines the reasons for the existence of the business.
- Long-term goals: What do you plan for your business between 5 and 10 years from now?

Description of the products and/or services your company is selling. Keep this section short because you will describe your products/services in more detail in the *Marketing Plan* section.

Other Issues

THE COMPANY

1. What is/will the Company be called?
2. Is this a merchandising, manufacturing, or service business?
3. When will/did the Company start operating?
4. What products or services will/does the Company provide?
5. Is this a seasonal business?
6. What will be the business form of the Company? (sole proprietorship, partnership, corporation)
7. Who will/does own and manage the Company?
8. What facilities will be needed to operate the Company? (Ex. office, retail, factory)
9. What territory will the Company operate in or serve?
10. Why have you chosen your particular location?
11. What will/are the Company's normal business hours?
12. Will/Is the business a part-time or full-time business?
13. What is the current status of the Company? (start-up, expansion, acquisition)

14. What licenses or tax permits are required to operate the Company in the county, city, state, country?

FOR A NEW BUSINESS

1. Why will the business be successful?
2. What is your experience in this business or industry?
3. Have you spoken with other people in this kind of business? What was their response?
4. What will be special about your business?
5. Have you spoken with prospective trade suppliers to find out what managerial and/or technical help they will provide?
6. Have you asked about trade credit?
7. If you will be doing any contract work, what are the terms? Reference any firm contract and include a copy as supporting documentation.
8. Do you have letters of intent from prospective purchasers of the product/service?

FOR AN ACQUISITION

1. When and by whom was the business founded?
2. Why is the owner selling the Company?
3. How did you arrive at a purchase price for the Company?
4. What is the trend of sales?
5. If the business is going downhill, Why? How can you turn it around?
6. How will your management make the business more profitable?
7. Will seller share last three years of financial data, including income tax returns?

THE PRODUCT/SERVICE

If you are manufacturing a product:

1. What is the product?
2. What will you need (raw materials) to manufacture the product?
3. What suppliers (by name) will you need to provide raw materials?
4. Who will buy your product? Do you have a contract?
5. What manufacturing capacity will you need?
6. Where will you manufacture the product?
7. Will the product need to be protected by patent or copyright?

If you are reselling a product manufactured by someone else:

1. What is the product?
2. Who will supply the product?
3. How will the product be shipped to you?
4. Do you need to package the product for resale to your customer?
5. If you deliver, how will you ship the product?
6. How will you display the product if the customer buys at your store?
7. Will you drop ship the product directly from the manufacturer to the customer?

If you are providing a service:

1. What is the service?

2. What will you need to do in order to provide this service? (Buy equipment, hire people)
3. Does this service require special insurance, licensing, or bonding?

IV. Market Research and Analysis

This section of the business plan consists of three main parts: customer description, market analysis, and competitive analysis.

Start with a description of your potential customers. Findings from the market analysis section might reveal other opportunities for your business. Thus, you might want to reconsider the contents of your *Customer Description* section if you discover new market potentials in the *Market Analysis* section.

Customer Description

(1)

If they are individuals, define the demographic characteristics of your customers (i.e. sex, age, income, education, occupation, household size, and ZIP code of residence) as well as lifestyle or other relevant characteristics. If your customers are businesses, define your customers in term of statistical information (i.e. sales volume, number of employees, regional locations, main activities, main customers, etc.).

(2)

If so, who are your primary and secondary target markets? (A primary target market is the group to whom your product is sold the most.)

(3)

(4)

(5) What is the basis of the purchase decisions of the customers: price, quality, service, personal contacts, political pressures, or some combination of these factors?

Market Analysis

(1)

From what towns/parts of the city do your customers come from?

(2) What is the size of the different market segments (primary and secondary target markets) in terms of number of people and amount of products/services sold to them?

(3) According to potential distributors, dealers, sales representatives, and other relevant sources, what are the current and past trends affecting the market you plan to enter?

(4)

- (5) What are the major external factors affecting market growth (i.e. social, economic trends, governmental/legal, societal, and environmental factors)?
- (6)
- (7) Describe the potential annual growth of the total market for your products or services for each major customer group. Total market projections should be made for at least the next five years.

Other Issues

- (1) Who are your customers (target market) and how would you describe them (market segmentation: age, sex, profession, income, lifestyle, etc.)?
- (2) What percent of the market will you have? How will you attract and keep this market?
- (3) What features and benefits will the customer get when they buy your product/service?
- (4) Who needs this product or service?
- (5) Where is the customer located?
- (6) What is the present size of the market?
- (7) What is the market growth potential?
- (8) As the market grows, does our share increase or decrease?
- (9) How are you going to satisfy your market?
- (10) How will you expand your market?
- (11) How will the customer buy your product or service?
- (12) What is the price of your product or service?
- (13)
- (14) Is the price competitive to your competitors?
- (15) How much product/service do you need to sell in order to cover your expenses? To show a profit? This tells you your needed and desired market share. (You'll need to do your financial projections before you can answer this question but the answer goes in this section of the Business Plan.)
- (16) Why will someone pay your price? How did you arrive at that price?
- (17) What special services do you offer that may justify higher prices?
- (18) Will you offer to your customers? If so, describe your credit policy. Can you afford to extend credit?

V. Competitive Analysis

Use a table format to list and compare the major competitors affecting your business. This table will allow you to summarize their strengths and weaknesses and pinpoint the most threatening competitors. The table should compare competitors based on criteria that are relevant to your organization. Here are some criteria to consider when analyzing competitors:

- Area of business
- Products/services sold
- Location
- Price
- Target market(s) served
- Physical appearance of the location
- Reputation/image
- Customer service
- Warranty policy
- Expertise of the owners and/or employees
- Visibility of advertising (i.e. name recognition)
- Number of years in business (i.e. experience)
- Market share

Table Sample:

Name of Competitors	Type of business	Location	Products or services sold	Price	Target market(s) served	Other criteria
ABC Company	Coffee shop (+)	Downtown (-)	Drinks only (-)	\$1-\$5 per drink(+)	Students (+)	Etc.
XYZ Company	Coffee shop (+)	132 nd & Maple (+)	Drinks & pastry (+)	\$2-\$5 per drink (-) \$1-\$3.5 per pastry (+)	Females from 16-50 years old (+)	Etc.

In each cell, evaluate the strengths (+) and weaknesses (-) of each competitor on the relevant criteria. After the table is completed, analyze which will be your strongest and the weakest competitors based on the number of (+) and (-). This table will allow you to define the most and least threatening companies that compete with your business.

Other Issues

- (1) Who is the competition? List the five nearest by name by name.
- (2) Where are they located?

- (3) Is their business: steady? increasing? decreasing? why?
- (4) What price(s) do the competitors charge?
- (5) What are their strengths and weaknesses?
- (6) How do competitors advertise?
- (7) Have any competitors gotten out of this industry and if so, why? (This information might indicate there are too many businesses for a certain market or this type of business is not a good idea?)
- (8)

- (9) What is happening in this business/service/product's industry? (For example: technological changes, rapid growth, declining demand, etc.)
- (10) Why will someone buy your product/service versus your competitors?
- (11)

- (12) How are their operations similar and dissimilar?
- (13)

VI. Marketing Plan

According to the Marketing Mall of the Women's Business Center, "a marketing plan helps you establish, direct, and coordinate your marketing efforts. It forces you to assess what's going on in your marketplace and how it affects your business. It also provides a benchmark for later measurement.

A marketing plan contains information about your company and its products, marketing objectives and strategies, as well as how you will measure the success of your marketing activities. It describes all the marketing activities you'll perform during a specified time period (usually one year). You'll also include any background information and research results you used to select those marketing activities. Finally, you'll document the costs associated with your planned marketing activities as well as the measurements you'll use to determine success."

A marketing plan is composed of six sections: marketing objectives, products and services, pricing, promotion, place, and on-going marketing evaluation.

constitute the four elements of the marketing mix, also known as the 4 P's. Each section should describe the different strategies you plan to take when approaching your customers, as well as the costs involved with each marketing activity.

Marketing Objectives

The main objective of a company is to increase its profits in many ways, one of which is increasing its sales. However, it is important for a business to have specific marketing objectives, so the owner knows exactly how the business will expand. Marketing objectives can be defined in terms of:

To be effective, marketing objectives must follow three conditions. They must be:

These conditions will allow you to measure the effectiveness of your marketing strategies and take corrective actions if the objectives have not been met.

Products and Services

This section should provide a detailed description of the products and/or services sold to your customers. You can group the products and services by category or brand if it is relevant to your business. It is important that the following issues be addressed in this section:

- Product/service positioning and image
- Proportions of sales revenue for each type of product/service
- Benefits of your products/services
- Level of quality for each type of product/service
- Seasonality of your products/services
- Economic value of your products/services: necessity or discretionary (i.e. luxury) products/services?
- Propriety rights of your products/services (patents, copyrights, trademark, etc.)
- Warranty policy

Pricing

The pricing policy is one of the most important decisions you will have to make. The "price must be right" to penetrate the market, maintain a market position, and produce profits. Devote ample time to considering a number of pricing strategies, and convincingly present the one you select. It is important to know that, in many cases, price can reflect a perceived quality or value of a product or service.

Price can be calculated with the following equation:

Many factors can influence this equation, thus affecting pricing policies. Such factors are:

- Perceived value to customer (i.e. product, brand recognition, customer service, and specialized expertise)
- Price sensitivity, a.k.a. price elasticity (i.e. if the price of a product rises or drops, does demand for that product significantly increase, decrease, or remain unchanged?)
- Quality
- Product differentiation
- Competition
- Services accompanied with core product or service
- Location
- Target market
- Marketing objectives
- Cost of Goods or Services Sold

The following questions should be addressed when you describe your pricing strategy in your business plan:

- How will you price your products/services?
- What is the reasoning behind this pricing policy?
- How does your pricing strategy compare with your competitors (i.e. price positioning: low, medium or high price range)?
- If the price is higher than competition, justify it on the basis of newness, quality, warranty, service, etc.
- How much profit will you generate from this pricing strategy?
- Do you plan on implementing a discount policy? If so, what will your policy be?
- Will you accept credit cards?
- Will you offer customer credit (i.e. deferred payment)?

Promotion

Before promoting your products or services, think of the image concept you would like your products or services to be associated with. Think of visual designs that would help convey that image (i.e. logo, signage, packaging, etc.).

This section should explain how you plan on reaching your customers. It describes the tactics you will implement to achieve your marketing objectives. In other words, what marketing activities will you use to promote your company and the products/services you provide to your target market(s)?

Marketing expenses should be perceived as an investment and should generate a good return on the investment. The dollars spent on marketing strategies should be recovered by sales generated by these marketing tactics. Keep in mind that when you start a new business, your marketing budget will be limited. Do not rely on the misconception that mass media such as TV and radio are the best methods to promote the launching of a new business. These media are expensive and might not necessarily target the right audience for your business. You do not have to spend a lot of money in marketing to promote your company successfully. Lastly, some marketing tactics require more of your other resources (i.e. time and energy) than dollars.

Here are some marketing tactics you can consider to promote your business and products/services:

(1)

- TV, radio, and press advertising
- Outdoor advertising (billboards and public transportation)
- Yellow Pages advertising

(2)

- Letters and postcards
- Brochures and flyers
- Newsletters

(3)

- Public speaking (i.e. seminars, conferences, and workshops)
- Press releases and news segment
- Interview show
- Community services (publicity)
- Sponsoring of local events
- Membership to general and trade associations (i.e. chamber of commerce, better business bureau, and industry-specific associations)
- Offering a class through a Community College

(4)

- Sales force activities (sales representatives)
- Sales force training

- Presentation materials
- Personal letters
- Customized proposals
- Telemarketing

(5)

- Promotional items (i.e. magnets, pens, coffee mugs...)
- Promotional sales (i.e. "buy one get the second at half price," contests, lottery, discounts, rebates, etc.)
- Coupons

(6)

- Tradeshows
- Web site
- Co-advertising with other businesses
- Advertising in church bulletin boards, grocery stores, and other retail locations
- Referrals and word of mouth
- Signage (indoor and outdoor)

To implement these marketing activities, you have the choice between executing the process yourself (do-it-yourself advertising) or using an outside source such as a consultant, an advertising agency, a printing shop, or a direct mail company. This choice will depend on your time and budget.

After selecting the marketing activities you will use to promote your business and products/services, you need to calculate the cost of each activity. These costs can be integrated in a media planning table. A media planning schedule is a document that presents all of the marketing activities planned for one year with the costs associated with each activity. This document will help you to know exactly what marketing expenses you can anticipate in the short run and when they will occur. Use the sample presented below to complete your media planning. Note that this sample only shows two months worth of marketing activities, but a full document should be completed for one year (12 months worth of marketing activities).

Media Planning Sample

Marketing Activities	Month 1				Month 2			
	Week 1	Week 2	Week 3	Week 4	Week 1	Week 2	Week 3	Week 4
Yellow Pages Ad				\$80				\$80

Newspaper Ad		\$100						\$100
Brochures	\$500							
Direct Mail campaign					\$1200			
Promotional items							\$100	

Place (Location and Distribution)

This section addresses two issues: the business location and the distribution of your products and services. First, you need to explain your choice of business location. Then, you need to explain how you will distribute your products or services to your customers.

Business Location

To write this section, you need to answer the following questions:

- Are you going to need an office or retail space, or are you going to operate a home-based business?
- What is the reasoning behind this choice (office/retail space vs. home-based business)?
- What criteria will influence your choice of business location?
 - Closeness to your target market
 - Closeness to your competitors
 - Attractive rent and/or utility rates
 - Low crime rate in the area
 - Appealing traffic patterns (cars and/or pedestrians)
 - Ease of accessibility
 - Good visibility
 - Good local business climate
 - Attractive tax rates and tax incentives
- Based on the above criteria, where will you locate your business if you decide to rent an office or retail space?

Distribution

In this section, you need to explain how you plan to distribute your products and/or services to your customers? You can choose among several options. You may simply distribute your products/services yourself or you may use a combination of resources such as:

- A sales force
- A shipping company (i.e., Postal services, Federal Express, and UPS)
- Delivery services
- Distributors
- Retail outlets
- Independent contractors

- Web sites

Ongoing Marketing Evaluation

Evaluating your marketing strategies is crucial to your business. First, you will discover which activity has been successful and which has not. Second, this information will help you plan your future marketing activities. Obviously, if you find out, for instance, that advertising in a particular newspaper was not effective in generating sales, you may decide not to place an ad in the same newspaper or decide to change the style or focus of the ad itself in your next marketing plan. Lastly, this information will allow you to save money in the long term because your experience in marketing your products/services will allow you to make better-informed decisions for your future marketing plans.

To complete this section, you will need to answer the following questions:

- (1) What methods will you use to track customer satisfaction (i.e. surveys, customer complaints, referrals from customers, etc.)?
- (2) What methods will you use to track the effectiveness of your marketing activities (surveys, change in sales, change in market share, change in name recognition, customers' comments on advertising, etc.)?
- (3) What communication methods will you use to facilitate feedback from your customers (i.e. post office, phone number, 800-number, email, answering services, Web site, etc.)?
- (4) Do you plan to develop a customer database? If so, what software will you use to develop your database? What format will you use to present the information collected? What type of information will you collect? How are you going to collect this information? How are you going to use the information you collect in your database?

Other Issues

- (1) Who will sell?
- (2) Who will advertise?
- (3) Do you have an advertising plan? Budget?
- (4) How will you advertise? How do your competitors advertise?
- (5) What sales skills will be needed and what training will be offered?
- (6) What marketing skills and techniques will be utilized?
- (7) How will you sell?
- (8) What sales/advertising will you need?
- (9) What marketing materials will you need?
- (10) How will you monitor sales results?
- (11) What are your sales goals? (You need to do your financial projections before you can answer this question.)
- (12)
- (13) How will your Company bill the customers? Will all sales be cash or will the Company extend credit? If the Company extends credit, what will the credit terms be?

VII. Operations

Business Operations

In this section, you should mention the hours and days the business will be open. If your business differs from the norm, you should explain the reason(s) for this difference.

Facility

For this section, you need to address the following issues:

- Description of the facility (i.e. size and lease/buy status)
- Improvements of the facility:
 - Special lighting fixtures
 - Heating, cooling, and ventilating
 - Display area (shelving, carpeting, display windows)
 - Storage area
 - Point of purchase displays
 - Security improvements (alarms, lights)
 - Parking

Note: you should contact your utilities company to obtain some advice about your facility improvements.

- **Facility regulations:** if a license is required, check with licensing agencies for regulations on your facility.
- **Waste management and pollution control/prevention:** as a business owner, you need to decide how you are going to manage waste and whether you will focus on pollution control or pollution prevention. Pollution control consists of treating and/or disposing of industrial byproducts and discharge to the air, water, or land after production has occurred. On the other hand, pollution prevention consists of limiting the generation of byproducts during the production process. It is important to note that taking a proactive approach to environmental management, based on pollution prevention rather than control, enables companies to reduce costs, decrease liability risks, and improve operating efficiency.

Office Equipment

In this section, you should describe all the office equipment (office furniture, hardware, and software) needed to operate the business. This list of equipment can include purchases or contributed capital (equipment donated to the business by the owner). This list should also contain the cost and date of purchase for each piece of equipment.

Business Forms

In this section, you need to describe the different business forms that you will use to operate your business. Examples of standard forms are recruiting applications, personal records, and invoices. This section will help you to organize the operations of your business.

Accounting and Bookkeeping System

It is important that you describe the accounting and bookkeeping system that you will use for your business because it will influence your business operations. For accounting and bookkeeping systems, you have the choice among three options:

- Do-it-yourself system (i.e. use of QuickBooks)
- Customized system with a CPA
- Manual recording system (least recommended method)

If a business owner decides to delegate the accounting and bookkeeping tasks to another employee or a CPA, he/she should still be involved with this aspect of the business. The owner is the main decision-maker of the business. Therefore, he/she needs to be aware of the accounting and financial status of the business to make educated decisions.

Suppliers

If your business is involved with suppliers, you should consider the following issues:

- List of suppliers (name, address, goods/services supplied, and terms of sales)
- Trade credit
- Suppliers' quotes or bids

Other Issues

- (1) What is your business address?
- (2) What are the physical features of the building including square footage?
- (3) Is the building leased or owned? If leased, state the terms.
- (4) If renovations are needed, what are they? What is the expected cost? Get quotes in writing. Include quotes as supporting documentation.
- (5) Does zoning permit your business in that location?
- (6) What is the neighborhood like (stable, changing, improving, deteriorating)? Are there other special permits or licenses you may need?
- (7) What kinds of businesses are in the area?
- (8) Have you considered other areas? Why is this one the desirable site for your business?
- (9) Why is this the right building and location for your business?
- (10) How does this location affect your operating costs?

VIII. Human Resource Management

Local Labor Market Conditions

In this section, you should address the following issues:

- Description of the local labor market conditions that would affect your business (i.e. unemployment rate, employee mobility, wages and salary rates, and standard benefits offered).
- Description of the hiring strategy used to recruit the best employees for your business (i.e. newspapers advertising, Web site advertising, university employment offices, employment agencies, etc.). Refer to the Department of Labor for labor market information.

Personnel Management

In this section, you should address the following issues:

- (1) **Owner(s)/manager(s)' experience and expertise in management and the industry of the business.** You should include a copy of the owner(s)/manager(s)' resumes as an attachment to the business plan. Many financial institutions read business owners' resumes to estimate their past experience in management and the industry of the business.
- (2) **Job description of each employee including the owner(s)/manager(s).** A job description should include the job title, duties, responsibilities/decision-making, requirements, compensation package (i.e. pay, fringe benefits, and incentive programs), and full-time vs. part-time status associated with a position.
- (3) **Job training.** What type of training and orientation will you offer to new employees? What type of continuous training will you offer to current employees to expand their skills and increase their expertise? In other words, what training programs will you and your employees use to keep up with the expertise, technology, and management needed for your business? What types of other informative sources will you and your employees use to stay informed on the latest issues (i.e. trade magazines, associations, trade organizations, etc.)?

Outside Assistance

You should provide a list and description of the individuals and organizations that will or are helping you with the operations of your business. Examples of outside sources are:

- Consultant (SBDC, SCORE, Chamber of Commerce)
- Insurance agent
- CPA/accountant
- Lawyer
- Advertising agency
- Employment agency
- Banker

- Relatives or friends
- Trade associations

Other Issues

PERSONNEL

- (1) What are your personnel needs now? In the near future? In five years?
- (2) What skills must they have?
- (3) Are the people you need available? How many will you hire?
- (4) Will your employees be full-time or part-time?
- (5)
- (6) Will you provide fringe benefits? If so, what? Have you calculated workers compensation costs? Have you calculated the cost of all these benefits?
- (7) Will you utilize overtime?
- (8) Will you have to train people? If so, at what cost to the business (both time of more experienced workers and money)?

MANAGEMENT

- (1) Who manages the Company? What is the person's business background?
- (2) What is the person's experience in this particular business?
- (3) How does the past education/experience of all key personnel contribute to this venture and complement each other? Include a resume of key personnel.
- (4) What will each person do? Who sells/advertises? Who keeps the books?
- (5) How will the people be paid? (salary, hourly, commission, profit sharing, etc.)
- (6) What will they be paid?
- (7) Do you have a Board of Directors? If so, who are they?
- (8)

IX. Financial Plan

This section should include a summary of the financial projections. This summary should describe the feasibility of the business in terms of sales, growth, net income, cash flows, expenses, etc. The potential lender for your business will examine this section of the business plan in great detail to assess the viability of your business. The viability of your business will determine the final decision of the lender to accept or reject the loan application.

To show a realistic picture of the business feasibility, it is recommended to prepare financial projections for a minimum of three years. Three years of projections will allow the business owner as well as the lender to assess the development of the business. The projections will indicate the evolution of sales, expenses, and cash flows and determine the viability of the business.

To prepare financial projections for your business, you will need the following financial statements:

- (1)
- (2)
- (3)
- (4)
- (5)
- (6)
- (7)
- (8)

Remember to list your assumptions as you prepare your financial statements. You will need to explain to the lender on what assumptions you have based your financial statements to justify the end-results of your projections. Of course, it is important that you only use reasonable assumptions to make your business venture as realistic as possible. Example of assumptions are the number of employees, their wages, sales, cost of goods or services sold, operating expenses, loan terms, assets contributed and/or purchased, owner's equity, etc.

Sources and Uses of Funds

This document describes what funds are used to finance your business and how the funds will be used to operate your business. Sources of funds can come from a business loan and the owner's equity. Examples of uses of funds are start-up expenses, purchase of equipment, inventory, and working capital. Uses of funds will vary with the nature of your business.

Sample of Sources and Uses of Funds

Company Name		
Sources and Uses of Funds		
Sources of Funds		
Business Loan	\$38,500	
Owner's Equity	\$11,500	
	Total	\$50,000

Uses of Funds		
Start-Up Expenses (Corporation fees, advertising campaign , pre-paid utilities and rent expenses)	\$5,000	
Purchase of Equipment	\$25,000	
Inventory	\$5,000	
Working Capital	\$15,000	
	Total	\$50,000

- Provide a list of the sources of funds. Remember that most financial institutions require the owner's equity to be a minimum of 25-30% of the total amount needed.
- Provide a list of how the funds will be used.

Note that the sum of the sources of funds should equal to the sum of the uses of funds.

Depreciation Schedule

This document lists all the assets owned by the business. Such assets can be buildings, vehicles, office equipment, software, hardware, and other fixed assets. The list of assets depends on the type of business. The assets presented in the sample table at the end of this section are some of the most common ones.

This Depreciation Schedule is used to calculate the depreciation expense for each asset. This depreciation expense will show in the operating expenses of the Income Statement. Depreciation is calculated with the straight-line method that has the following formula:

$$\text{Depreciation Expense} = (\text{Total Cost of the Asset}) - (\text{Residual Value of the Asset})$$

Expected Life of the Asset

The residual value of an asset for a small business is usually equal to \$0 because the asset will be totally used up, thus completely depreciated.

The sample table is based on a new business scenario. Since the business is at the start-up phase, the owner purchases all the assets at the opening of the business. Therefore, no accumulated depreciation is to be taken into consideration. In the case of an existing business that has owned assets for a few years, the business owner will have to take accumulated depreciation into account to reflect the current usage of those assets.

If a business owner donates assets to the business, these assets should be considered as contributed capital and not purchases. Like purchased assets, contributed assets should also be depreciated. The purchased assets are listed as one-time purchases in the Cash Flow Statement,

whereas the contributed assets will show only as contributed capital in the Balance Sheet (under the Owner's Equity section).

To complete this document, you need to take the following steps:

- Provide a detailed list of ALL the assets purchased and contributed to the business.
- Provide the purchase price for all purchased assets and the current market value of contributed assets.
- Provide an estimated expected life for each asset.
- Calculate the depreciation expense for each asset by using the straight-line depreciation method. Use the following formulas:

$$\text{Depreciation Expense per month} = \text{total cost/expected life in years}/12 \text{ months}$$

$$\text{Depreciation per year} = \text{depreciation expense per month} \times 12 \text{ months}$$

Sample of a Depreciation Schedule

Company Name								
Depreciation Schedule								
Equipment	Unit Price	Quantity	Total Cost	Expected Life (# of years)	Depreciation Expense per month	Depreciation Year 1	Depreciation Year 2	Depreciation Year 3
Desk	\$200	2	\$400	5	\$7	\$80	\$80	\$80
Chairs	\$50	3	\$150	5	\$3	\$30	\$30	\$30
Computers	\$1,300	2	\$2,600	3	\$72	\$867	\$867	\$867
Fax/Printer	\$500	1	\$500	3	\$14	\$167	\$167	\$167
Software	\$250	3	\$750	2	\$31	\$375	\$375	\$375
File Cabinets	\$100	3	\$300	5	\$5	\$60	\$60	\$60
Vehicle	\$10,000	2	\$20,000	7	\$238	\$2,857	\$2,857	\$2,857
Signage	\$300	1	\$300	3	\$8	\$100	\$100	\$100
TOTAL EQUIPMENT:			\$25,000		\$378	\$4,535	\$4,535	\$4,535

Sales and Cost of Goods or Services Sold Schedules

The sales schedule should describe the revenues generated from sales. The most basic formula to calculate sales is the following: *Total sales* = unit price x number of units sold. However, the methods used to calculate sales will vary with the activity of the business. Note that there is no unique formula or method to calculate the total sales on a monthly or yearly basis.

When you are ready to calculate your sales schedule, think of reasonable assumptions that will help you figure out your total monthly and yearly sales. You should consider the following issues:

- The unit price per product or service.
- The number of units sold of each product or service.
- The number of estimated customers buying products or services on a monthly or yearly basis.
- The average purchase amount per customer.
- Any seasonality that may affect monthly sales throughout the year.

Good sales estimates can be obtained by calling competitors if they are willing to share such information or by looking at industry figures.

Note that the total monthly and yearly sales will show on the Income Statement and the Cash Flow Statement.

The Cost of Goods or Services Sold schedule should describe the direct costs associated with the sales of these goods or services. If your business sells products, the financial statement should be titled "Cost of Goods Sold" or COGS. If your business provides services, the financial statement should be titled "Cost of Services Sold" or COSS. Examples of direct costs included in either of these two schedules are:

- Direct labor (i.e. wages and salaries of employees working only on the production of a product or the delivery of a service).
- Direct Materials (i.e. any material specifically used for the production of a product or the delivery of a service).
- Direct Overhead (i.e. any overhead expense specifically used for the production of a product or the delivery of a service).

To calculate the total COGS or COSS directly associated with the production of a product or the delivery of a service, add all the direct costs involved in the production of this product or the delivery of that service. Again, there is no specific formula or method to calculate this figure because it varies with the activity of the business.

Note that the total monthly and yearly COGS or COSS will show in the Income Statement and the Cash Flow Statement. This figure is actually subtracted from the sales figure to obtain the gross margin on sales in the Income Statement.

Loan Amortization Schedule

This document calculates the payment schedule of the business loan, if the business needs to repay a loan. Contact your banker or an NBDC consultant to help you prepare that schedule. You will need their assistance to calculate the monthly loan payment.

The following page shows a sample of a Loan Amortization Schedule. This document was prepared on an Excel spreadsheet. The monthly loan payment is calculated with a complicated formula that cannot be used manually. However, once the monthly loan payment is computed, you can calculate the other elements of the table.

Monthly interest payment = previous month balance of the loan x (interest rate / 12 months).

Monthly principal payment = monthly loan payment – monthly interest payment.

Monthly balance of the loan = monthly balance of the loan in the previous period – monthly principal payment of the current period.

Sample of a Loan Amortization Schedule

Company Name			
Loan Amortization Schedule			
Start:	Month1-Year1		
Monthly Loan Payment	\$1,279		
Interest Rate	12.00%	Year	month
# payments	36	3	12
Present Value	\$38,500	Total Cash:	\$46,035
	Monthly Interest Payment	Monthly Principal Payment	Monthly Balance
Payment			\$38,500
1	\$385	\$894	\$37,606
2	\$376	\$903	\$36,704
3	\$367	\$912	\$35,792
4	\$358	\$921	\$34,871
5	\$349	\$930	\$33,941
6	\$339	\$939	\$33,002
7	\$330	\$949	\$32,053
8	\$321	\$958	\$31,095
9	\$311	\$968	\$30,127
10	\$301	\$977	\$29,149
11	\$291	\$987	\$28,162
12	\$282	\$997	\$27,165
13	\$272	\$1,007	\$26,158
14	\$262	\$1,017	\$25,141
15	\$251	\$1,027	\$24,113
16	\$241	\$1,038	\$23,076
17	\$231	\$1,048	\$22,028
18	\$220	\$1,058	\$20,969
19	\$210	\$1,069	\$19,900
20	\$199	\$1,080	\$18,820
21	\$188	\$1,091	\$17,730
22	\$177	\$1,101	\$16,628
23	\$166	\$1,112	\$15,516

24	\$155	\$1,124	\$14,392
25	\$144	\$1,135	\$13,258
26	\$133	\$1,146	\$12,111
27	\$121	\$1,158	\$10,954
28	\$110	\$1,169	\$9,785
29	\$98	\$1,181	\$8,604
30	\$86	\$1,193	\$7,411
31	\$74	\$1,205	\$6,206
32	\$62	\$1,217	\$4,990
33	\$50	\$1,229	\$3,761
34	\$38	\$1,241	\$2,520
35	\$25	\$1,254	\$1,266
36	\$13	\$1,266	\$0
TOTAL	\$7,535	\$38,500	
p.m.	\$209	\$1,069	\$1,279

Income Statement

The Income Statement is a financial statement showing the revenues earned by a business, the expenses incurred in earning these revenues, and the resulting Net Income or Loss. A Net Income is earned when revenues exceed expenses, and a Net Loss is incurred if expenses exceed revenues. The purpose of an Income Statement is to record sales and the matching expenses as they are incurred even if no actual cash is exchanged.

An Income Statement includes the following items:

- Total Sales on a monthly and yearly basis.
- Total COGS or COSS on a monthly and yearly basis.
- Gross Margin on Sales = Total Sales – Total COGS or COSS.
- Operating Expenses: indirect costs incurred in operating the business.
- Depreciation Expense on assets on a monthly and yearly basis (this expense is included in the Operating Expenses).
- Total interest expense on a business loan on a monthly and yearly basis.
- Pretax Profit or Loss: Net Income or Loss before taxes.

To prepare an Income Statement, you need to take the following steps:

- Report the total monthly and yearly sales (Note: the sum of the 12 monthly sales correspond to the yearly sales) from your Sales Schedule on the Sales component of the Income Statement.
- Report the total monthly and yearly COGS or COSS (Note: the sum of the 12 monthly COGS or COSS figures correspond to the yearly COGS or COSS) from your COGS or COSS Schedule on the COGS or COSS component of the Income Statement.

- Calculate the Gross Margin on Sales by subtracting the total COGS or COSS from the total Sales, on a monthly and yearly basis.
- Prepare a list of all the Operating Expenses your business will incur on a monthly and yearly basis. Such expenses vary according to the activity of the business. The most common expenses among businesses are: Accounting Fees, Advertising, Auto Expense, Depreciation Expense, Insurance, Office Expense, Payroll Taxes, Rent, Telecommunication Expense, Utilities, and Wages & Salaries.
- Estimate the monthly and yearly cost of each operating expense you selected in the above list.
- Calculate the total operating expenses by adding all the operating expenses together, on a monthly and yearly basis.
- Report the Monthly Interest Payment from your Loan Amortization Schedule on the Interest Expense component of the Income Statement on a monthly and yearly basis.
- Calculate the Pretax Profit or Loss with the following formula:

Pretax Profit or Loss = Gross Margin on sales – Total Expenses – Interest Expense.

Note that the Depreciation Expense was classified as an Operating Expense. This figure can be obtained from the Depreciation Schedule table, under the Per Month Average line (Note: this line refers to the total monthly depreciation expense for each year).

Sample of an Income Statement

Company Name													
Income Statement for Period Ending of Year 1													
	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	TOTAL
Sales	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$180,000
Cost of Goods Sold	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$120,000
Gross Margin on Sales	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$60,000
One-Time Expenses													
Start-Up Expenses	\$5,000												\$5,000
Operating Expenses													
Accounting Fees	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$600
Advertising	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$2,400
Auto Expense	\$75	\$75	\$75	\$75	\$75	\$75	\$75	\$75	\$75	\$75	\$75	\$75	\$900
Depreciation Expense	\$378	\$378	\$378	\$378	\$378	\$378	\$378	\$378	\$378	\$378	\$378	\$378	\$4,535
Insurance	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$3,600
Maintenance & Repair	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$600

Miscellaneous	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,200
Office Expense	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$600
Payroll Taxes	\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$2,700
Postage and Shipping Expense	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$600
Rent	\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$5,400
Telecommunication Expense	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$1,800
Utilities	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$2,400
Wages & Salaries	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$18,000
Total Expenses	\$8,778	\$3,778	\$3,778	\$3,778	\$3,778	\$3,778	\$3,778	\$3,778	\$3,778	\$3,778	\$3,778	\$3,778	\$50,335
Interest Expense for Business loan	\$385	\$376	\$367	\$358	\$349	\$339	\$330	\$321	\$311	\$301	\$291	\$282	\$4,010
Pretax Profit (Loss)	(\$4,163)	\$846	\$855	\$864	\$873	\$883	\$892	\$902	\$911	\$921	\$931	\$940	\$5,655

Cash Flow Statement

The Cash Flow Statement is a financial statement that accounts for the increase or decrease in a company's cash during a period by showing where the company got cash and how it used it. The Ending Balance is greater than the Beginning Balance if cash inflows exceed cash outflows, and it is less than the Beginning Balance if the cash outflows exceed cash inflows. The purpose of the Cash Flow Statement is to record the cash inflows and outflows in the months in which they actually occurred.

The Cash Flow Statement is closely related to the Income Statement since many accounts are reported in both statements. However, the COGS or COSS are classified as a cash outflow (Cash Paid Out) because they represent a cash expense to the business. The depreciation expense does not show in the Cash Flow Statement because it is not a cash expense. Also, a new account, called Loan Payment, is added to the Cash Flow Statement. This new account includes the principal and interest payment of the business loan. Consequently, the Interest Expense does not show in the Cash Flow Statement since it is already included in the Loan Payment.

A Cash Flow Statement includes the following items:

- A *Beginning* column that represents the sources and uses of funds before the operations of the business start.
- Beginning Balance of the cash account for each month, which also is the Ending Balance of the prior month.
- The Total Sales on a monthly and yearly basis.
- The Total Cash Available.
- The Cash Paid Out, including the total monthly and yearly COGS or COSS and all the operating expenses.
- The Ending Balance of the cash account for each month.

To prepare a Cash Flow Statement, you need to take the following steps:

- In the *Beginning* column, report the sources of funds (i.e. Loan and Owner's Equity) from the Sources and Uses of Funds document to the Cash Flow Statement in the appropriate cells.
- In the *Beginning* column, report the uses of funds (i.e. Start-up Expenses, New Equipment, and Inventory) from the Sources and Uses of Funds document to the Cash Flow Statement in the appropriate cells (i.e. One-Time Purchases).
- Note that Working Capital is not listed here because the remaining cash balance at the end of the *Beginning* period will represent the amount of Working Capital. This amount is reported as the Beginning Balance of Month 1.
- In the *Beginning* column, calculate the Cash On Hand = Total Sources of Funds – Total One-Time Purchases.
- In the *Beginning* column, the accounts listed under Cash Paid Out have no costs attributed to them because the business has not started its operations yet. Thus, the Total Cash Paid Out is equal to \$0.
- Calculate the Ending Balance in the *Beginning* period = Total Cash Available + Cash On Hand – Total Cash Paid Out.
- For Months 1-12, the Beginning Balance for each month is equal to the Ending Balance of the previous month.
- For Months 1-12, report the monthly and yearly Sales from the Income Statement to the Cash Flow Statement in the appropriate cells.
- For Months 1-12, calculate the Total Cash Available = Beginning Balance + Sales.
- For Months 1-12, report the monthly and yearly COGS or COSS from the Income Statement to the Cash Flow Statement in the appropriate cells under Cash Paid out.
- For Months 1-12, report all the Operating Expenses from the Income to the Cash Flow Statement in the appropriate cells under Cash Paid out. Note that Depreciation Expense and Interest Expense should not be reported to the Cash Flow Statement whereas the Loan Payment should be added. Report the Monthly Loan Payment from the Loan Amortization Schedule to the Cash Flow Statement in the appropriate cells under Cash Paid Out.
- For Months 1-12, calculate the Total Cash Paid Out by summing all the accounts under this category.
- For Months 1-12, calculate the Ending Balance = Total Cash Available – Total Cash Paid Out.

Sample of a Cash Flow Statement

Company Name															
Cash Flow Projections for Year 1															
		Beginning	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	TOTAL
Cash Inflows	Beginning Balance	\$0	\$15,000	\$15,321	\$15,642	\$15,964	\$16,285	\$16,606	\$16,927	\$17,249	\$17,570	\$17,891	\$18,212	\$18,534	
	Sales	\$0	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$180,000
	Total Cash Available	\$0	\$30,000	\$30,321	\$30,642	\$30,964	\$31,285	\$31,606	\$31,927	\$32,249	\$32,570	\$32,891	\$33,212	\$33,534	
	Sources of Funds														
	Loan	\$38,500													\$0
	Owner's Equity	\$11,500													\$0
	Total Sources of Funds (A)	\$50,000													\$0
Cash Outflows	One-Time Purchases														
	Start-Up Expenses	\$5,000													\$0
	New Equipment	\$25,000													\$0
	Inventory	\$5,000													\$0
	Total One-Time Expenses (B)	\$35,000													\$0
	Cash On Hand - Beginning (A-B)	\$15,000													
Cash Outflows	Cash Paid Out														
	Cost of Goods Sold		\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$120,000
	Accounting Fees		\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$600
	Advertising		\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$2,400

	Auto Expense		\$75	\$75	\$75	\$75	\$75	\$75	\$75	\$75	\$75	\$75	\$75	\$75	\$900
	Insurance		\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$3,600
	Maintenance & Repair		\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$600
	Miscellaneous		\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$1,200
	Loan Payment		\$1,279	\$1,279	\$1,279	\$1,279	\$1,279	\$1,279	\$1,279	\$1,279	\$1,279	\$1,279	\$1,279	\$1,279	\$15,345
	Office Expense		\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$600
	Payroll Taxes		\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$2,700
	Postage & Shipping Expense		\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$600
	Rent		\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$5,400
	Telecommunication Expense		\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$1,800
	Utilities		\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$2,400
	Wages & Salaries		\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$18,000
	Total Cash Paid Out	\$0	\$14,679	\$14,679	\$14,679	\$14,679	\$14,679	\$14,679	\$14,679	\$14,679	\$14,679	\$14,679	\$14,679	\$14,679	
	Ending Balance	\$15,000	\$15,321	\$15,642	\$15,964	\$16,285	\$16,606	\$16,927	\$17,249	\$17,570	\$17,891	\$18,212	\$18,534	\$18,855	

Balance Sheet

The Balance Sheet is a financial statement reporting the assets, liabilities, and owner's equity of a business on a specific date. The left side of the statement lists all the assets owned by the business, whereas the right side lists all the liabilities owed and the equity owned by the business. Both sides should be equal. Think of the Balance Sheet as a picture of your business taken at one point in time, which shows the financial situation of your operations. Everything the business owns (assets) needs to equal how the business paid for them (liabilities and equity).

A Balance Sheet includes the following items:

Left Side:

- Current Assets: cash, inventory, and other short-term assets that can be liquidated within one year.
- Long-Term Assets: equipment, property, plant, and other long-term assets that are not be liquidated within one year.
- Other Assets: assets that cannot be classified under the two previous categories

Right Side:

- Current Liabilities: debts that will be paid within one year.
- Long-Term Liabilities: debts that will be paid in two years or more.
- Owner's Equity: retained earnings, and contributed capital owned by the owner(s) of the business.

To prepare a Balance Sheet, you need to take the following steps:

- Report the Ending Balance of Month 12 of that year from the Cash Flow Statement to the Cash account of the Balance Sheet, under the Current Assets category.
- Report the ending balance of the Inventory account at the end of the year to the Inventory account of the Balance Sheet, under the Current Assets category.
- Report the Total Equipment category from the Depreciation Schedule document to the Total Equipment account of the Balance Sheet, under the Long-Term Assets category.
- Report the total Depreciation for the corresponding year from the Depreciation Schedule document to the Accumulated Depreciation account of the Balance Sheet. For the following years, add the Accumulated Depreciation from the previous years to the Depreciation of the current year.
- Calculate the Total Long-Term Assets = Long-Term Assets – Accumulated Depreciation.
- Calculate the Total Asset = Current Assets + Long-Term Assets + Other Assets.
- Calculate the Current Liabilities = sum of the Monthly Principal Payment for the next 12 months in the Loan Amortization Schedule (Months 13-24 for Balance

Sheet Year 1; Months 25-36 for Balance Sheet Year 2; Months 37-48 for Balance Sheet Year 3; and so on).

- Calculate the Long-Term Liabilities = the Monthly Balance of the loan remaining after the current liabilities have been taken into account (Month 24 for Balance Sheet Year 1; Month 36 for Balance Sheet Year 2; Month 48 for Balance Sheet Year 3, and so on).
- Calculate the Total Liabilities = Current Liabilities + Long-Term Liabilities.
- Calculate the Contributed Capital account of the Balance Sheet under the Owner's Equity category. If you have contributed some cash to the business, report the Owner's Equity from the Sources and Uses of Funds documents to the Contributed Capital of the Balance Sheet. If you have contributed some assets to the business, refer to the Depreciation Schedule document to differentiate the assets purchased by the business from those you donated to the business. If you have contributed both cash and assets, add these two amounts under the Contributed Capital of the Balance Sheet.
- Report the Total Pretax Profit or Loss from the Income Statement to the Retained Earnings of the Balance Sheet under the Owner's Equity category. Retained Earnings accumulate from years to years for the following years. So, add the Retained Earnings of the previous year to the Pretax Profit or Loss from the Income Statement for the current year.
- Calculate the Total Liabilities and Owner's Equity = Total Liabilities + Total Owner's Equity.
- Verify that the Total Assets are equal to the Total Liabilities & Owner's Equity.

Sample of a Balance Sheet

Company Name			
Balance Sheet for Year Ending Dec 31, Year 1			
ASSETS		LIABILITIES & OWNER'S EQUITY	
Current Assets:		Current Liabilities:	
Cash	\$18,855	Business Loan	\$12,773
Inventory	\$5,000	Total Current Liabilities	\$12,773
Total Current Assets	\$23,855		
		Long-Term Liabilities:	
Long-Term Assets:		Business Loan	\$14,392
Total Equipment	\$25,000	Total Long-Term Liabilities	\$14,392
TOTAL	\$25,000		
Less: Accumulated Depreciation	\$4,535	Total Liabilities	\$27,165
Total Long-Term Assets	\$20,465		
		Owner's Equity	
Other Assets		Contributed Capital	\$11,500
Total Other Assets	\$0	Retained Earnings	\$5,655

		Total Owner's Equity	\$17,155
Total Assets	\$44,320	Total Liabilities & Owner's Equity	\$44,320

Breakeven Analysis

The Breakeven Analysis is a technique for evaluating the relationship between a firm's fixed costs, variable costs, profits, and sales. The operating breakeven point is the volume of sales at which the business revenues just equal its operating costs. It can be measured in terms of either units or dollars.

The breakeven analysis tells the business owner how much sales must be generated to cover both fixed and variable expenses. It is a simple calculation once the income statement has been developed. A business must be able to operate to at least the breakeven point, otherwise, the business venture should not be attempted. The breakeven formula is:

Breakeven sales = fixed costs + variable costs, or

Breakeven sales = the point at which pretax profit equals ZERO.

Sample of a Breakeven Analysis Statement

Company Name				
Breakeven Analysis				
Year 1				
	<i>\$ Amount</i>	<i>Percent</i>		
Sales	\$180,000			
Less: Cost of Good Sold	\$120,000			
Gross Margin on Sales	\$60,000	33.33%	<i>(Gross Margin/Sales)</i>	
Total Operating Expenses	\$50,335			
Total Interest Expenses	\$4,010			
Total Fixed Costs	\$54,345			
Breakeven Sales	\$163,036	<i>(Fixed Costs/Gross Margin (%)</i>		
Breakeven Sales Per Month	\$13,586			

To prepare the breakeven analysis for each year, you need to take the following steps:

- Report the yearly sales from the Income Statement.
- Report the yearly COGS or COSS from the Income Statement.
- Subtract the COGS or COSS from the Sales to get the Gross Margin on Sales.
Gross Margin on Sales % = Gross Margin / Sales.
- Report the yearly total Operating Expenses from the Income Statement.
- Report the yearly total Interest Expenses from the Income Statement.
- Calculate the Total Fixed Costs = Total Operating Expenses + Total Interest Expenses.
- Calculate the yearly Breakeven Sales = Total Fixed Costs / Gross Margin on Sales %.
- Calculate the monthly Breakeven Sales = yearly Breakeven Sales / 12 months.

Other Issues

FINANCIAL NEEDS AND PROJECTIONS

- (1) What are the sources of revenue for the business? How much product or service, in dollars, will your Company sell in the first year, second, and third? Estimate sales in year one by the month and estimate sales in years two and three by quarters.
- (2) How much will the product cost to buy or manufacture, or what will the service cost to produce? How much will these expenses grow as the business grows? Identify each expense and write them in this answer? (These are costs directly related to the production, procurement, of development of the product or service.)
- (3) What are the expenses to sell the product of service and to operate the business, by the month and the year? Identify each and list as fixed or variable cost? (Fixed expenses remain constant regardless of change in sales; variable expenses increase or decrease with changes in sales.)
 - Fixed expenses might be for salaries, rent, insurance, and other expenses to run business
 - Variable expenses might be sales commissions, telephone, raw materials, and other expenses related to sales.
- (4) If this is a start-up business or acquisition of an ongoing business, be sure of the start-up costs. Ask your utility companies how much the deposits will be. Never guess as these deposits vary from community to community. Ask the suppliers or providers what start-up costs will be, never assume what they will be.
- (5) How much do you estimate the business will grow each month, quarter, and year?
- (6) How much money is needed to start and operate the business for the first three years?
 - To buy equipment?
 - To buy product/raw materials?
 - To secure office space and/or manufacturing facilities?
 - To pay operating expenses?
 - To provide adequate working capital?
- (7) What equipment will the business need to acquire? List each with the cost.
- (8) What furniture and fixtures will the business need to acquire? List each with cost.

- (9) Where will the money needed to start the business or finance the expansion come from? How much will you need? Will the owner or owners put up the capital or will the business require financing from a bank or other financial sources?
- (10) If financed, what are the terms of the loan or loans? What is the period of time that the loan has to be repaid? Are payments monthly, quarterly, etc.? How much are the payments, principle, and interest?
- (11) Will the Company be extended credit by its suppliers or will it pay cash? What are the terms for credit?

OTHER CONSIDERATIONS

- (1) How is the loan or investment to be spent? (Example: working capital, new equipment, inventory, supplies, fixtures, construction, etc.)
- (2) List all items to be purchased. Equipment, machinery, and/or fixtures which cost greater than \$500 must be listed individually. A quote must be provided by a supplier on their letterhead, invoice, or stationery listing price, make and model number. Is installation included?
- (3) If you are purchasing a going concern or you are an existing business seeking a loan you must provide a list of all equipment and/or machinery that had an original value greater than \$500. Included in this list must be original price (indicate if new or used), current value, date purchased, make, model, and serial number. Indicate if any or all of these listed items are being held as collateral. If they are held as collateral include name of lending institution and principle amount. If you are building a building you will need a quote from a contractor.
- (4) How will the loan or investment make the Company more profitable?

B.4 Example of a Business Plan

**A BUSINESS PLAN
FOR
XYZ COMPANY
ALPHABET, NEBRASKA**

Jack I. Beanstalk

1234 Main Street

PO Box 123

Alphabet, Nebraska 68000

(402) 555-1234

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EXECUTIVE SUMMARY

COMPANY

XYZ Company will begin as a sole proprietorship in 199x by Jack I. Beanstalk in Alphabet, Nebraska. This business has perceived a need in the community for an electronics repair service that provides fast, courteous, reliable service at a competitive price.

MARKETING

The market for the services of an electronic repair shop will be a 25 mile area from Alphabet, Nebraska. They feel that their initial share of the target market should include 689 households. Their competition includes two (2) service stores in Alphabet, one (1) in Numbers, and one (1) in Nowhere, located 46 miles from Alphabet, Nebraska.

XYZ Company plans to use a pricing structure that is equal to or below their competition. Their competitive edge will be their fast and courteous service.

OPERATIONS

The geographic location of XYZ Company will be in a garage located at 1234 Main Street in Alphabet, Nebraska. The facility covers 300 square feet of space. Alterations to be made to this building to make it suitable for service repair are: build work benches, weatherize all doors and windows, and install a gas heater.

MANAGEMENT

Jack I. Beanstalk will serve as the manager of the business. He will also perform technician duties. He has received experience in management and business from the US Navy. He also has an Associate of Applied Science in Electronics from Northrop Community College in Notown, Nebraska. He has plans to hire three part-time technicians who also have experience in electronic repair. He will utilize an accounting instructor to help in setting up the bookkeeping system for this business.

FINANCIAL

Jack I. Beanstalk is applying for a loan in the amount of \$10,000 for 7 years at 9.00% interest. These funds will be used to purchase repair equipment, cover initial start-up

costs, and provide working capital. Jack I. Beanstalk will also contribute a AST computer and a Dodge van to the business (valued at \$8,300).

Financial projections are based on conservative estimates during the first year, with a 5% increase in sales and expenses projected in years 2 and 3. A summary of the projected sales and net income is as follows:

	Year 1	Year 2	Year 3
Sales	\$25,200	\$28,968	\$30,408
Net Income	\$ 4,247	\$ 6,315	\$ 6,025

THE COMPANY

XYZ Company will commence business the summer of 199x to address one of the major concerns of Alphet, Nebraska and the surrounding communities: Where can electronic equipment be repaired quickly, with reliable service, at a competitive price?

As there is little or no competition in the electronic repair market in the Alphet area, XYZ Company has been formed to provide fast, courteous, reliable, service at a very competitive price.

During its first two years, XYZ Company will focus on the repair of electronic equipment. Beginning in year three, the company will evaluate and possibly pursue the retail avenue of electronic equipment sales.

XYZ Company will be formed as a sole proprietorship with Jack I. Beanstalk as the owner.

The business philosophy of XYZ Company will encompass quality, unparalleled service, and competitive prices.

THE MARKET

The customers that XYZ Company hopes to service are the residents of the City of Alphet and Allover County. They will also service customers residing in the counties of Upthere, Downaround, and Overthehill, as well as from Aboveit county in South Dakota. In addition to serving the local community, the company is being considered for warranty work by the local Sears catalog outlet.

According to the 1990 Census of Population and Housing, there is a total of 35,981 households residing in Allover, Upthere, Downaround, and Overthehill counties in Nebraska and Aboveit county in South Dakota (see Exhibit A). The potential market, based on the total number of households within a 25 mile area, is 3,286 household units. It is assumed that each of these units would own a TV set, VCR, and radio. Based upon the competition in the area, XYZ Company feels that they should be able to service approximately 689 household units as their market share (see Exhibit B). It is expected that each household could easily spend a minimum of \$35 per household per year. Based

on this data, XYZ Company is conservatively projecting that year one sales estimates will be \$25,200. They plan to increase their sales income by a minimum of 5% for the next four years.

THE COMPETITION

Within a 40 mile radius of the target area, there are four shops that offer services and repair for electronic equipment. The names and addresses of the competition are as follows:

NBDC Repair	Electronic Rehab
5656 This St.	3456 That Av.
Alphabet, NE	Alphabet NE

King Tronics	Fix-It Shop
1111 Jungle Av.	9876 Wrong Way
Numbers NE	Nowhere, NE

Strengths and weaknesses of the competition are as follows:

NBDC Repair is a small service repair shop located in Alphabet, NE.

- PRO + located in Alphabet
- + quality workmanship
- CON - owner is only open two days per month
- owner has other interests

Electronic Rehab is also located in Alphabet, NE

- PRO + quality workmanship
- CON - retired, works only when feels like it
- poor service

King Tronics is located 20 miles to the east of Alphabet, NE in Numbers, NE.

- PRO + short distance from Alphabet
- CON - poor service, sends most repair referrals to Suesville
- does not have quality workmanship

Fix-It Shop is located 40 miles from Alphabet in Nowhere, NE.

- PRO + lack of competition in the area
- CON - complaints about the quality of workmanship
- poor service, long wait on parts

MARKETING PLAN

XYZ Company's overall marketing strategy is to offer fast, reliable, and courteous service at a competitive price. To be competitive in the projected market, XYZ

Company will have utilize a pricing structure which is the same or slightly lower than the local competition. The following is a proposed pricing structure for the company:

LABOR - a flat \$40 per hour or any part thereof.

ESTIMATES - a flat \$10 fee. There will be no charge if the company repairs the equipment.

PARTS - a 30% markup over cost.

SERVICE CALL - a \$20 fee to go into a customer's home of place of business.

SERVICE/WARRANTY POLICY - 30 day guarantee on all parts and labor.

To promote the company, advertising will be done in the following manner:

1. Locally produced advertising flyers to be placed in local businesses and on car windows within the target area,
2. Ads run in local weekly paper and in papers of the surrounding communities and,
3. Ads run on the local and surrounding communities radio stations.

OPERATIONS

The geographic location of XYZ Company will be in a garage located at 1234 Main Street in Alhabet, Nebraska. The facility covers 300 square feet of space. Alterations to made to this building to make it suitable for service repair area: build work benches, weatherize all doors and windows, and install a gas heater.

MANAGEMENT

The operation of XYZ Company will consist of four people: Jack I Beanstalk - owner, Alice N. Wonderland, Grumpy Dwarf, and Liona King. The managerial and educational experience of each is as follows:

Jack I. Beanstalk - Will serve as a technician, manager, supervisor, and sales person. He retired from the US Navy where he supervised from 2 to 7 personnel. He also managed a yearly budget ranging from \$400,000 to \$6,000,000. He has attended several Navy schools on budgeting and leadership. He graduated from Northrop Community College with an Associate of Applied Science in Electronics. Jack I. Beanstalk's resume can be found on the following page.

Alice N. Wonderland - Will serve as a part-time technician for XYZ Company. She has managed a household of five children and did baby-sitting for up to 14 children. She graduated from Knowledge College with a diploma in secretarial skills. She has also graduated from Northrop Community College with an Associate of Applied Science in Electronics.

Grumpy Dwarf - Will serve as a technical consultant. He has owned and operated his own television repair shop in Don'tellme, South Dakota for approximately three years and has worked in a Sears store. He graduated from Northrop Community College with an Associate of Applied Arts in television repair and currently working on an Associate of Applied Science in Avionics.

Liona King - Will help establish the financial accounting system of the company and offer assistance as needed. Liona is a former school teacher in accounting and is currently substitute teaching in the public school system. She is also a bookkeeper for a local firm.

Jack I. Beanstalk
123 Green Giant Lane
Alphabet, Nebraska 68000

EDUCATION

1991 A.A.S. Electronics, Northrop Community College, Nowhere, Nebraska.
1980 Navy Purchasing/Budgeting Course (8 weeks), Somewhere, California
1973 Navy Management Course (6 weeks), Anywhere, California
1971 Navy Purchasing Management Course (6 weeks), Somewhere, California
1971 Navy Leadership Course (4 weeks), Notthere, Florida

PROFESSIONAL EXPERIENCE

1992- Present Manager/Technician, XYZ Company, Alphabet, Nebraska

Presently serving as technician, manager, supervisor, and sales person.

1990-1991 Apprentice Electronic Technician, Notown Electronics, Notown, Nebraska

Served as assistant to the owner/operator of Notown Electronics. Learned electrical skills through first-hand experience while going to school, as well as some small office management techniques.

1970-1990 Manager, Purchasing Department, US Navy

Managed the purchasing department on one of the US Navy's bases. This included supervising between two and seven personnel and operating a budget ranging from \$400,000 to \$6,000,000. Participated in several management courses while serving in this position.

FINANCIAL

With any new product or service on the market, there are going to be many assumptions and risks. XYZ Company is assuming that the demand for an additional electronics repair shop in the Alphabet area will be supported by the local residents. The company is also assuming that it will draw business from the surrounding communities.

Jack I. Beanstalk is applying for a loan in the amount of \$10,000 for 7 years at 9.00% interest (see Exhibit C). This money will be utilized as follows:

- \$6,891 repair equipment (see Exhibit D)
- \$ 500 repairs and adjustments to garage
- \$ 160 insurance coverage for the business
- \$ 200 utility deposits and legal advice
- \$2,249 working capital
- \$10,000 Total loan

Jack I. Beanstalk plans to contribute equity in the form of fixed assets for the business (see Exhibit E). This includes an AST computer valued at \$2,300 and a 1986 Dodge van valued at \$6,000. Exhibit F outlines the projections and their assumptions for the next three years.

EXHIBIT A

1990 CENSUS OF POPULATION AND HOUSING

State	County	Total _____ # of Households _____		Non-Family	Total
		Population	Family		
SD	Aboveit	73,142	19,816	8,276	28,092
NE	Allover	852	262	43	305
NE	Upthere	9,494	2,660	1,191	3,851
NE	Downaround	4,108	1,170	480	1,650
NE	Overthehill	5,423	1,507	576	2,083
TOTALS		93,019	25,415	10,566	35,981

EXHIBIT B

POTENTIAL MARKET (25 MILE RADIUS)
(Based on total number of households)

½ of Allover County	305/2	152
All of Downaround County	1,650	1,650
¼ of Overthehill County	1,083/4	521
¼ of Upthere County	3,851/4	963
Total # of Households		3,286

ASSUMPTION: That each household would have a minimum of one radio, TV, or VCR.

MARKET SHARE

Allover County	30%	x	152	=	46
Downaround County	30%	x	1,650	=	495
Overthehill County	10%	x	521	=	52
Upthere County	10%	x	963	=	96
Total # of Households					689

LOAN AMORTIZATION

EXHIBIT D

REPAIR EQUIPMENT PURCHASE

\$1,595	Oscilloscope
\$ 235	Soldering Station
\$ 459	Isolation Transformer
\$ 90	Oscilloscope Probes
\$ 114	Hand-Held Parts Checker
\$1,349	Picture Tube Checker
\$1,349	Color-bar Generator - adjust color
\$ 800	Vacuum Tube Checker
\$ 800	Assorted small tubes
\$6,891	Total Equipment Purchase

EXHIBIT E

PERSONAL FINANCIAL STATEMENTS

This is where you insert a copy of your personal financial statements.

EXHIBIT F

- F-1 Cash Flow Projections
- F-2 Annual Cash Flow Projections (3 years)
- F-3 Monthly Cash Flow Projections Year 1
- F-4 Income Statement Assumptions
- F-5 Pro Forma Income Statement
- F-6 Balance Sheet Assumptions
- F-7 Pro Forma Balance Sheet

EXHIBIT F-1

CASH FLOW ASSUMPTIONS

CASH IN:

Income: Based on projections for surrounding counties

Loan: Will be used to purchase equipment, remodel, and working capital

CASH OUT:

Inventory: Will be replaced as used. Replacements will be at 73% of retail parts sales

Payroll: Based on 30 hours per week.

Payroll Tax: Average of 7.65% FICA and 4.2% unemployment tax on first \$7,000 paid

Expenses: Per Income Statement

Principle Payment: From Amortization Schedule

Interest Payment: From Amortization Schedule

Owner Draw: \$3,600 in year 1

\$6,000 in year 2

\$8,400 in year 3

START-UP COSTS

Utility Deposits

Repairs

Equipment Purchases

Accounting/Legal/Insurance

Renovation Costs

EXHIBIT F-2

EXHIBIT F-3

INCOME STATEMENT ASSUMPTIONS

INCOME:

Sale of Labor will equal 70% of total sales

Sale of Parts will equal 30% of total sales

Year 2 will increase by 5% over previous year

Year 3 will increase by 5% over pervious year

COST OF GOODS SOLD

Markup is 30% over cost. This equals 77% of the total retail sale of the parts

Markup will remain at 77% during year 2 and year 3

EXPENSES

Expenses will increase by 5% each year

Payroll - Year 1 - 30 hours per week x \$4.25

Year 2 - 30 hours per week x \$4.80

Year 3 - 30 hours per week x \$5.00

Payroll Tax - Will equal gross wages x 10%

Interest - From Amortization Schedule

Depreciation - Auto and computer will use 3-year life

Equipment will use a 5-year life

All fixed assets will assume straight-line, half year, and no salvage value

EXHIBIT F-4

EXHIBIT F-5

BALANCE SHEET ASSUMPTIONS

ASSETS:

CASH - From cash flow statement

INVENTORY - Will be purchased as needed

DEPRECIATION - Computer 3 year life

Auto 3 year life

Equipment 5 year life

All fixed assets will assume straight-line, half-year, and no salvage value

LIABILITIES:

Loan - \$10,000 note at 9.00% for 7 years

Amortization schedule for principle and interest attached

OWNER EQUITY:

Equity - Initial investment of computer and auto

Owner Draw - \$3,600 year 1

\$6,000 year 2

\$8,400 year 3

Profit/(Loss) - From Income Statement Projections

Exhibit F-6

B.5 Business Terms Glossary

Accounting

The process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by users of that information.

Accounts Payable

The liability representing the amount of credit purchases by the business for goods and services that remain unpaid at the end of a given accounting period.

Accounts Receivable

The assets representing the amount of credit sales for which funds remain uncollected at the end of a given accounting period.

Accrual Accounting

Process of identifying revenues and expenses with corresponding time periods, regardless of the timing of cash exchanges.

Accumulated Depreciation

The total aggregate amount of depreciation that has been taken on an asset as of any given time.

Advertising

Media used to promote and encourage people or businesses to buy a product or service.

Amortization

The portion of the cost of an intangible fixed asset charged as an expense for each period (similar to depreciation for a tangible asset).

Animated GIF (Graphics Interchange Format)

A type of GIF image that is animated by bringing together several images into one single GIF file.

Assets

All valuable resources, properties, or property rights owned by a business.

Bad Debt Expense

The amount of credit sales, predicted to be uncollectible, estimated over the period of sales.

Balance Sheet

Financial statement providing information about a business's economic resources and the claims against those resources by owners and creditors.

Benchmarking

Rating a company's products, services, and practices against those of the leaders of the industry.

Benefits of a Product or Service

The emotional or other end results that a product or service provides to consumers.

Bookkeeping

It is the routine record-keeping part of accounting; financial information is recorded in an information system (book ledger or computer).

Brand Name

A term, symbol, design, or combination thereof that identifies and differentiates a business products or services.

Breakeven Analysis

A technique for evaluating the relationship between a firm's fixed costs, variable costs, profits, and sales. The operating breakeven point is the volume of sales at which the business's revenues equal its operating costs. It can be measured in terms of either units or dollars.

Bulletin Board Service

An electronic message center serving specific interest groups.

Business License

A license required by a state and/or local government (city or county) for a given profession.

Business Permit

A permit required by a state and/or local government (city or county) for a business engaging in a particular industry.

C-Corporation or Corporation

A distinct legal entity that is separate from the individual(s) who own(s) it. The owner(s) of this entity is/are called stockholder(s). Corporations have been referred to as C-Corporations to distinguish them from S-Corporations.

Capital

Funds, including owner's equity and loans, which are needed for the base of the business. They are used to purchase fixed assets and other current assets to operate the business.

Capital Equipment

Equipment used to manufacture a product, provide a service, or to sell, store, and deliver merchandise.

Capitalization

The total funds invested in a business, including equity, debt, and retained earnings.

Cash

Cash plus investments such as money market accounts, marketable securities, and other negotiable instruments.

Cash-Basis Accounting

Process of identifying cash receipts and cash payments with corresponding time periods.

Cash Flow

The actual movement of cash within a business: cash inflows minus cash outflows.

Cash Flow Statement

A financial statement that accounts for the increase or decrease in a company's cash during a specified period by showing the sources and uses of cash.

Cash Inflows

Cash flowing into the business from whatever source.

Cash Outflows

Also called disbursement, it refers to cash flowing out of the business (i.e. bill paying and investment).

Cash Sales

Sales where payment is made at the time of purchase.

Chat Room

A virtual room or channel where a chat session takes place.

Collateral

Fixed assets owned by the business to secure a loan.

Commodity

A basic or staple item such as milk that is usually bought on a price basis.

Competition

Businesses competing for the same market dollars. It can be direct (businesses offering similar products or services to the same markets) or indirect (businesses offering similar products or services to different markets).

Competitive Analysis

A structured analysis of the potential competitors to find out which businesses are considered as major competitors to a business and how they differ or do not differ from that business.

Contributed Capital

Assets donated by the owner to the business.

Copyright

Legal protection provided to the authors of original works of authorship that are fixed in a tangible form of expression (literary work, musical work, dramatic work, pantomime and choreographic work, pictorial, graphic and sculptural work, motion pictures and audiovisual work, sound recording work, and architectural work).

Cost of Goods or Services Sold (COGS or COSS)

All direct costs (direct labor, direct material, and direct overhead) associated with the production or sale of a product or the delivery of a service.

Current Assets

Cash or other assets that will produce cash or be used to produce revenue within one year (i.e. accounts receivable and inventory).

Current Liabilities

Business obligations to creditors that will require the business to pay cash (i.e. accounts payable) or to provide goods or services within one year.

Current Market Value of an Asset

The monetary value of an asset (new or used) on the market today.

Customer Base

The customers who are loyal repeat customers to a business or brand.

Customer or Marketing Database

An organized collection of pertinent data about new and existing customers on a computerized medium, which drives relevant marketing strategies and activities. Such a database allows a company to better understand its customer base and be able to apply this knowledge to acquire new customers, retain existing customers, generate more business from existing customers, and create long-term loyalty.

Debt

Debt refers to borrowed funds, generally secured with a note, which in turn may be secured by a lien against property or other assets.

Demand

Individuals or businesses that desire to buy a product or service and have the ability to pay for it.

Demographics

The statistical study of human populations with respect to specific factors such as sex, age, marital status, income, occupation, family size, education, etc.

Depreciation

The portion of the cost of a tangible fixed asset (except land), charged as an expense for each period.

Direct Marketing

Marketing goods or services directly to consumers who are the most likely to purchase these items.

Discount

A deduction from the stated or list price of a product or service.

Discretionary or Luxury Products or Services

Products that do not satisfy basic physiological needs such as food, clothing, and shelter.

These products are purchased by discretionary income, which is the disposable income left after the purchase of necessity goods or services.

Discussion Thread

A series of online messages that have been posted as replies to each other.

Distribution

Delivery or conveyance of a good or service to a market.

Distribution Channel

The chain of intermediaries linking the producer of a good or service to the consumer.

Domain Name

A name that identifies the name of a Web site. Domain names are often used in the URL (Uniform Resource Locator) to locate a Web site on the World Wide Web. Examples of domain names are microsoft.com, cnn.com, and cocacola.com.

Electronic Mail (E-mail)

The transmission of messages over communication networks such as the Internet.

Entrepreneur

An innovator of a business enterprise who recognizes opportunities to introduce a new product or service, a new process, or an improved organization, and who raises the necessary money, assembles the factors for production, and organizes an operation to exploit the opportunity.

Equity Capital (Owner's Equity)

Long term funds provided by the business owner(s). In the Balance Sheet, equity capital consists of Retained Earnings and Contributed Capital. In a loan context, owner's equity consists of cash that the owner(s) will bring into the business to secure the loan.

Excise Tax

An internal tax levied on the manufacture, sale, or consumption of a commodity within a region.

Expected Life of an Asset

The estimated period of time over which the business anticipates deriving benefits from the use of an asset.

Expenses

The outflows or other uses of assets during a period that result from the delivery of goods or the provision of services by the business.

Financial Statements

Comprehensive reports on the status of the business as a whole.

Fixed Assets

Properties, buildings, fixtures, equipment, goodwill, and other resources owned by the

business. These assets are depreciated to reflect the usage of these resources and their loss in value.

Forum

An online discussion group (same as newsgroup) provided by online services or bulletin board services.

Funds

Cash, working capital, and economic resources that can be used to acquire assets, reduce debt, and finance other transactions.

Graphic Interchange Format (GIF) File

A type of a graphic file used by the World Wide Web.

Gross Margin or Gross Profit

Total sales minus total cost of goods or services sold.

Guaranty

A pledge by a third person to repay a loan in the event the borrower cannot.

Hardware

Devices used as instructional equipment (i.e. computer, fax, telephone, etc.).

Hypertext Markup Language (HTML)

The authoring language used to create Web pages on the World Wide Web.

Income Statement

Financial statement reporting the profitability of a business during a specific period of time.

Income Taxes

Also called business profit taxes, come from three different sources: Federal taxes, State taxes, and Local taxes. These taxes are calculated on the total Net Income generated at the end of a full year.

Industry

A distinct group of productive and profit-making organizations specialized in one activity.

Interest Expense

The excess of the total amount paid to a lender over the amount borrowed.

Internet

A global network connecting million of computers and providing a wealth of information.

Internet Service Provider (ISP)

A company that provides access to the Internet for a monthly fee.

Inventory

Supply of goods on hand or on order which customers will purchase from the business.

IRS

Internal Revenue Service.

Java Applet

A program designed to be executed from within another application, using the Java programming language.

Job Description

A detailed description of a job position. It contains a job title; a list of duties, tasks, and functions to be performed; a list of skills, abilities, and knowledge required; a list of responsibilities and decision-making; a compensation package, the number of hours worked, and the person to report to.

Leasing

Obtaining a contractual right to possess and use fixed assets under the terms of a lease contract.

Legal Liability

The liability a company or individual has to repay a business debt. Legal liability can be limited (a business owner is only liable for his/her financial contribution to the business) or unlimited (a business owner is personally liable for the debts of the business).

Liabilities

Money owed by the business.

Life-Style

A pattern of living that is comprised of an individual's activities, interests, and opinions.

Limited Liability Company (LLC)

A distinct legal entity separate from the individual(s) who own(s) it. It has the same tax benefits as the sole proprietorship, the partnership, and the S-Corporation.

Loan

Debt money for businesses that need to finance their operations.

Logo or Logotype

A distinctive company signature, trademark, typeface, motto, etc.

Long Term Liabilities

Debts or obligations owed by the business for longer than one year.

Long Term Objectives

Objectives set for the next 5 to 10 years.

Market

A set of potential or real buyers or a place in which there is a demand for a given product or service. It is comprised of actual and potential buyers of a product or service.

Market Demand

The total volume purchased in a specific geographic area by a specific customer group in a specified time period under a specified marketing program.

Market Share

A business's percentage of share of a market in which it operates.

Market Seasonality

The yearly fluctuation of demand in a specific market.

Marketing

Process of creating customers for a product or service in sufficient numbers and rapidly enough to make a business successful and profitable.

Marketing Mix

The set of product, place, promotion, and price variables that a company controls and manages to bring a product or service into the marketplace.

Marketing Plan

A short, detailed plan that lays out the steps for a business to take to achieve sales and marketing goals.

Marketing Research

The systematic design, collection, analysis, and reporting of data regarding a specific marketing situation.

Media Planning Schedule

A document that presents all the marketing activities planned for one year and the costs associated with each activity.

Mission Statement

A short statement explaining the purpose of a business and what it wants to accomplish and be famous for.

Monthly Loan Payment

The monthly payment for a loan including the principal and the interest.

Necessity Products or Services

Products or services that satisfy basic physiological needs such as food, clothing, and shelter. These products or services are necessary for survival.

Newsgroup

An online discussion group (same as Forum).

Notes or Loans Payable

Money owed by the business to repay a loan to financial institutions, suppliers, or other individuals.

Net Income

The excess of a business total revenues over its total expenses during a period of time.

Notes Receivable

Money owed to the business, secured by a note (i.e. Loans to Officers).

Office Equipment

Equipment used for the operation of an office (i.e. furniture, storage units, etc.).

Online

When users are connected to a computer service through a modem.

Online Service

A business that provides its subscribers with a wide variety of data transmitted over telecommunications lines. Online services provide an infrastructure in which subscribers can communicate with one another, either by exchanging e-mail messages or by participating in online conferences (forums).

Operating Expenses

The expenses a business incurs in selling its products or services and in administrating the entire range of its activities.

Owner's Draw

Fixed cash amount withdrawn on a regular basis by the business owner for personal living expenses. This draw is deducted from the Net Income of the business and can be considered as remuneration. It is different from salary pay because the owner did not enter into a legally binding contract with him/herself to hire him/herself and pay him/herself a salary.

Overhead

A general term for costs of materials and services not directly adding to or readily identifiable with the product or service sold.

Partnership

A legal relationship created by the voluntary association of two or more persons to share ownership and management of a business for profit; a type of business organization in which two or more persons agree on the amount of their contributions (capital and effort) and on the distributions of profits, if any.

Patent

A legal protection provided to the creators of a new invention.

Payroll or Employment Taxes

Employment taxes deducted from employees' wages and salaries (i.e. Social Security and Medicare taxes). The business contributes to 7.65% of the total payroll taxes, the employees pay 7.35%. However, if the business owner is self-employed, he/she will have to pay the total contribution of 15%. The percentage of payroll taxes paid by the company is calculated on the total monthly wage and salary expenses.

Perception

The process of selecting, organizing, and interpreting information received through the five different senses (sight, hearing, touch, smell, and taste).

Periods (n)

The number of units of time (i.e. years, months, days) of a loan.

Pollution Control

Consists of treating and/or disposing of industrial byproducts and discharge to the air, water, or land after production has occurred.

Pollution Prevention

Consists of limiting the generation of byproducts during the production process.

Positioning

A marketing method based on determining what market niche a business should fill and how it should promote its products or services in light of competitive and other forces. Product or service positioning is the position of that product or service in the mind of the consumer.

Potential Customers

Consumers who are likely to purchase a product or service from a business.

Price

The exchange of value of a product or service from the perspective of both the buyer and the seller.

Price Elasticity

The change in demand for a product or service caused by the change in price of that product or service. If demand for a product or service changes significantly with slight changes in price, the product or service is considered to be elastic with respect to price. If no significant volume changes occur, even with significant price changes, the product or service is considered to be inelastic.

Pricing Policy or Strategy

A guiding philosophy or course of action designed to influence and determine pricing decisions.

Principal

The amount borrowed by a payer of a loan or note.

Product

Anything capable of satisfying needs, including tangible items, services, and ideas.

Product Differentiation

The way a product differentiates itself from the competition in terms of product characteristics, packaging, price, quality, image, target market, etc.

Profit

The excess of the selling price over all costs and expenses incurred in making a sale. It is

also the reward to the entrepreneur for the risks assumed by him/her in the establishment, operations, and management of a given business.

Promotion

The communication of information by a business to influence the attitudes and behaviors of potential buyers.

Proprietary Right

Right of ownership of a tangible or intangible asset.

Publicity

Any non-paid, news-oriented presentation of a product, service, or business entity in a mass media format.

Questionnaire or Survey

A data-gathering instrument used to collect information; a research method in which people are asked questions.

Receivables

Credit sales, where payment is postponed and credit is granted to customers, which will eventually turn into cash. Cash from receivables is counted as cash inflows when the cash comes in, not when the credit is extended to customers.

Retailing

Businesses and individuals engaged in the activity of selling products to final consumers.

Retained Earnings

A component of equity in a business, which represents accumulated profits in excess of losses and payments to owners.

Residual Value (Salvage Value)

The amount of cash or trade-in consideration that a business expects to recover on retiring or selling a particular asset.

Revenues

The total selling price of goods or services transferred by a business to its customers during a given period.

S-Corporation (Sub-Chapter S)

A corporation that has elected, under Sub-Chapter S of the IRS Tax Code (by unanimous consent of its shareholders), not to pay any corporate tax on its income and, instead, to have the shareholders pay taxes on its income, even if it is not distributed.

Salaries or Wages Payable

Money owed by the business to pay salaries and wages to its employees.

Sales

Income generated from selling products or services to customers.

Sales and Uses Tax

Tax due on the gross receipts from retail sales in a region (usually state and city).

Sales Promotions

Marketing activities that stimulate consumer purchasing in the short-term.

SBA

Small Business Administration.

SCORE

Service Corps of Retired Executives.

Search Engine

A program that searches Web sites in the World Wide Web for specified keywords and provides a list of Web sites based on the keywords chosen.

Self-Employment Tax (SE Tax)

Employment tax (Social Security and Medicare Taxes) for sole proprietors who work for themselves. The rate for this SE tax is higher than for the employment tax because it includes both the company's and the employee's contribution to Social Security and Medicare taxes (15% vs. 7.65%).

Separate Legal Entity

The owner(s) and the business are separate entities under the Law.

Service Mark

Word used to identify and distinguish a service rather than a product.

Software

Programs, procedures, and related documentation associated with a computer system.

Sole Proprietorship

A type of business organization in which one individual owns a business. Legally, the owner is the business, and personal assets are typically exposed to liabilities of the business.

Sources of Funds

Inflows of financial resources to a business.

SSA

Social Security Administration.

Straight-Line Depreciation Method

The depreciation method that allocates an equal amount of an asset's cost to each year of an asset's expected life.

Depreciation = $\frac{\text{Acquisition Cost} - \text{Residual Value}}{\text{Expected Life}}$

Suppliers

Individuals or businesses that provide resources needed by a client company for retail or production of goods and services.

Target Market

The specific individuals, distinguished by socioeconomic, demographic, and/or interest characteristics, who are the most likely potential buyers for the goods or services of a business.

Taxes Payable

Money owed by the business to pay government taxes.

Trademark

Word, symbol, unique name, design, logo, slogan, or some combination of these used by a company to identify its products or services.

Trade Name

Word used to designate a company rather than a product or service.

Uniform Resource Locator (URL)

The global address of Web sites published on the World Wide Web.

Uses of Funds

Outflows of financial resources of a business.

Venture Capital

Capital invested or available for investment in the ownership of a new enterprise.

Web Page

A document on the World Wide Web that is identified by a unique URL (Uniform Resource Locator).

Web Page Design

The art of creating a Web site or an individual Web page, using the programming language called HTML (Hypertext Markup Language).

Web Site

A site or location on the World Wide Web that contains various documents and files. Each Web site is owned and managed by an individual or an organization.

Web Site Development

The art of creating and maintaining a Web site, using the programming language called HTML (Hypertext Markup Language).

Wholesaling

Businesses and individuals engaged in the activity of selling products to retailers, organizational users, or other wholesalers.

Word-Of-Mouth Advertising (WOM)

Relying on current satisfied customers to tell their friends and associates about a business (both positive and negative experiences). Negative WOM has usually a stronger impact on company's sales than positive WOM. Unhappy customers share their negative experience with 11-20 individuals, while satisfied customers share their positive experience with only a few individuals.

Working Capital

The collection of financial resources represented by all current assets less all current liabilities.

Section C

Legal Issues for Your Company

C.1 Overview of Different Legal Structures

Discuss with an attorney the appropriate legal structure for your business. Business owners have the choice among six legal structures:

- The Sole Proprietorship
- The Partnership
- The C-Corporation
- The S-Corporation
- The Limited Liability Company (LLC)

Factors to consider when choosing an legal structure:

- The amount of government regulations
- Transferability and continuity of ownership interest
- Management control
- Profit and loss distributions
- Liability of business owner(s)
- Ease of establishing and terminating the business
- Tax treatments

C.2 Different Corporate Structures

The way your business is organized is important because it affects every aspect of your operation, from what you pay in taxes to the extent of your liability and your ability to raise capital. Your options for business organization include sole proprietorship, incorporation, partnership, limited liability corporations and partnerships, and special corporations such as professional and non-profit corporations.

There is a lot of folklore about business structure, so be sure you make a decision only after thorough research and careful consideration of what is best for your business. Remember that you can alter your business structure as your needs and requirements change. You're not locked in to keeping a specific structure if it no longer serves your company.

This overview is designed to assist you in making this key decision by giving you information on the basics of the various business structures. Once you've read it through and done your research, you might want to contact your attorney or accountant and seek his/her input and guidance.

Sole Proprietorship

Sole proprietorship is the quickest and easiest business structure to adopt. If you don't incorporate and don't have a partner, you are automatically a sole proprietor. Legally, you and your business are the same. As a sole proprietor your net profit is taxed at personal income tax rates and you are personally liable for any debts or losses you incur.

If you run a one-person business that has limited liability, you may not need to bother with the expense and time of incorporation or any other more complex form of organization. Sole proprietorship can also be a good choice for businesses in the start-up phase because it does not have a lot of legal requirements.

As a sole proprietor, you may still need to register your business. Business licensing differs from state to state. Some, like California, require nearly all businesses to register; others have relatively few requirements. If, however, you are doing business as a sole proprietor under a trade name rather than your personal name ("City Architects," as opposed to "John Smith, Architect"), you will likely need to get a business certificate or register as a DBA (Doing Business As). This allows your customers, your suppliers, the government, and anyone else your business deals with to know who the real owner of the business is.

"Doing Business As"

You may choose to register as a DBA even if the law doesn't require you to. A DBA can help you open a business bank account and may reassure some clients that you have lasting power.

In most cases, you register for a business certificate (DBA) at the county clerk's office. In a few cases you register with the state or city, but a call to the county clerk will resolve the question.

Benefits

It's the least expensive and least complicated business structure to form
Good for a trial run while you see how your business evolves

Disadvantages

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Incorporation

While incorporation requires more paperwork and expense than sole proprietorship, it does give you one critical benefit - protection from liability.

A corporation is a separate legal entity from the person (or people) that owns it. The corporation, not the owner, enters into business deals, owns property, borrows money, and engages in other business activity. Because the corporation is involved in these business deals, you and your personal assets will, in many cases, be protected from liability if something goes wrong.

For businesses with more than one owner, incorporating can often protect you from the actions and misdeeds of your co-owners. This is unlike a partnership, where each partner is personally liable for the business-related actions of all the partners.

There are other benefits to incorporating. You can gain access to benefit plans only available to corporations. It also creates a positive image for your company - when you are trying to raise capital, obtain credit card merchant status, win certain kinds of new customers, or do business in foreign countries, incorporation can be important for appearance's sake.

You should be aware that corporate liability protection is not absolute. If you are interested in incorporation because of the protection it promises, look at the following exceptions:

- (1) It cannot protect you from your own bad acts. Being a director of a corporation does not protect you from personal liability from the wrongs you personally commit. For example: You run a package delivery service and you fill in for a driver who has called in sick. If, in the process, you run into a busload of people, you are personally liable for the damage.
- (2) It cannot protect you from things you personally guarantee. Banks and some corporate creditors often require personal guarantees from people in a corporation. So if your business were to fail, you would be personally responsible for repaying these debts. In addition, you don't want to become personally liable inadvertently... so be certain your name, title, and company name are on anything you sign.
- (3) It cannot protect you from owing governmental trust fund taxes (withholding taxes and sales taxes). When taxes are held in trust, all officers and anyone who has check-signing authority are jointly liable to the government for these taxes. That means that as a principal, you cannot hide behind the corporation and will be personally liable for these taxes if they are not paid.
- (4) It cannot protect you from some state laws. New York, for example, has a law which says that the ten largest shareholders of a corporation are personally responsible for unpaid employee wages. If a restaurant operates for three years and goes out of business, the owners and principals are personally responsible for any unpaid salaries.

- (5) It cannot protect people in certain professions. Professionals including doctors, lawyers, and accountants are personally liable in any lawsuit.

S-Corporation

S Corporation status gives you the liability protection of a corporation, and allows you to pay taxes on the same basis as a sole proprietor or partnership (*i.e.*, you pay tax at the personal rate and your profits are your salary). S Corporations limit the number of corporate shareholders to 75, stipulate that all shareholders be U.S. citizens, and require that shareholders be individuals rather than other corporations or estates. The only exception being tax-exempt, charitable organizations.

Many tax and legal experts recommend S Corporation status for smaller entities and start-ups. It can provide you with corporate liability protection, and potentially reduces your tax burden (since corporate income is taxed at one level instead of two). In addition, if your business experiences a loss in its first year, you can generally pass that loss through to your personal income tax return. There are other potential tax advantages as well, including the ability to deduct (as an investment interest expense) interest you incur to buy S Corporation stock.

On the downside, S Corporations are limited in terms of the amount of deductions for fringe benefits such as health insurance, group term life insurance, deferred compensation plans, etc. While a C Corporation can deduct these benefits for all owner-employees, an S Corporation cannot deduct them for an owner-employee who owns 2% or more of the corporate stock. For example, a C Corporation can deduct 100% of its owner-employees' health benefits, while at present, S Corporations can deduct only 30% (the same as a sole proprietorship). Deductibility will be raised, in stages, from today's 30% to an eventual 80% over ten years.

To become an S Corporation, all shareholders must file and sign IRS Form 2553. Shareholders pay income tax on their share of the corporation's income, regardless of whether they actually received the money or not. If the corporation suffered a loss, shareholders can claim their share of that loss.

Most states follow the federal pattern of not imposing corporate tax on an S Corporation, but instead taxing the shareholders. Be aware, however, that some states tax an S Corporation the same as a C Corporation. You might want to contact the tax division of your state treasury department to find out how this is handled in your state.

Benefits

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Disadvantages

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C-Corporation

The main difference between a C Corporation and other business structures is that a C Corporation files and pays corporate income taxes directly. In other words, C Corporations are considered a separate entity from their shareholders, and must pay taxes on income left over after business expenses.

There are a number of instances where it is beneficial to become a C Corporation. If you plan to keep profits and other chunks of cash in the bank to finance your growth, repay debt, or make other capital expenditures, C Corporation status makes sense. This is because C Corporations can take advantage of lower initial corporate income tax rates. For profitable companies, C Corporation status has the ability provide greater flexibility in terms of planning and controlling federal income taxes. C Corporations also can deduct the cost of certain fringe benefit packages.

If you form a C Corporation, be aware that you run the risk of being taxed twice on your profits - once as a corporation, and a second time as an individual when you dispense those profits as dividends or when you liquidate the corporation. This is one of the major disadvantages of a C Corporation. Let's say, for example, your company has profits of \$100,000 for one year. First, the corporation will have to pay tax on it. Then, if you parcel that money out to yourself or other owners, the IRS may treat it as dividends and will tax you as an individual. If you wait until the next year to take all or part of that money as salary, you will already have paid corporate tax on it during the year it was profit, and will then pay tax as an individual when you give it to yourself as salary.

Many tax and financial experts can come up with ways to plan for profits to avoid or limit this type of double taxation. You should speak with your accountant or tax advisor to come up with the most flexible program for your company.

Another tax-related benefit to C Corporation status is its ability to treat the cost of fringe benefits as fully tax deductible. While a C Corporation can deduct benefits (such health insurance, group term life insurance, deferred compensation plans, etc.) for all owner-employees, an S Corporation cannot deduct them for an owner-employee who owns 2% or more of the corporate stock. A C Corporation can deduct 100% of its owner-employees' health benefits, while at present, S Corporations can deduct only 30% (the same as a sole proprietorship). Owners of C Corporations can also borrow from the corporation's retirement fund, and have access to certain benefits packages that S Corporations do not.

Benefits

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Disadvantages

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General Partnership

If you have business partners, you have the option of forming a partnership instead of incorporating. Should you choose this route, experts highly recommend that you formalize this relationship by creating a written general partnership agreement that will protect all parties involved. It is possible to have a partnership without a formal agreement, in which case you will be governed by the Uniform Partnership Act, but this allows for little flexibility or protection in events such as one partner leaving. A written contract, on the other hand, will spell out exactly what each partner's rights and responsibilities are.

The chief benefit of a general partnership is that you have someone with whom to share the business burden. It will also probably cost less and require less paperwork to form a partnership than a corporation. In addition to the written partnership agreement, you may have to file a partnership certificate registering the company's name, and perhaps obtain a business license as well. These requirements vary from state to state and locality to locality, so check with your county clerk's office to find out the specific requirements for your region.

If you do form a partnership, each year you have to file a partnership information return that tells the IRS and state officials how much the partnership earned or lost, and how those gains and losses are to be divided among the partners. The partnership itself does not pay income taxes. Instead, the partners report this information and pay taxes on their shares on their personal returns, similar to a sole proprietorship.

The downside of partnerships is that you are personally responsible for your partner's liabilities related to the business. One partner can take actions - such as signing a contract - that legally bind the partnership entity, even if all the partners were not consulted. Each partner is also personally liable for injuries caused by one partner on company business. In other words, if one partner causes an accident while making a delivery with the company van, all partnership assets, as well as each partner's personal assets, are at risk. Of course, a partnership can protect itself against such risks by carrying the proper insurance.

Benefits

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Disadvantage

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Limited Partnership

Limited partnerships are typically used for real estate investing or in situations where a business is looking to finance expansion. For most small businesses, forming a general partnership or an S corporation will meet their needs.

In circumstances where they are appropriate, limited partnerships provide many of the benefits of partnerships and corporations. They provide a way for small businesses to raise money without taking in new partners, forming a corporation, or issuing stock.

A limited partnership must have one or more general partners, who have the same responsibilities and liability restrictions as they would in a general partnership. In addition, there are one or more “limited” partners, typically investors not involved in the day-to-day activities of the company.

These limited partners are not personally liable for debts of the partnership, and they get the same tax advantages as a general partner. However, they do have significant restrictions. They can not, for instance, be involved in the management of the company (with few exceptions). If they are, they may become personally liable for the partnership’s debts.

Creating a limited partnership can be as complex and costly as forming a corporation. It is advisable to hire an attorney to assist you in conforming to the various filing requirements in your state.

Benefits

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Disadvantages

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Limited Liability Company

Yet another business structure option has been created as a hybrid of the corporation and the partnership - the limited liability company.

A limited liability company (LLC) has the liability protection of a corporation but the tax status of a partnership. In other words, while you get liability safeguards similar to those of a corporate shareholder, you pay taxes at the personal rate on your share of the profits or use the loss to offset other income.

While an LLC has many of the same characteristics as an S corporation or a limited partnership, it is, in many cases, more flexible. For example, it is possible to use an LLC: to bypass the restrictions on S corporation ownership, to allocate profits differently from ownership interests, or to get around the general partner's personal liability in a limited partnership.

Every state, other than Hawaii and Vermont, allows limited liability companies. Various states have different sets of restrictions, however, so it is advisable to check with your state department of taxation first to find out the applicable state laws and if your company would qualify to be an LLC.

Filing to form an LLC can be extremely complicated, and the paperwork needs to be completed meticulously, so you probably want to hire an attorney to help you. You need to follow the state rules that govern formation of an LLC in your state, and file the proper forms with the correct state bureau. You also will need to observe IRS guidelines in your LLC operating agreement (governing the relationships and responsibilities of the LLC owners) so that you qualify for taxation as a partnership rather than a corporation.

Another new structure, the limited liability partnership, provides benefits similar to those in an LLC to professional partnerships.

Benefits

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Disadvantages

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Professional Corporation

Groups of certain professionals can form corporations known as professional corporations or professional service corporations. The list of professionals covered by professional corporation status differs from state to state, it typically covers accountants, engineers, physicians and other health care professionals, lawyers, psychologists, social workers, and veterinarians. Typically, these professionals must be organized for the sole purpose of providing a professional service - for example, a law corporation must be made up of licensed attorneys.

In certain states, this is the only incorporation option available for certain professionals, whereas in others, they are given the choice of being either a professional corporation or S or C corporation. Contact your state's filing office to see what options are available in your state.

According to tax and legal experts, there is no longer a significant tax benefit to professional corporation status over sole proprietorship or partnership. The IRS treats most professional corporations as "personal service corporations," taxing corporate income at a flat rate of 35%.

Professional corporations can shield owners from liability. While it can't protect a professional from his/her own malpractice liability, it can protect against liability from negligence of an associate. Malpractice insurance is still the way to go for most professionals, however. Still, you might want to consider this corporate status as a back-up against rising rates or inadequate coverage.

Benefit

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Disadvantages

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Nonprofit Corporation

The primary benefit of being a non-profit (or not-for-profit) corporation is that you are exempt from paying income taxes. You must qualify for tax-exempt status under the Internal Revenue Code Section 501(c)(3). Should you attain this status, not only is your corporation exempt from paying taxes, but people, corporations, or other organizations that contribute to your corporation can take a tax deduction for those contributions.

There are other benefits, too. For example, if you do a lot of mailings, you can qualify for the lower “non-profit” postal rate. Plus, there is the positive image a non-profit connotes: it tells people that you’re in business not for the money but for a higher purpose.

Typically, tax-exempt status is reserved for corporations formed for religious, charitable, literary, scientific, or educational purposes. This could include: child care centers, museums, research institutes, dance or music groups, places of worship, schools, community groups, and others.

Of course, you don’t make money from a non-profit company; once you put assets in, they become property of that corporation and must be dedicated to specific non-profit purposes. And you can’t sell the business to get your money back. A non-profit company goes on; if it is sold, liquidated, or otherwise ends, the assets must be passed to another non-profit corporation.

There are other responsibilities and restrictions to running a non-profit business, too numerous to list here. If you are seriously considering forming a non-profit corporation, you might want to get in touch with legal and/or tax counsel that specializes in this area.

Benefits

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Disadvantage

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C.3 Summary of Different Structures

	Sole Proprietorship	General Partnership	C-Corporation	S-Corporation	LLC
Separate Legal Entity	No. Personal and business assets and liabilities are merged together.	No. Personal and business assets and liabilities are merged together.	Yes. The business is a separate legal entity.	Yes. The business is a separate legal entity.	It depends. No, if only 1 member. Yes, if at least 2 members.
Ownership	Only 1 owner.	At least two partners.	At least one shareholder.	From 1 to 75 shareholders.	At least 1 member.
Legal Liability	Unlimited.	Unlimited.	Limited to the investment contributed to the business.	Limited to the investment contributed to the business.	Limited to the investment contributed to the business.
Tax Treatment	Profits are taxed at the individual income tax rate, and individual are also liable for self-employment tax.	The business itself does not pay taxes, but each partner records his/her share of profits on his/her personal income tax return.	Corporate profits are subject to double taxation both as income to the corporation and as dividends distributed to stockholders.	Corporate profits are subject to personal income taxation. The corporation itself does not pay taxes, but files an informational tax return mentioning each shareholder's portion of the corporate income.	If only 1 member, the business profits are taxed as in the sole proprietorship. If at least 2 members, the business profits are taxed as in the partnership.
Owner(s) Compensation	The owner can either take an owner's draw or receive a reasonable salary.	Depending on the partnership agreement, partners can receive a reasonable salary.	Managers can receive a reasonable salary.	Managers can receive a reasonable salary.	The member(s) can take an owner's draw if the LLC is set up as a sole proprietorship or receive a

					reasonable salary if it is set up as a partnership.
Profit Distribution	Profits after tax can be retained or distributed to the sole proprietor (i.e. salary, owner's draw, etc.).	Profits after tax can be distributed to partners based on the agreement or can be reinvested in the company.	Profits after tax can be distributed as dividends or reinvested in the company.	Profits after tax can be distributed to shareholders based on their contributions or reinvested in the company.	If only 1 member, profits are distributed as in the sole proprietorship. If at least 2 members, profits are distributed as in the partnership.
Initial Filing Requirements	None. The business owner(s) may file with the County Clerk Office.	The business owner(s) must file with the County Clerk Office.	The business owner(s) must file with the Secretary of State in Lincoln.	The business owner(s) must file with the Secretary of State in Lincoln.	The business owner(s) must file with the Secretary of State in Lincoln.
Main Advantages	Easy and inexpensive to start and terminate the business.	Ease of establishing. Single taxation.	Limited liability. Large resource base. Unlimited life.	Limited liability. Single taxation. Unlimited life.	Limited liability. Single taxation.
Main Disadvantages	Unlimited liability. Limited life.	Unlimited liability. Limited life.	Double taxation. Increased amount of paper work and expensive start-up costs.	Restrictions on the number of shareholders and classes of stock. Lenders can require personal guarantee.	Limited life (30 years). Lack of court experience in LLC litigation.

C.4 Partnerships

What to Do When Business Partners Become Adversaries

Partnerships can be problematic. Disagreements erupt over money, clients, scheduling, hiring decisions and even parking privileges. In fact, it's often the little things that lead to big problems, catapulting partners from a congenial working relationship into one of conflict and chaos. Problems are inevitable, and most experts agree the best partners are those who plan for them in advance. The way to solve future disagreements is to have a strategy in place before they occur and to evaluate your potential partner long before you make any agreements to work together.

Partnerships are often formed on a handshake between friends — setting the stage for major problems in the future. Friends and family members don't necessarily make the best partners, and if care isn't taken in the beginning, the alliance can doom both the business and the relationship.

How to Choose a Partner

Have serious discussions long before you agree to form a partnership. What expertise does the prospective partner bring to the relationship? What are this person's objectives and goals? What is his or her work ethic? Do you and your prospective partner appear to be compatible on these points?

Partners who are well-suited will bring different skills to the business, thus complementing each other's expertise, expanding both their knowledge base and business potential. But they will also have a shared vision and many shared values.

Talk about your goals. If your objective is to establish a stable, growing company while your partner's goal is to make a lot of money and sell the business in five years, the partnership is not a good idea. If you want to run a family-friendly business that respects time with your spouse and kids, and your partner thinks family is a distraction, keep your distance. Be open and honest: if you're uncomfortable talking these things over with a prospective partner, consider this an indication that you should beware.

If you are a sole proprietor considering taking on a partner to get capital or new skills for your company, be sure to analyze other business-form options, especially limited partnerships, limited liability partnerships and limited liability limited partnerships. If you already are in a partnership, consider switching.

How to Forestall Problems

- (1) Communicate before forming a partnership. Talk about goals, vision and values. Openness and honesty are important here. Do you respect the ideas and values of the prospective partner? What expertise does each of you bring to the partnership?

- (2) Put it in writing. Work with an attorney to develop a specific, formal partnership agreement. Verbal agreements and handshakes leave room for trouble. Be sure the agreement specifies how the business will be appraised and how a departing partner (or heirs or divorcing spouse) will be compensated.
- (3) Prepare an exit strategy. Have a plan in place before the problems arise, so that all involved parties understand what the process is and what their responsibilities are if they opt out.
- (4) Choose an independent arbitrator. Arguments can reach deadlock in two-person partnerships. Before establishing the partnership, choose an outside individual - someone you both trust — who will cast the deciding vote in stalled office issues.

Steps to Take When Problems Arise

- (1) _____
Talk through the disagreement and consider the solutions that will move you closer to your ultimate business objective.
- (2) _____
If one-on-one discussions aren't getting you closer to resolution, call in a professional.
- (3) _____
When problems arise, work through them, respect the outcome even if things didn't go your way, and move on. Resentment can hurt your business and the bottom line.
- (4) _____
You may not always agree, but the main goal of partners is to make the business succeed. If the solution offered is in line with your shared business goals, don't fight it.
- (5) _____
Know when to quit but also know how to quit. Exit strategies drafted at the inception of the partnership are critical for making this process fair and smooth for all parties concerned.

HOW TO DO IT

- (1) Sit down with your partner or prospective partner and discuss business objectives and goals, and plan how to achieve them. If you're already in a partnership, use this exercise to enhance your level of communication and to ensure that you are both making decisions based on what is best for the company. If you are considering entering into a partnership, evaluate the discussion to determine whether you have shared visions and values regarding the business.
- (2) Develop a partnership agreement or revisit the one you've established. Does it include an exit strategy? Make sure the proper papers are filed before problems erupt. This could minimize conflict and chaos in the future.

- (3) Before any disputes occur, pick an independent third party to mediate or arbitrate them. Regardless of which stage you are at in your partnership, an objective individual, whom you all trust, can have valuable insight or help settle disagreements that have become deadlocked.

C.5 Corporate Legal Issues

Choosing the Right Lawyer for Your Business

Although they have personal physicians and routinely engage accountants and other professionals, when it comes to finding a lawyer, many businesspeople are dumbstruck. They dislike lawyers, balk at their cost, and fear that lawyers will overcomplicate and interfere with the growth of their business.

To the contrary, a lawyer's role is to ensure that a company does not become derailed from the entrepreneur's desired destination. A business lawyer is a vital member of the team, and it is important that the lawyer work closely with the entrepreneur and the accountant. Businesses should seek legal assistance for major transactions and government compliance problems. At a minimum, you should have a lawyer perform a legal audit annually to review all of your business documents. By practicing preventive law and consulting an attorney before changing your legal position, you can save money and avoid pitfalls.

Entrepreneurs are sometimes reluctant to hire attorneys because they view legal services as duplicative or unnecessary to the daily operation of the business. For example, entrepreneurs aware that they already are being billed for a bank attorney's work in preparing loan documents will mistakenly not pay their own attorney to review the loan materials and look out for the entrepreneur's best interests.

Although not a definitive list, you need a lawyer to:

- Acquire or sell your business.
- Obtain public or private financing.
- Negotiate business and employment contracts.
- Draft non-compete clauses.
- Obtain trademarks and patents and guard trade secrets.
- Handle regulatory compliance with ERISA, SEC (securities) and EPA (environmental).
- Draft internal business policies and procedures.
- Prepare basic documents such as minutes of formal meetings, articles of incorporation and bylaws.
- File tax returns, licenses and reports.
- Oversee corporate structuring or restructuring.
- Handle franchise and distributorship issues.
- Manage pending or potential litigation.

Where to look for a lawyer:

- (1) Many businesspeople do not know where to search for the right lawyer, but word-of-mouth is a good starting point. Ask relatives, friends and business associates to recommend an attorney.
- (2) The staff of a trade or professional organization or chamber of commerce can offer a referral. In some instances, these organizations may offer a reduced group rate for legal services.
- (3) Contact your local or state bar association. Additionally, explore prepaid legal service plans, which are specifically designed for small businesses. These plans usually offer unlimited telephone consultations with a lawyer and are good resources for routine legal tasks, such as drafting basic contracts and equipment leases.
- (4) If you have any lawyer or paralegal acquaintances, ask if they can recommend someone with the specialization you need.

Choosing what kind of lawyer to retain is critical. Consider the convenience of the attorney's office location and his or her fee structure, but his or her competence should be the most important factor. Hiring a large law firm will expose you to top legal talent with ample resources and expertise in numerous fields of law, but comes at a high price.

Think of what a general practitioner does for your health. Ideally, a small- to mid-size business should find a "general counsel" who has a solid grounding in many areas of law, including corporate law, partnership law, labor relations and employment law, tax, contracts and debt collection. Cultivating a long-term relationship with a general business lawyer could result in reduced legal costs over time because the lawyer does not have to spend time acquiring background information on your company before performing each legal task.

Just as you would for any other business transaction, it is wise to do the following:

- Obtain bids for legal services. Make sure any hourly rate quoted by a lawyer includes overhead expenses such as secretarial time.
- Interview two or three lawyers before making your selection. It is important that you feel comfortable confiding in the lawyer so that he or she would have the information necessary to resolve any legal problem at issue.
- Steer clear of lawyers who procrastinate, seem overextended, or who are either overly aggressive in favoring costly litigation or too willing to capitulate your position in a legal dispute.
- After you interview a lawyer, write down your impressions of how well the lawyer listened to you, evaluated the strengths and weaknesses of your legal position, demonstrated knowledge of the applicable law, and adequately explained fee structure and billing practices.
- Having a good attorney-client relationship requires you to be a good client. Be clear with your lawyer about your objectives and expectations, and don't withhold relevant information.

Remember, any lawyer you hire is obligated to:

- Present you with options and their consequences and offer recommendations concerning legal issues.
- Demonstrate a duty of loyalty by not representing a client whose interests conflict with yours.
- Protect all legal rights to which you are entitled.
- Follow your lawful directions.

HOW TO DO IT

A business attorney should be willing to give you an initial free consultation. Following are 11 questions you should ask prospective lawyers:

(1)

(2)

(3)

(4)

(5)

(6)

(7)

(8)

(9)

(10)

(11)

How to Avoid Antitrust Violations

Business owners inevitably come in contact with their competitors -- sometimes on issues that concern them both as entrepreneurs or within their industry through trade associations. While there are ways in which competitors can work together, these cannot in any way appear to, or actually, affect competitive pricing or distribution of business. People who in any way work with a competitor to stifle free trade or control prices will find themselves and their companies liable for fines and imprisonment. Knowing what is allowable under the law can ensure that all contact remains legal and that no gathering gives the appearance of an illegal activity.

Some contact with competitors will always occur and is acceptable because entrepreneurs often have similar concerns as business owners and participants in specific industries. But those contacts cannot affect how the companies do business, to whom they sell their products and services, and at what price they sell those goods. Business owners must be certain they understand the laws that govern relationships with competitors — which kinds of contact and activities are appropriate and which are illegal.

Three key federal laws regulate antitrust activities:

- (1) _____
This is the basic antitrust law, which states that any contract, written or implied, that acts to restrain trade may be a criminal act. This includes any agreement or understanding between competitors about which customers to serve, which prices to charge and other elements that affect the customer's ability to receive the best product at the lowest cost. It also makes illegal any attempt to monopolize trade. These violations require only one perpetrator, who has the ability and intent to monopolize.
- (2) _____
This is a civil statute spelling out injunctive action that can be taken to recoup losses and to punish an offender through fines, often with treble damages allowed. Its wording is more explicit than the Sherman Act, spelling out specific violations. The Robinson-Patman Act, which prohibits price discrimination, is also part of this law. Other portions deal with interlocking directorates of competing companies, mergers and acquisitions, and exclusive dealing arrangements.
- (3) _____
Although not technically an antitrust law, it prohibits unfair competition and supplements provisions of the other two acts. It can be enforced only by the FTC.

Consequences for violating these acts can include prison sentences and significant fines, running into the millions of dollars, depending on the length of the violation and its impact. Anyone injured by an antitrust violation also can sue for damages and recover three times the specific dollar loss plus attorneys' fees.

To avoid running afoul of these laws, here are some guidelines and hint:

- (1) Don't discuss pricing with competitors. Never attend a meeting at which pricing will be discussed. If it comes up at a meeting, protest (and follow this up in writing) and leave immediately.
- (2) Don't discuss dividing or allocating customers, markets or territories with a competitor.
- (3) Don't restrict the resale activity of a customer or attempt to control the customer's resale price.
- (4) Don't talk to retailers about the prices they charge for your products.
- (5) Don't talk to your retailer-customers about other customers or about how you sell to other customers.
- (6) Don't require a customer to buy exclusively from your company.
- (7) Don't require a customer to buy one product to obtain another.
- (8) Don't make sales or purchases conditional on reciprocal sales or purchases.
- (9) Don't suggest that a purchaser should buy from your company because your firm buys from the purchaser's company.
- (10) Don't charge different prices for the same volume of product to customers who may compete with each other.
- (11) Don't disparage a competitor's product, verbally or in writing, unless you can prove your charges.

These are general guidelines and are not a complete statement of the antitrust laws. You should review these guidelines and specifics with your company's counsel and be certain the basics are conveyed to all employees, especially sales people.

Meetings of trade associations, which bring together many key competitors, potentially can be viewed as generating illegal activities. Employees working on association activities that include employees from competing companies should be certain that:

- Minutes are kept of all meetings of any committees and the general group.
- Competent counsel is present at each meeting and is available for advice.
- No discussion of any type is held dealing with any subject matter that could be unlawful, especially pricing or customer dealings.
- The trade association is formed and operates in good faith for the benefit of the industry and allows all participants to benefit by its activities.

There is no legal duty imposed on your company to establish a program for antitrust compliance. However, the existence of such a program can mitigate against culpability in the eyes of law enforcement if an employee is charged or convicted of a crime that can reflect on the company.

Tracking Legislation

While your attention is focused on running your company, the rules and regulations of the American marketplace can change overnight. Even as you read this, Congress may be shaping legislation that will affect your business. You need to stay on top of pending legislation, anticipate the changes, and sometimes even get involved directly in efforts to affect the outcome of a vote on Capitol Hill. Keeping yourself informed and involved can help protect you against both legal liability and potential economic loss.

While you're not expected to know as much about the law as your attorney, you may be held to a higher standard of care than the so-called person on the street because of your expertise in your field. You're expected to have a working knowledge of laws that affect your business and your employees. Even though such laws can change literally overnight, you can still anticipate the changes and position your business to make the best of them.

Tracking services

Tracking legislation is not difficult, just time-consuming. This is where tracking services can help.

- The Bureau of National Affairs, Inc. (BNA) has been tracking legislation for years. It publishes print and electronic news and information on developments in business, labor relations, law, health care, economics, health and safety, taxation, environmental protection, and other public policy and regulatory issues. BNA will monitor specific issues for you or undertake customized research. The cost of monitoring specific issues depends on how many items you want to track, how frequently, and whether you want to track comparable legislation at another level of government, such as in the state legislature. Customized research for BNA subscribers runs \$95 an hour, \$120 an hour for nonsubscribers.
- The Conference Board's Business Information Service researches more than 7,000 inquiries a year on a wide range of business issues using on-line databases. For its basic membership fee of \$9,000 a year, this nonprofit resource organization provides unlimited library services, a host of reports and conference discounts. Six full-time librarians are available to research queries about legislation.
- For law firms and other businesses that already subscribe to the Westlaw legal research publisher, WestIntraClip (TM) is designed specifically for intranets at firms and organizations that need to monitor developments in legislation. It searches the most recent 30 days of entries in certain Westnews or Westlaw legal databases, including major newspapers and publications of record, such as the Congressional Record and Federal Register. Westlaw

subscribers can view an index of clipping entries free of charge; though there is a fee for accessing the full entries.

- The Securities Industry Association (SIA) also tracks legislation on its Web site. The information is free of charge to members of SIA, whose membership dues are based on a formula tied to the size of the company. More than 700 small businesses and large firms are members. SIA encourages member feedback on hot topics and enables members to influence legislation in the making. It credits feedback from Web site users for the recent passage of IRA/pension legislation.
- The U.S. Chamber of Commerce calls its ChamberBiz™ service the ultimate small business resource for those who want to get involved in shaping governmental policies. Through its Issues Index, you can read about bills the chamber is tracking in Congress and e-mail questions about regulations that affect your company.

Using tracking services such as these, you can anticipate developments and avoid surprises.

Constituent input can sometimes dramatically change the product that emerges from legislative sessions. Many people don't realize how effective simply contacting a legislator -- especially during an election year — can be. Methods of influencing legislative outcomes can take many forms: grass-roots campaigns; letters, phone calls or e-mail to your legislator; petitions; involvement with local political organizations; financial support of lobbying or political organizations; or even running for office yourself. When you understand the process as a piece of legislation is developed and can follow the path it takes through the system, you will be able to make your views known to the right people at the right time. For instance, committee hearings are the places where regular people can testify publicly about what they see as the good points or bad points of a bill.

Much depends on how involved you want to be, how important the issue is to you, and how many resources you want to devote to it.

Example 1:

The Americans with Disabilities Act (ADA) has been the law of the land since 1990. It entitles people with functional impairments to special consideration in public accommodations and at work. To accommodate folks with special needs, businesses can be required to make particular provisions, such as special parking spaces, ramps, or modified rest room fixtures and telephones. The ADA uses a formula for determining when an individual may be eligible for special consideration and when a company must make those accommodations. As the public makes new demands, laws such as the ADA are amended both by Congress and through court decisions that interpret the language of the law. If your business is one of those that must comply, each one of those amendments can directly affect what action you must take to satisfy the law's requirements.

Example 2:

Sometimes it can pay to have someone else track changes in specific laws. Workers' compensation laws can differ from state to state and Gerard Walsh, document services coordinator at Bureau of National Affairs, is working up a fee schedule for a client who needs to review changes in workers' compensation laws in all fifty states. In a similar example, tracking a year's worth of information on legislation pertaining to environmental issues, such as air emissions standards and solid waste disposal, costs \$3,700. If this sounds like a lot, just compare it to the cost of noncompliance.

HOW TO DO IT

(1) Ask yourself these questions:

- Is my business likely to be affected by legislation that Congress is considering?
- Do I have time to track the progress of the measure through Congress?
- Which tracking service best suits the needs of my company?

(2) To track legislation of interest to your business:

Check for federal legislative activity that may affect you at the Thomas Web site. Select "Bills in the News" or "Bill Summary and Status" to get started.

Check state legislative activity that may affect you by following leads from the Web-site directory maintained at Washburn University. While you're inspecting your state's legal-resource Web sites, look for directory information for a state legislative reference bureau or service. Legislative reference services prepare comprehensive white papers on pending bills for legislators and often will provide copies to anyone who asks for them.

Read newspapers and electronic news services daily. Newspapers of record, such as The New York Times, are more likely to identify bills by their House Resolution or Senate number. Contact the office of the sponsoring representative or senator expressing your interest in the measure's progress. Speak with legislative aides — they're often highly knowledgeable about the status of a sponsored bill. You may get a faster response than if you spoke with the legislator directly.

(3) To locate a tracking service: Contact your trade association about update services for members. When employing fee-based tracking services, make sure your query is as narrowly focused as possible. The more sharply defined the question, the better your results, and the lower your cost.

(4) To influence the course of legislation: Send comments to a feedback service, such as the Securities Industry Association's, to be accumulated and presented to legislators. Contact your representatives or senators and whichever lawmakers sit on committees covering your industry. Know the issues. Make your comments pertinent and respectful of the process and the individual lawmaker.

Ask the administrators of your professional organizations if they do lobbying. If they do, find out how to communicate your wishes to the lobbyists. If they do no lobbying, consider joining another organization that does. One organization that lobbies very actively is the U.S. Chamber of Commerce.

C.6 Legal Protections for a Company

Copyright Protection – Protect your writing, software, film and other creative endeavors

What is a copyright?

Copyrights are a way for you to protect your creative material. Once you obtain a copyright, your work can't be used without your permission.

As an independent contractor or freelancer, you usually own the rights to what you create, unless you sign a contract giving rights to your client. If ownership is not stipulated in a contract, the creator owns the copyright to the work. Before you sign any contract, be sure you know who will own the work you create during your employment. Often times, the entity paying you will try to lay claim to all work, not just what you were hired to create during the term of the contract, so be on the lookout for that clause in all contracts. If you hire someone to create work for your business and you want to own it -- public relations material or ad copy for example -- you will want to have the agency or individual sign an agreement assigning rights to you.

Copyright protection is provided for original works of authorship fixed in a tangible medium of expression. *This means you cannot copyright an idea, only the expression of the idea.*

The categories of copyrightable works include:

- Literary works
- Musical works, and accompanying words
- Dramatic works, including accompanying music
- Pantomimes and choreographic works
- Pictorial, graphic and sculptural works
- Sound recordings

Copyrights are limited in duration to a term of the life of the author plus 50 years. For work created by employees for hire, the term is 75 years from first publication or 100 years from creation (whichever expires first).

How to obtain copyright

You do not have to register with the U.S. Copyright office in order to have copyright protection. Rights commence upon creation of the work. Until 1989, a copyright owner was required to include a copyright notice on all products and failure to do so could result in a loss of copyright rights. That law no longer exists, and creators now own copyrights unless a contract states otherwise.

However, before you can start action against a copyright infringement, you must register a copyright claim. The filing fee for this infringement is approximately \$20 and it takes approximately six weeks for the copyright office to process the application and issue a

registration. The U.S. filing achieves rights in all countries that honor U.S. copyrights. The copyright office in Washington, DC can provide you with a list of these countries. If infringement occurs in another country, however, you must sue in that country.

Protecting your rights

To protect your copyright, write your name, the word “copyright”, and the year in which you created the work on all material you wish to protect. Although this is not necessary by law, copyright lawyers consider it good practice. You should place the copyright notice somewhere that gives “reasonable notice” of its existence. For example, on the first page of a manuscript or on the label of a record.

If you publish something on a regular basis, such as a newsletter or magazine, you may be able to register a year’s worth of work at one time. The possibility of what is called a “group registration” depends on whether or not all the work in the periodical is created by the same author. To find out more about group registration ask the copyright office for their publication, “Group Registration of Contributions to Periodicals.” The “Registration for Serials” publication explains the rules for periodicals.

Software copyrighting is a little more complicated because registering for a software copyright may make your source code available to anyone who wants to look at it. To protect yourself, you may want to patent portions of your code and have it blacked out in your copyright. For more information on copyrighting software, ask the copyright office for the publication on “Copyright Registration for Computer Programs.”

Copyright myth

The myth about the efficacy of protecting work by mailing yourself a sealed copy of the work is just that – a myth. Mailing work to yourself does not provide protection because you could easily mail yourself empty envelopes and then open them and insert anything you want. Instead, you can protect yourself by having a notary public sign and date your work or by registering it with the copyright office. How to avoid infringing on copyrights If you find information in a magazine or on-line that you want to use for something you are creating, chances are you cannot, even if you pay to access it. For example, this column cannot be downloaded and used even though you pay to be on-line. The term “fair use” may be something you have heard. This rule says that portions of works may be reproduced for educational, news, commentary, or research without infringement under some circumstances. Fair use is decided on a case-by-case basis using the following criteria:

Purpose of use. For example, whether it is commercial or for nonprofit educational purposes.
The nature of the copyrighted work The effect of the use upon the potential value of or market for the work
How much of the entire body of the work is used

What is a patent?

A patent provides the holder with the exclusive right to make, use, and sell an invention throughout the U.S. during the term of the patent.

There are three forms of patents: design, utility, and plant.

Design patents are granted for any new, original and ornamental design for an article of manufacturing. Design patents cover the aesthetic appearance of an invention, such as the appearance of a fax machine or lamp. Design patents have a term of 17 years in the United States. It is believed that design patents are the weakest form of protection, because competitors can avoid a charge of patent infringement by making only minor changes to designs.

Utility patents cover the functional features of an invention and are granted for any new and useful process, machine, manufacture or composition of matter, or for any new and useful improvement. For example, the switching mechanism in a lamp, or the electronics in your fax machine could fit this category. A utility patent lasts 14 years.

A **plant patent**, protects a new form of greenery or plant.

The list of what *cannot* be patented includes: ideas; methods of doing business; scientific principles; printed material; and naturally occurring substances.

The protection you'll get from your patent is effective only once it is granted, and not during a patent pending period. Also, a U.S. patent only protects you in the United States, and will not stop someone in another country from manufacturing and selling your product outside the U.S. If you want to protect yourself in other countries, you will need to obtain a patent in each one.

How to obtain a patent

You must file an application with the patent and trademark office, where the examiners determine the originality of your invention. The patent process takes from 1 to 3 years and can cost between \$3,000 and \$10,000, including legal fees. The fee the patent office charges depends on the size of your business and the number of claims in the patent application. You must apply for a patent within one year of the time a product is first offered for sale or disclosed publicly.

The patent process can be lengthy and expensive, so before you embark on it make sure you have researched your product and determined that it has a market. You should also determine that the product you are interested in is not already patented before you spend time and money on the application process.

Trademarks

A *trademark* is any word, name, symbol or device, or combination of these things used to identify and distinguish your goods from those manufactured or sold by others. Trademarks also apply to sayings or slogans such as United Airline's "Fly the Friendly Skies" and Nike's "Just Do It," and to configurations such as book package designs. Trademarks also encompass tradenames (the trademark for a corporate entity) and a service mark (used for services rather than products).

How to secure a trademark

You are not required to register a trademark with the U.S. Patent and Trademark Office in order to be protected because trademark protection automatically commences when you begin using your trademark. However, registration is advisable because it provides procedural advantages if you need to sue someone for infringement.

To protect your name, symbol, device, etc. during the time you are waiting for your trademark to become official, you can file an "intent to use" application with the trademark and patent office. This application will protect you from the date you file it, as long as you eventually register your trademark. The intent to use application is helpful if you expect a long time period between when you choose a trademark and actually begin using it.

The cost and time necessary to obtain a trademark can vary, but expect it to take at least one year and cost approximately \$1,000 in fees and legal costs.

Trademark lifespan

Once you have a trademark, it lasts as long as the owner of the mark continues to use it; however, the registration for the trademark must be renewed every 10 years. In addition, in the first 10 year period in which you have a trademark, you must demonstrate during the fifth and sixth year that the trademark is being used. Thereafter, you must only renew every 10 years. Trademarks are usually passed on in wills, or carried on through a corporate entity. A trademark protects you only in the United States.

State trademarks

State trademark registration is easier and cheaper, but only provides you with protection in that state. The benefit of such a trademark is that in states with strong laws that prohibit trademark counterfeiting, trademark owners can bring state action for infringements.

C.7 United States Code of Federal Regulations

The Code of Federal Regulations (CFR) is a codification of the general and permanent rules published in the Federal Register by the Executive departments and agencies of the Federal Government.

Web Site: <http://www4.law.cornell.edu/uscode/>

A listing of all Titles appears below.

Title 1 General Provisions	Title 26 Internal Revenue Code
Title 2 The Congress	Title 27 Intoxicating Liquors
Title 3 The President	Title 28 Judiciary and Judicial Procedure
Title 4 Flag and Seal, Seat Of Government, and the States	Title 29 Labor
Title 5 Government Organization and Employees	Title 30 Mineral Lands and Mining
Title 6 Surety Bonds (repealed)	Title 31 Money and Finance
Title 7 Agriculture	Title 32 National Guard
Title 8 Aliens and Nationality	Title 33 Navigation and Navigable Waters
Title 9 Arbitration	Title 34 Navy (repealed)
Title 10 Armed Forces	Title 35 Patents
Title 11 Bankruptcy	Title 36 Patriotic Societies and Observances
Title 12 Banks and Banking	Title 37 Pay and Allowances Of the Uniformed Services
Title 13 Census	Title 38 Veterans' Benefits
Title 14 Coast Guard	Title 39 Postal Service
Title 15 Commerce and Trade	Title 40 Public Buildings, Property, and Works
Title 16 Conservation	Title 41 Public Contracts
Title 17 Copyrights	Title 42 The Public Health and Welfare
Title 18 Crimes and Criminal Procedure	Title 43 Public Lands
Title 19 Customs Duties	Title 44 Public Printing and Documents
Title 20 Education	Title 45 Railroads
Title 21 Food and Drugs	Title 46 Shipping
Title 22 Foreign Relations and Intercourse	Title 47 Telegraphs, Telephones, and Radiotelegraphs
Title 23 Highways	Title 48 Territories and Insular Possessions
Title 24 Hospitals and Asylums	Title 49 Transportation
Title 25 Indians	Title 50 War and National Defense

C.8 Bankruptcy: An Overview

Bankruptcy law provides for the development of a plan that allows a debtor, who is unable to pay his creditors, to resolve his debts through the division of his assets among his creditors. This supervised division also allows the interests of all creditors to be treated with some measure of equality. Certain bankruptcy proceedings allow a debtor to stay in business using revenue that continues to be generated to resolve his debts. An additional purpose of bankruptcy law is to allow certain debtors to free themselves (to be discharged) of the financial obligations they have accumulated, after their assets are distributed, even if their debts have not been paid in full.

Bankruptcy law is federal statutory law contained in Title 11 of the United States Code. Congress passed the Bankruptcy Code under its Constitutional grant of authority to "establish. . . uniform laws on the subject of Bankruptcy throughout the United States." See U.S. Constitution Article I, Section 8. States may not regulate bankruptcy though they may pass laws that govern other aspects of the debtor-creditor relationship. See Debtor-Creditor. A number of sections of Title 11 incorporate the debtor-creditor law of the individual states.

Bankruptcy proceedings are supervised by and litigated in the United States Bankruptcy Courts. These courts are a part of the District Courts of The United States. The United States Trustees were established by Congress to handle many of the supervisory and administrative duties of bankruptcy proceedings. Proceedings in bankruptcy courts are governed by the Bankruptcy Rules which were promulgated by the Supreme Court under the authority of Congress.

There are two basic types of Bankruptcy proceedings. A filing under Chapter 7 is called **liquidation**. It is the most common type of bankruptcy proceeding. Liquidation involves the appointment of a trustee who collects the non-exempt property of the debtor, sells it and distributes the proceeds to the creditors.

Under Chapters 11, 12, and 13 a bankruptcy proceeding involves the **rehabilitation** of the debtor to allow him to use his future earnings to pay off his creditors. Under Chapter 7, 12, 13, and some 11 proceedings a trustee is appointed to supervise the assets of the debtor. A bankruptcy proceeding can either be entered into voluntarily by a debtor or initiated by his creditors. After a bankruptcy proceeding is filed, for the most part, creditors may not seek to collect their debts outside of the proceeding. The debtor is not allowed to transfer property that has been declared part of the estate subject to the proceedings. Furthermore, certain pre-proceeding transfers of property, secured interests, and liens may be delayed or invalidated. Various provisions of the Bankruptcy Code also establish the priority of creditors' interests.

Federal Bankruptcy Code - Title 11 of the U.S. Code. Title 11 is currently subdivided into eight chapters:

Chapter 1. General Provisions, Definitions and Rules of Construction

Chapter 3. Case Administration

Chapter 5. Creditors, the Debtor, and the Estate

Chapter 7. _____

-

Chapter 9. Adjustment of the Debts of Municipality

Chapter 11. _____

-

Chapter 12. _____

Chapter 13. _____

-

Section D

Customer Issues

D.1 Interacting with Customers

Getting Better Customer Input

Surveys are an excellent way to find out how your customers feel about a new product, service, location, store policy or virtually anything that's important to your business. A survey will tell you what your customers expect of you and your company, and clarify how well you are performing in their eyes.

If executed properly, you can achieve impressive results without spending a lot of money. Customer service experts estimate it can cost between \$3,000 - \$5,000 to sample a representative segment of your customers.

The tips below will help you create an effective survey:

(1) _____

A strong survey has a clear goal or focus. (i.e. to find out how customers feel about a proposed new location or store layout; get response to a new product or service; learn why once loyal customers are now shopping elsewhere). Take time up front to know why you're surveying your customers, and you will get results that will help you make your business more effective.

(2) _____

Include discount coupons for certain products or services with the survey. Or, if customers return the survey in person by a certain date, they're entitled to a 10 percent discount. This can be particularly useful if you're using your survey to prospect for new customers. It might also be as simple as a sentence at the top of the survey indicating that you are using the input to evaluate current policies/products and create new ones -- customers like to feel like they can have an impact on your company.

(3) _____

Customers aren't concerned with issues that do not pertain to them (i.e. hiring, promotion or store policies, outreach programs, etc.). Make sure that each question is important to your customers' needs, not your internal management. Plus, remember that a successful survey arouses excitement and is fun to fill out. Don't put yourself in a position of wasting your customers' time.

(4) _____

Ideally, it should contain 10-12 questions neatly spaced on one page.

(4) _____

The easier it is for people to respond, the higher the response rate will be. Self-mailers are highly recommended because they require less paper and postage. Next best is including an addressed pre-stamped envelope. (It's presumptuous to expect respondents to use their own postage.) Also, stressing the survey's confidentiality increases your chances of getting honest answers.

(5) _____

Keep questions direct, simple and brief. Scaled questions (strongly agree, moderately agree, disagree, don't care) and yes/no questions are the easiest to answer. Long, wordy multi-part questions should be avoided. An example of a good question: How well do you feel your accountant meets your tax needs? The answer would be on a scale of 1 (poor) to 5 (excellent).

(6) _____

With every question, enclose a "Comments" line, encouraging respondents to express opinions -- both positive and negative. Many service businesses, for example, have been successful with questions such as, "If this were your business, what would you do differently?" If respondents feel strongly about the issue, pro or con, there's an excellent chance they'll answer it.

(7) _____

Andy Mosko, managing principal of Organizational Research Forum, Inc., Vernon Hills, IL, a company that specializes in designing customer surveys, advises testing a survey before mailing it. "Try it out on a few good customers," he says. "You'll be pleasantly surprised to discover it can be improved."

(8) _____

These are the people whose opinions you value most. You don't have to mail a lot of surveys to get valuable information. If you have 2,000 valuable customers, for example, consider sampling 500. A 50 percent return (250 respondents) is considered excellent; 30 percent (150 respondents) is considered good and 10 percent (50) is dismal. If the lion's share of your business comes from only 8 or 10 customers (as may be the case with a small service business), design your survey with their needs in mind.

(9) _____

A brief attention-commanding announcement should be delivered a week before the survey is officially sent. It's an opportunity to highlight the benefits (premium, discount or special money-saving coupon) of filling out the survey and sending it back promptly.

How to Understand Your Customers

Buyer orientation - understanding and satisfying your customers - is essential for commercial success. Understanding one's customers is so important that large corporations spend hundreds of millions annually on market research. Although such formal research is important, a small firm can usually avoid this expense. Typically, the owner or manager of a small concern knows the customers personally. From this foundation, understanding of your customers can be built by

a systematic effort. A comprehensive system for understanding is what Rudyard Kipling called his six honest serving men. “Their names are What and Why and When and How and Where and Who.”

What

A seller characterizes what customers are buying as goods and services - toothpaste, drills, video games, cars...But understanding of buyers starts with the realization that they purchase benefits as well as products. Consumers don't select toothpaste. Instead, some will pay for a decay preventive. Some seek pleasant taste. Others want bright teeth. Or perhaps any formula at a bargain price will do.

Similarly, industrial purchasing agents are not really interested in drills. They want holes. They insist on quality appropriate for their purposes, reliable delivery when needed, safe operation, and reasonable prices.

Video games are fun. They are bought for home entertainment, family togetherness, development of personal dexterity, introduction to computers, among other satisfactions. Commercial customers include arcades, pizza parlors, and assorted enterprises. They benefit from a potential source of income, a means of attracting buyers to their premises, or perhaps a competitive move.

Similarly, cars are visible evidence of a person's wealth, reflection of life style, a private cabin for romance. Or they represent receipts from leases, means to pursue an occupation. . . Some people even buy cars for transportation.

You must find out, from their point of view, what customers are buying. The common names of products mean as little to them as the chemical names on the label of a proprietary drug. (A sick person's real need is safe, speedy relief.) Understanding your customers enables you to profit by providing what buyers seeks - satisfaction.

Products change, but basic benefits like personal hygiene, attractiveness, safety, entertainment, and privacy endure. So do commercial purposes such as quests for competitive superiority or profitability.

Successful manufacturers and service establishments produce benefits for which customers are willing to pay. Successful wholesalers and retailers select offerings of such demanded benefits that they can resell at a profit. Successful businesspeople, in other words, understand the reason for their customers' buying decisions.

The reason that customers buy is logical from their point of view. Understanding customers derives from this fundamental premise. Don't argue with taste.

Everybody is unique. Each person has individual pressures and criteria. Moreover, perceptions differ. The astute businessperson deduces and accepts the buying logic of customers and serves them accordingly.

To learn why customers buy can be quite difficult.

Some buyers hide their true motivations. In many cases the reasons are obscure to the buyers themselves. Most purchase decisions are multi-causal. Often, conflicts abound. A car buyer may want the roominess of a large vehicle and the fuel economy of a subcompact. The resolution of such mutually exclusive desires is usually indeterminate.

Sometimes the reasons why customers buy are trivial. If customers feel indifferent toward a product or store, the selection is apt to be happenstance. Perhaps several rival offerings meet all the conditions that a purchaser deems important. Consequently, minor factors govern. This explains the rationale of the consumer who chose a \$ 22,000 car because its upholstery was most attractive. The point: Pay attention to details. They may be crucial to customers.

Often the best clues are the customers' actions. Shrewd businesspeople respect what people say, but pay special attention to what people do. More important than why customers buy is why former customers have taken their patronage elsewhere and why qualified buyers are not buying. What is now keeping them from buying?

Can this obstacle be surmounted? Businesspeople monitor competitive offerings and buyers' reactions to infer clues. Informal conversations may also reveal some reasons. Special offers may overcome resistance and boost profits.

All the time the manager must be careful to retain the company's regular customers. For instance, a specialty dress shop may try to widen its patronage through a new line at bargain prices. This move could disturb the store's usual patrons. They may take their trade to another store that caters exclusively to their social class.

Many of the dresses were bought for special occasions when projection of a genteel image was important to the customer. Understanding of customers includes awareness of the time of the purchase and use of the merchandise.

When

A seller must be ready when the buyer is, lest an opportunity be irretrievably lost. Customers buy when they want an offering and have the time and money to purchase it. Buying patterns can often be discerned from an analysis of customers and their purchases. For example, wants for many consumer goods and services are tied to customers' rites of passage. The following purchase occasions in the adult life cycle are typical:

(1)

(2)

(3)

(4)

(5)

(6)

(7)

(8)

(9)

(10)

(11)

(12)

Shrewd retailers keep track of such key buying events and gain a head start on making sales. Logs of birthdays and anniversaries are a case in point. Additional purchase occasions are impersonal. Seasonal factors include recurring holidays and weather changes. Among other favorable influences on purchases are start of the school year, semi-annual white sales, introduction of new models and clearance of old ones, special price concessions, and improvement in economic conditions or buyer's confidence.

Some of the latter factors also apply to manufacturers. Small plants work closely with their buyers' inventory managers and replenish stock at their reorder point. A current vogue is just-in-time delivery. Interactive computers make replenishment notices routine.

Many consumers have time for shopping only during off hours. in the evenings, and on weekends. The trend from a single breadwinner per family toward having all adults of a household engage in commercial employment has intensified this time peculiarity. Astute retailers adjust their hours, staffing, and availability of merchandise to customers' shopping convenience. Bartenders know that business booms on payday. Manufacturers profit from timing their offers to their customers' budgetary cycles. Thus, knowing when products are bought and used is a valuable facet of understanding customers.

Although a transaction may be concluded in a moment, most purchases actually entail a drawn-out process.

How

Knowledge of how customers buy pays off in several ways. (1) Sellers can design their offerings to meet the exact needs of their buyers. (2) Sellers can influence decision makers at crucial steps of the buying process. (3) Sellers can lay the groundwork for repeat business.

Buying methods are best visualized as processes. Household purchases usually start when a consumer has a desire or a problem that an acquisition might satisfy or solve. Industrial purchases usually start when a user or a routine sets off a signal (requisition) for approval of a procurement.

People are diverse. Every consumer, every firm pursues a buying process of its own. Buying processes also depend on the significance of the product to the buyer and on other circumstances. Although buying processes are not uniform. some steps are common to most of them. The seller needs to know only these critical steps when he or she can affect the outcome of the buying decision.

Shrewd sellers delve into the behavioral milestones of purchasers. But for each very important customer the buying process should be diagrammed individually, showing names of influencers at each decision stage, elapsed time between stages, and any other pertinent information.

Perhaps a change in life style or a demonstration at a friend's house has caused this consumer to recognize the need for a personal computer. But lack of knowledge and the fear of a wrong decision may counteract this desire. The process continues, however, if advertisements and expected benefits persuade the consumer to act. Despite budgetary constraints and uncertainty about future needs, the consumer proceeds to compare stores and brands.

At this search and evaluation stage advice from present satisfied customers is especially influential. Make sure your customers are satisfied and favorably recommend your merchandise or service. To the contrary, poor shopping facilities or irritating personnel can sway the potential customer against making the purchase from you.

Sooner or later, further search does not seem worthwhile. If the positives still outweigh the negatives, the consumer picks a store and brand. The transaction itself is consummated quickly,

assuming the wanted item is available. The satisfied customer makes recommendations to others and gives you his or her repeated, regular business.

Businesspeople can create sales by predisposing potential buyers to their product or store. Manufacturers can offer exclusive benefits in their goods, such as friendly relations, efficient operations, and easy manuals. Enticing advertisements help persuade prospects to visit a retail outlet and ask about a particular brand. Creative salespeople overcome the customer's objections and doubts and close the sale. Post-transaction service keeps the customer satisfied. Referrals usually follow.

Specific details are needed to track acquisition of something complex, say a computer. On the other hand, less detail is needed if the purchase is laundry detergent or some other staple with which the customer is less involved. In the latter case, depletion of the home inventory triggers a routine, leading directly to choice: the usually purchased brand. If the usual brand is out-of-stock or another brand is on sale, a substitute may be bought quickly. Brand comparisons follow or may be omitted.

Some products are bought when an emergency need for them arises. A physical examination and the filling of a prescription are urgent when sickness strikes. Arrangements for funerals follow immediately after the death of a family member. Umbrellas are in demand when it rains. An unexpected snow storm generates extra calls for tire chains, towing services, and car batteries. Often, convenient availability determines when these goods and services are purchased. And even if customers do have ample time to select merchandise, sellers who stand ready to supply wanted or expected brands are apt to gain preference and profit when shoppers decide where to buy.

People want options. Although convenient availability is the main buying criterion for many routine household products, savvy merchants stock a selection conforming to the diverse preferences of their patrons. Some people demand manufacturers' advertised brands. Resellers' brands are favored by others. On some classes of goods, generic brands have become popular in recent years. Moreover, many consumers seek occasional variety. Clearly the decision of which products to stock is important.

It is more important yet on shopping goods because buyers compare them before purchase. And it is most important on specialty goods, those preselected by brand name. If a store does not stock these uniquely wanted brands, a prospect will leave without buying. Whoever offers them on acceptable terms gains the sale.

Where

From a multitude of studies emerge different criteria for deciding where to shop. Most research on the subject agrees that store location is a major consideration, Stores usually draw most of their patronage from their surrounding neighborhood.

Savvy store managers make a special effort to understand the shopping-related motivations and

preferences of local residents. New managers of fast-food units, for example, canvass nearby dwellings and introduce themselves to the households. Some supermarkets maintain consumer advisory boards to elicit suggestions and reactions. Other means of communication with customers include informal conversations at the store and suggestion boxes with interviews and awards.

Incidentally, complaints are an excellent guide for making store policies more amenable to customers. Personnel should be instructed to thank patrons for their comments. Prompt consideration, followed by a personal letter from the store manager, is highly desirable.

Location is extremely important to “captive” buyers. Exclusively franchised utilities, shops in isolated hotels, and cafeterias or automatic vending machines in factories are examples. At the opposite extreme, shoppers escape spatial restrictions by buying from mail-order firms or telephone solicitors. Other patronage influences vary. They depend on the type of product, type of store, and the characteristics of the consumer. The offered assortment's perceived quality, depth, and breadth certainly are very important, along with price. This does not imply that all goods have to be top quality or all prices the lowest. Perceptions are decisive.

If quality seems high, some customers infer that prices are high too regardless of the facts. The important point is to understand customers and to provide what causes them to buy. For example, assurance of repair service weighs heavily with the worrier type of customer. A convenience-minded buyer is concerned with parking space or delivery service.

Of course, shoppers must be told that wanted goods and services are available. Advertising helps disseminate this information. So does a store's reputation for consistent policies of satisfying its customers.

Occasional promotions inject some excitement into the tedium of shopping. Some clients like to socialize, which can absorb much of an employee's time and may even annoy other buyers. Nevertheless, personnel should be friendly and helpful. Also influential, for some customers, is the apparent socio-economic level of other shoppers.

Personal affinity for other customers or for salespeople is a decisive factor in the success of party-selling, e.g., household goods and in-home selling (cosmetics). The choice of where to buy items requiring major outlays (securities, and insurance) often revolves around from whom to buy.

In selecting a retail store, many customers consider physical features. Layouts can invite or repel patronage. Motorists who are in a hurry, for instance, are apt to use a gasoline station at which business can be transacted quickly. Altogether, buyers perceive a mix of tangible and intangible factors that comprise a store's atmosphere. Accordingly, they either do or don't feel comfortable about shopping there.

To the casual observer, all supermarkets seem more or Hess alike, But, in fact, store managers can regulate many of the above-mentioned variables and thereby affect where shoppers buy. According to recent studies in several American cities, household buyers perceive supermarkets

in their neighborhood as sufficiently different to determine their patronage preference. The four main types of supermarkets offer: (1) High quality at commensurate prices, (2) Lowest price level in the area, (3) Swift completion, (4) Friendly atmosphere. Each can profit by appealing to a different segment of buyers. the topic of the next section.

Who

Identification of customers and prospects makes effective targeting possible. Small business owners pride themselves on knowing their customers personally. In the industrial field, understanding of each major customer and buying influence is essential. When dealing with a large number of customers, however, individual familiarity is not feasible. Hence mass merchandisers and others in this situation group their customers, whose reactions to offerings are similar, into segments. Then they design a separate appropriate marketing program for each segment.

Strategies vary, A small firm might prosper by concentrating its resources on one segment. Because customers are volatile, the specializing firm is vulnerable to sudden change in its target segment's patronage. Hence some companies address several segments simultaneously. Although expensive, a strategy of employing different tactics for different segments can be quite profitable. Other firms scatter offers to just anybody. They hope that segments will select themselves.

One basis for segmentation is geographic. Retail customers are apt to live or work in the store's vicinity. Industrial buyers tend to concentrate regionally. So do users of services. Intensive cultivation of local potential customers can be efficient and lucrative. Personal knowledge of local buyers and a shared community spirit help cement relations with these customers.

Segmentation is an art. All "honest serving men" - what, why, when, how, where, as well as who - can be the key to segmentation. Whatever the basis, each identified segment should have sufficient purchasing power to make a special effort commercially worthwhile. Accessibility is vital. How can the segment be reached? Are advertisements, telephone solicitations, or personal visits efficient? How about trade shows or personal contacts? The ideal segment is stable in purchase needs and loyalty, helping you fend off competition.

Besides segmentation, understanding of customers also requires insight into their buying roles. The buyer for a one-person household or one-person business is the initiator of the order, the decider, and the user. Even in this case, however, some outsiders are influential.

In larger households or businesses, these buying roles are usually played by separate individuals. It helps you to know who activates (requisitions) purchases, who exerts influence, who decides what and where to buy, who uses the product-and what their criteria are. Then you tailor and target your offerings to satisfy each major participant in the buying process.

As has been shown, understanding of customers enables a seller to increase sales. This same

understanding can equally serve to reduce costs. Higher sales at lower costs inevitably boost profits.

A small firm that understands its customers can buy or produce exactly what they want-and nothing else. The firm's sales effort is efficient because it builds on why its customers want to buy not on why others buy, or why the vendor wants to sell.

Merchandise can be ready when customers need it. Thus a knowledgeable seller avoids unnecessary inventory costs or penalties for late delivery. Understanding how customers buy lets a seller employ promotional media, appeals, and timing for maximum effectiveness. Transportation costs are lowered by shipping merchandise to where it is needed. Knowledge of who comprises suitable segments and the separate buying roles can reduce the waste of soliciting unqualified or uninterested people.

Customers are Dynamic

The best source for you to learn about customers is your personal interaction with them. At work, social and civic activities, and chance encounters, people talk and reveal their attitudes and motivation. Listen to your customers. You can also keep abreast of purchasing patterns by observing competitors' practices and by asking sales personnel who is buying what, where.

Articles in business and trade newspapers and magazines give information on products, trends, marketing, finance, the economy. Trade directories, Yellow Pages, and brokers' direct-mail lists identify who buyers are, and most industries have associations and specialized marketing research that provide insights for understanding customers.

Seeking Customer Feedback

A complaining customer can be your best friend. Without their expressing problems, we would never know how to improve.

Best ways to get feedback:

(1)

(2)

One good approach is to use open-ended questions to let people express their ideas. Remember...

The Chronic Complainer

Will Rogers said, "Diplomacy is the art of saying 'nice doggy' until you can find a rock"

Watch for the following signs:

(1)

In their world, there is no such thing as an accident: someone is always at fault and it's probably you.

(2)

They see themselves as blameless and victims of the incompetence or malice of others

(3)

They love to define other people's duties. If you hear a complain phrased exclusively in terms of other people *always, never, must, or must not do*, chances are you are talking to a chronic complainer.

(4)

Techniques to use:

(1)

Rephrase the complainer's main points with your own words, even if you have to interrupt to do so.

(2)

Reduce the complainer's tendency to exaggerate or overgeneralize.

(3)

Since the main thing the complainer is trying to fix is blame – not solve the problem – your apology will seem an open invitation for more blaming.

(4)

Also, try to put a time limit on the discussion ("I have a meeting in 10 minutes, what sort of action plan can we work out in the time?")

10 Things You Should Never Say to Customers

A lack of training, inflexible policies and the absence of common sense often lead small business owners and their staff to say the wrong thing to customers. Unfortunately, this bad customer service costs business that is expensive to win back or replace .

Customer service is one of the areas in which small businesses can and should compete with their larger counterparts. Personal attention, flexible policies, and customer service extras are relatively easy for small businesses to offer and are difficult for large companies to compete with. Good customer service leads to loyal customers and loyal customers lead to increased revenues.

To help you avoid making some of the most common customer service gaffes, here is a list of 10 things you should never say to customers.

(1) _____

It is fine to say “no”; however, how you say no is all-important. When you have to turn a customer away, make a recommendation about where the product or service can be found.

(2) _____

Your business should have a liberal return policy and warranty plan. A life-time guarantee, for example, sends a clear message to customers that you believe in what you are selling. What you lose in returns you will make up for in loyalty.

(3) _____

Business is lost when people answer the phone who don't know where to transfer callers. This problem is chronic when temps are used, but can also occur with permanent staff. To avoid it, have your current receptionist create a guideline sheet for Frequently Asked Questions (FAQs) by callers. The list should include the appropriate person to transfer the call to for answers to these questions, as well as details of responsibilities of each person. This list should include a list of former employees so that callers requesting a person rather than a title can be directed to the correct party.

(4) _____

is a surprising and unfortunately familiar refrain by staff who are not taking responsibility for the whole company. A customer with a need does not want to have to make extra effort to find the right person to help them. If you force customers to look too hard for help, they may instead put their energy into finding a company that treats them better. Train all staff to take responsibility for resolving customer service issues, even if it does not relate to their sphere of responsibility. In a small business, most staff should be familiar enough with all components of the business to be able to either find an answer to the customer's question or promise to find the appropriate party for the customer.

(5) _____

If a customer wants a product or service that is expensive or difficult for you to provide, consider saying no, even if you want the business. Attempting to be all things to all customers can lead to poor customer service, and negative word of mouth advertising. This is not to say that you should never do a favor for a good customer or branch out into a new area if the market demands

it. It means that, as a rule, you should focus on providing only the products and services a which you excel. Straying from your core competency may lead to poor products and bad customer service.

(6) _____
Customers who find themselves faced with this statement will be frustrated and annoyed at the lack of creativity your company shows in resolving their problem. Be flexible with policies in order to accommodate customers who deserve a break. Save inflexible policies for people who are taking advantage. Give all employees the training and authority to distinguish the difference.

(7) _____
...unless you are prepared to react to all varieties of feedback Purchase follow-up calls or mailings to customers can be an effective way of eliciting feedback and indicating that you care about your customers. However, too many programs appear designed to gather only compliments. If you undertake a program to research customer satisfaction, have a method by which to handle complaints. For example, a car dealership can transfer unhappy customers directly to the service department or ask service people to call customers to determine how the problem can be resolved.

(8) _____
...unless everyone who answers the phone knows about it. A customer who calls to take advantage of a sale or special offer should not have to talk to several people before being able to make a purchase. Make sure that your marketing department talks to your customer service department about all promotions. Also be sure that everyone who answers the phone knows about the offer.

(9) _____
...unless you are sure it will. It has been said thousands of times, but you must under-promise and over-deliver. Small business owners, particularly in the start-up phase, are often over-eager to please and will promise to meet ambitious client deadlines without thinking about whether or not they can deliver. Most clients and customers will be much more disappointed in a broken promise than in completion date that is later than they hoped.

(10) _____
...unless it is followed by the phrase **“But I will find out for you”** Failing to seek an answer to customer questions indicates that you don't care about their business. Providing an answer that you are not sure of is also a bad idea because it will eventually harm your credibility. Admitting you don't have the answer to a question is fine and can actually improve your credibility if you make an effort to get the answer for your customer. People are often uncomfortable when they do not have the answer to a customer's question, but your customers do not expect you to know everything, they only expect you to attempt to help them.

Superior Customer Service

You can use customer service as a powerful way to set yourself apart from your competition. It's one of the strengths a small business has, and by emphasizing customer service, you can compete with larger companies who may offer more variety, lower prices, and other perks you can't afford. But many small businesses fall short in the customer service category. Why? Ignorance is one reason. There simply are not a lot of examples of good customer service on which to model your company.

In the meantime, here are five maxims to make sure you leverage your small business status to provide the best customer service possible.

(1) _____

If a customer has a problem, apologize and fix the problem. Make sure to let customers vent their grievances, even if you are tempted to interrupt and correct them. Then give them a refund, new item, or whatever will fix the problem. Debating or haggling over a refund creates ill will. Repair mistakes immediately. Keep in mind that a complaint about your company is an opportunity to turn the situation around and create a loyal customer. Obviously, there will be some customer requests that are too outrageous to comply with. If that's the case, do your best to offer a moderate, appealing alternative.

(2) _____

Ask your customers to rate your service on regular basis. This can be done via a short questionnaire included with every product sold or mailed to key clients. Keep the questionnaire short so that it is not a burden for customers to complete, and make sure they know they can decline to participate. Always let customers know the purpose of the survey is to serve them better. If they fill out the survey and have no problems, it is a reminder of what good service you offer. If issues do arise, they can be addressed

(3) _____

You must be flexible when it comes to your customers and clients. This means doing a project for a client in a pinch, having an early morning meeting even if you like to sleep in, and meeting on Saturday even if you usually preserve your weekends for yourself.

Flexibility can also mean getting information for your client, even though it may not be in your area of expertise. Say, for example, you're catering a wedding and your client needs information on Irish wedding customs. It's just as easy to make a call to your local library and fax the information to your client as it is to say "I don't know anything about that." And making that extra effort will ultimately pay off with a very satisfied customer.

(4) _____

This doesn't mean giving up your personal will to your customers but it does mean finding a way to help customers with their requests. If you run a gift business you might wrap a present for an important client, even if you don't usually provide gift wrapping. You might stay up late to finish a project if a client suddenly has a deadline moved up, or travel in snow storm to meet a client even if it means an unpleasant trip for you. Always saying yes, means the words "that isn't

possible” should be forbidden from use in your business. You cannot afford to use them. If this sounds expensive and inconvenient, it is, but it is less expensive than losing a customer and having to spend money and time landing a new one.

(5) _____

Make your customers believe they are important to you by always appearing to go the extra mile. Build a little cushion into a deadline and deliver early. Estimate that a job will cost more than you think, and bring it in lower. Many small businesses make the mistake of reversing this maxim - over promising and under delivering. This is a true recipe for disaster. You may get the business, but your level of service will make it difficult to compete. If 24-hour turnaround is excellent service in your industry, don't promise it in 12 just because the customer requests it.

The Best Time To Raise Prices

When is the best time for me to raise prices?

There are three occasions:

(1)

(2)

(3)

Let's say a grocer decides to offer delivery service for a charge of \$9.95. The grocer could also institute a price increase on items sold in the store at that time, because delivery has value and will create a tolerance for an increase.

It depends on the type of pricing you are talking about. Most consumers expect price increases at the beginning of the year, so that may be the best time for consumer price increases. For business-to-business products and services, you should pre-announce price increases by anywhere from one week to 30 days.

Raise prices when market conditions dictate that there is an opportunity to improve profits through a price increase. For example: when demand surges for your consulting services and someone wants you to take on their project; when capacity is constrained and your customer potential is expanded; or when there is a noticeable decline in competitors, or an increase in the number of customers you have to serve.

You can also raise prices when you have underpriced. For example, a one-day conference can be rebranded to a two-day program. [You can] increase the number of speakers by 25%, and raise the price by 75%.

What is the best method for informing customers of a price increase?

First, let them know you have been working hard to hold the line for them. Then, put the emphasis on redesigning the value and service program. For example, you can say there will be a slight increase but a cost reduction over time because the customer will spend less time ordering through the new service program. Then highlight these new value-added services such as single billing and automated order entry.

The pricing threshold for consumers is approximately...

A common mistake is waiting too long and then having to raise prices too much, beyond the pricing threshold. In business-to-business, the threshold is higher if service is strong, maybe 7-8%. But you cannot wait 18-24 months and then raise prices double that amount.

With business-to-business, a notification should be sent or it should be explained face-to-face. Either way, there should be a formal process. Every price increase should be taken as an opportunity to build a relationship; so when telling clients, say that you plan a price increase and are giving them notice because they are important to you. Only tell your active customers because you don't want anyone to have a reason to consider another supplier. Do not tack it on to an invoice, 'Effective Immediately,' and do not assume that if you announce a future price increase on an invoice, that the right people will see it. The accounting department may or may not pass the information on, and even if the buyer of your services does see your bill, they may not look closely at it.

Go see your top ten customers and see how the message takes. Tell them you have some new things going on, and some cost increases, and would like to see them. Try to find a way to keep current customers at the old price. If they increase their commitment by buying more, for example, you can keep the price the same.

For the rest, write a short note, filled with good news. Always lead with something positive – announce price cuts on other products or services, on new products, or increase your levels of guarantees. Sandwich the bad news by leading with good news, giving the price increase, then giving them more good news at the end. It is the 'Oreo strategy.'

If you write to customers, provide as much information as possible. If you are a trucking company raising prices because of the hike in gas prices, provide a graph of gas prices over last six months. The idea is to show that you are passing along costs, not gouging. It is your burden to show you are fair; do not assume anyone knows about cost increases. Always say that you are reluctantly passing along external cost increases. Show that through productivity and hard work you have managed to eat some of the cost increases, but after years/months of maintaining prices you must now pass them along.

Turn Angry Customers into Loyal Customers

It's one thing to deal with an angry customer. It's another to deal with an angry customer who's right because you've made a blunder. The key to making your customer service successful is not only to soothe the angry customer, but to turn this person into a loyal customer. Believe it or not, it's possible to use this situation to your advantage to show your customer how far you are willing to go to keep his/her business.

Customer service experts look at this as a four-step process:

Step 1:

let the customer know that you've made an error.

Step 2:

state clearly and sincerely that you regret making the error.

Step 3:

fix any mistake you've made, no questions asked.

Step 4:

don't just fix the problem; go the extra step to make sure you give the customer incredible service.

Rude service

Example: A diner in a busy restaurant becomes furious with a brusque waiter.

Solution: Acknowledge the diner's complaint, apologize, assign another waiter to the table and offer the customer a complimentary dessert. Give the customer a reason to return. In order to keep a good customer, you must be prepared to go that extra mile by showing you truly value their business. Giving lip service and making excuses are not enough.

Shoddy or defective merchandise

Example: A customer storms in to return a "defective" computer that he/she apparently misused.

Solution: It's a touchy situation if a customer misused or mishandled the product. Having a "No Returns" policy is not a good idea -- you need to show you are flexible and that you stand by what you sell. Whatever happened, be gracious and don't make a customer feel stupid for being careless or misusing the product. If you can, replace the product and eat the cost - what you are losing in return you will make up in loyalty. If you can't exchange the product (it's a one-of-a-kind item, for instance), try to de-escalate his/her anger and frustration with an alternative solution. Apologize for not being able to replace the merchandise. Offer to repair it for free, and give a 10-20 percent discount on the person's next purchase.

Late delivery

Example: A shop or factory is brought to a standstill because an important delivery of raw materials didn't arrive on time.

Solution: Don't wait until after the fact to inform customers. Ward off ugly confrontations by alerting your customers of delays as soon as you become aware of them. You might say, "I'm calling to tell you that our trucks had to be rerouted because of a blizzard in the Midwest." In emergency situations where you fear losing customers because of late deliveries, it's best to over-communicate. It shows you're not only on top of the situation, but that you also care. Even though the late delivery is no fault of yours, take responsibility and give your client a discount on the next shipment. If you plan to create contingency policies to avoid future late deliveries, tell your customers about them. But, don't make promises you don't plan to keep. It could come back to haunt you. Good customers don't forget a promise.

Screw-ups

Example: An advertising agency puts the wrong phone number in a print ad.

Solution: Acknowledge the mistake, apologize, and then make good on it. Fix the ad immediately for free (not cost), with all other projects going on the back burner. Call the publication and tell them to pull the ad immediately. Eat any costs involved, including the cost of placing a new ad with the correct information. If you catch the mistake before the client sees it, don't be mute -- tell the client about it immediately. You may risk losing the customer, but chances are it will prove to be smart business to show you're willing to admit a problem and rectify it.

Voice jail

Example: Anxious to speak to a human being to place an order for a product, a customer gets lost in the automated answering system, and when, after 5 minutes of pressing the "#" sign, gets connected to a real person only to be told immediately to "please hold" and gets transferred to a voicemail instructing them to leave a message.

Solution: The best way to calm a justifiably frustrated customer is to fix the system. But, that can't always be done immediately. After you acknowledge and apologize, offer the caller a shortcut or faster way to reach you -- "Next time you call, immediately hit '0' and ask the operator to page me. That should save you time." They'll appreciate the information and feel good about receiving special treatment. Additionally, it is essential that a person transferring a call makes sure the party they're transferring to is present, or asks the caller if he/she would like to leave a voicemail message. Be sure to train your human "answerers" in this technique.

Customer Service Action Form

Use the following form to help create your own internal company customer satisfaction information and action sheet. Customize it to reflect the types of products and/or services that you offer. Consider carefully both the routing of the form through the company and when you should personally get involved. Hopefully, your employees should be able to handle many situations without involving you directly. For example, if you deal in merchandise and the wrong items are shipped, your employees can quickly ship the right goods and arrange for a pick-up of the erroneous order. But if the goods are custom made, or if it's your biggest customer, you might want to be part of the problem resolution process from the outset. And you'll want to have the form routed to you last. That way, you can review the types of issues being raised and see how your employees have resolved them.

Make it clear to your employees that this form isn't just window dressing: it is an important part of your business' efforts to satisfy your customers. Every employee should have a supply of these to get the ball rolling when faced with a situation that he or she cannot resolve. And everyone should be aware of the priority that these reports should be afforded and the turn-around time expected for resolution. Consider printing them on a distinctively colored paper so that they don't get lost on a desk or in an in-basket.

This type of form helps prevent customer problems from falling through the cracks, while at the same time providing for an orderly hand off to someone who can address the matter. It also sends a couple of messages to your employees. First, there is a clear procedure to follow when a customer is unhappy. Second, you are looking to their good judgment to recognize problems and promptly suggest (and, frequently, implement) solutions. Third, it reinforces the message that your employees are a team, working to achieve common goals. In a well-run business, employees who are the primary customer contacts will originate many of these forms, not management.

CUSTOMER SERVICE ACTION FORM	
Customer	Time & Date
	Originator
Telephone	Department
	Telephone
Situation requiring action	
ROUTING	
To	Department
Time received	
Action taken	
Recommended next steps	
To	Department
Time received	
Action taken	
Recommended next steps	
To	(last)

Customer Complaint Form

Customer Complaint Form

Complaint Date: _____ **Complaint taken by:** _____
Customer Name: _____ **Phone:** _____
Customer Address: _____
Customer P.O. No.: _____ **Invoice Number:** _____
Contact Position: _____
Product Number: _____
Product Description _____

Complaint details:

First Response Corrective Action:

Suspected Cause:

Corrective action person(s):

Corrective action follow-up:

What steps should be considered to avoid a repeat of the problem:

Date: _____

Signature of Person Completing This Form

D.2 Direct Marketing

Smart, Simple Direct-Marketing Ideas

According to Enterprise Statistics from the 1992 U.S. Economic Censuses, there are about two million businesses in the United States that have annual sales totaling over \$1 million. These firms introduce new products and services every day, and entrepreneurs must work hard to differentiate their offerings from those of everyone else. On such a crowded playing field, marketing is the key to success. Read on for ideas that can help you start a marketing campaign.

Prospering in an increasingly crowded marketplace requires special effort. Your ability to distinguish yourself from competitors is critical to your success. After you have done your market research and have your customer profile in place, consider the following:

Tried and True

- (1) Advertise in media that reaches your target audience.
- (2) Develop brochures and other collateral materials that emphasize your differences that are meaningful to customers.
- (3) Keep your name in the media through press releases. Browse others' press kits (often displayed in press rooms at trade shows) for effective styles and messages, or hire a communications professional. More ideas can be found in the competition's ads and other P.R. items placed in local newspapers and business and trade journals.
- (4) Launch a Web site, making sure it is informative and easy to use. Be prepared to update the site regularly.
- (5) Become active in professional organizations serving your customers, not your peers.
- (6) "Sweeten" your product/service through initial discount pricing or a special offer, such as two-for-one on the first order.

New and Innovative

- (1) _____
Test ideas on customer focus groups before selecting one.
- (2) If you carry others' products, try to establish a "brand" identity for your own business, as Best Buy and Home Depot have done

- (3) _____
Use a nonstandard size or shape, such as a fold-over with a perforated flap that becomes a discount coupon. Employ the rarely used back of the card for useful information such as a map or brief product/service description.
- (4) _____
Team up with compatible, but not directly competitive, businesses for cross-promotions such as co-op advertising, “bundled” offerings and shared point-of-purchase space. For example, a candy manufacturer might team up with a card company and flower service for a Valentine’s Day cross-promotion.
- (5) _____
Punch up a guarantee by offering one step beyond what your competition provides. For example, if they provide a one-year guarantee, offer two years, or perhaps a product replacement with a gift certificate toward the next order. Research shows that the increased attention and trust generated by a standout guarantee almost always outweighs the cost of fulfillment.
- (6) _____
- (7) Participate in online news groups frequented by your customers; or better yet, offer to host an objective chat-site forum. For example, a fine pen distributor moderates a weekly chat session of collectors on his Web site. Be objective, encouraging free discussion about anyone, including competitors. The credibility is worth it.
- (8) Write a letter to the editor of key publications that reach your customers.
Respond in a relevant fashion to articles dealing with your business with a lead such as, “As the owner of a business that...” and end with your name, company and location. Keep it brief and tightly worded. It’s free, and you may be surprised how many readers will track you down.
- (9) Co-produce an inexpensive video with communications students from a local university or community college. It may not win Emmys, but you can get a credible tape for a fraction of professional studios’ prices. Provide copies of the video to television and cable stations in your market area; if they run a story related to your line of business, they’ll be likely to use the copy, and you’ll get free publicity.
- (10) Create a crossword puzzle or word-search game using terms relevant to your business and your customers. Try helpful Internet resources <http://www.crauswords.com/> and <http://puzzlemaker.school.discovery.com/>.
- (11) _____
Build an expert reputation by offering to write at no charge an informative — but non-selling — column in a publication read by your customers.

- (12) For important individual prospects, assemble a custom portfolio including relevant product literature and prices, press clippings and other information pertaining to their industry.
- (13) Offer a package of your services or products at a special price.
- (14)
- (15) Include a premium or a free item or service after a set number of purchases.
- (16) Have your sales force pitch to companies that use competitors, not by trashing the incumbent supplier, but by asking why the customer likes that vendor and what they might change if they could. Then respond with ways your company can meet needs not being addressed by the current supplier. Likewise, stay above any mud slinging that competitors might direct toward you. Customers prefer positive problem solving rather than negative rival baiting.
- (17) Try an unconventional sales approach, such as inviting prospects to, “Just cut me off at any time if you need to take care of something.” You’ll stand out as a refreshing contrast to sales people who often can’t be shut up.
- (18) If you’re smaller than your competitors, emphasize the personal attention you can give to customers.
- (19) Stress any family ownership and business operation. Customers respond more positively to a company that puts family honor on the line with each transaction.

REAL-LIFE EXAMPLE

The nation’s largest single-location canoe and kayak retailer is not in Seattle, San Francisco, or any major outdoor-sports market. It is Rutabaga of Madison, Wisc., population 200,000. Gordy Sussman founded Rutabaga in 1974, and four years later picked up the pace with his Canoecopia, an annual weekend event that is now the largest paddle-sports exposition in the world. Though Rutabaga offers boats for sale, the focus is on education and entertainment. Dozens of manufacturers and outdoor speakers cover topics ranging from starting kids in paddling to negotiating Himalayan whitewater.

By elevating Canoecopia from a sales promo into a fun, informational exposition, Rutabaga draws about 20,000 visitors to the event now held at a large convention center — and over half are from outside of Wisconsin. A large share of the store’s multimillion dollar annual sales come from the three days of Canoecopia, and the event has given Rutabaga a national “brand” identity among canoe and kayak enthusiasts.

HOW TO DO IT

- (1) Meet with your executive team to form a list of what positively distinguishes your company in terms of customer benefits. Also talk to your best customers to determine what makes your products or services stand out.
- (2) Come up with a marketing/P.R. action plan to advertise your strong points.
- (3) Many cost little or nothing and can be launched quickly. Set a schedule that includes trying some ideas immediately and rolls others out over a prescribed time.
- (4) Reconvene with your top management at least quarterly to evaluate the results of your efforts, and to review any new company developments that could be leveraged into further points of difference in your customer communications.
- (5) Don't stop! Companies like Coca Cola know that a strong image has to be constantly reinforced. Try to deliver a positive message of some type to your customers and prospects every day.

Section E

Working with the Media

E.1 Media Issues

Dealing With the Media

The media can be your best friend or your worst nightmare. When the local or national media writes about you and sales bounce up, you'd like to buy a cup of coffee for every reporter you see. When you've had a bad quarter, though, or your best selling product has to be recalled, the media can look more like an executioner.

How can you avoid such a seesaw relationship with the media? Learn to manage your relationship with reporters and editors in good times and bad through good "media etiquette" and simple planning.

Have a plan before the media calls

All news is really about storytelling. Before you talk to a reporter, make sure you can tell your story. You will already have some experience with this if you've developed a business plan or presented your company to investors. Reporters want to know many of the same things: What do you do and how do you do it? What sets you apart from your competitors and makes you unique? You should also be able to talk about the people behind your company. Prepare a one-page bio on each of your top managers and owners, and create a company history with a timeline.

Think about the messages you want to deliver. Focus on those messages when you talk to reporters. Be sensitive, however, to the reporters' needs as well. They may have deadlines and may only want to know a particular fact about you or your company. A little courtesy goes a long way. It may help you develop relationships that could lead to greater coverage in the future.

Quick tips on preparing news releases

The important thing to remember is that a news release should be "news worthy." Reporters who cover your company or industry lose interest if they receive humdrum news releases from you, such as announcements about awards or promotions you've given to your employees.

The best way to pick subjects for news releases is to get to know the publications in which you want your company to appear. What kinds of stories do they publish? If the newspaper never runs stories about new product releases, send those instead to trade publications covering your industry.

Keep news releases short: about 400 to 500 words on one page. Most publications won't print your news release word for word, so use the release to pique an editor's interest in your story, not to deliver every minute detail. Avoid jargon; don't use exclamation points; don't praise yourself; don't exaggerate. Think about the single most compelling aspect of the news you want to tell,

and convey it in the first sentence. Make sure you include the name of a contact person who is readily available by phone for the week after you release the story. If a top executive in your company is quoted in the news release, make sure he or she is available for additional interviews in that first week as well.

Handling a crisis

Your best friend in a crisis is speed. Don't let others shape the way your story will be told, even if the news about you is very bad. If your company is accused of doing something that injured people or damaged the environment, express your concern for the injured parties even if you believe you are innocent. Adopting a defensive posture without demonstrating compassion will damage your image and generate ill will toward your business.

To ensure a rapid response from your company, prepare a communication packet for emergencies. For example, the PR firm Mona Meyer McGrath & Gavin created 50-page crisis kits for its client Mall of America. The three-ring binders held sample press statements covering every conceivable catastrophe. When three people were shot and injured at the Mall's "Knott's Camp Snoopy" park, the company's staff immediately launched an information campaign for the media — providing as many details about the situation as possible, working with police and developing a "key message" for the press about the rarity of such incidents and the safety of the Mall.

Generally, "no comment" is a bad response. You can almost always offer something: express concern for the situation; express the values of your company; promise a detailed response within a specified period of time.

Never present misleading information in an effort to minimize the current crisis. A little lie can bloom into an even bigger crisis. Be honest in everything you say, even if you can't say much.

And finally, do something to correct the situation honestly. Don't just practice crisis communication. Offer crisis action.

HOW TO DO IT

(1) _____

(2) _____

(3) _____

Give the dates when the company was created, received financing, launched products and acquired other companies. Include any other significant events.

(4) Do an editorial content analysis of your most important local daily newspaper, business newspaper or magazine, and trade publication. Make a list of the kinds of stories these publications are interested in, and tailor news releases to fit.

- (5) _____
Ask him or her what stories are likely to interest your target publications.
- (6) _____
Address not only public relations concerns but also communications and company response in general.
- (7) _____
They should provide the name of the person in public relations who should handle all such inquiries.

Ten Sure-Fire Ways to Blow an Interview

Question: What do many new spokespeople at technology companies have in common? Answer: they make similar mistakes and fall into similar traps. Based on my experience as a media trainer, the most common ones include:

- (1) _____
Too many spokespeople confuse PR opportunities with free advertising. Ouch! No reporter, editor, or host wants to be a billboard for your products or service; their job is to provide interesting and useful information to their readers or audience. And if you help them do so, you'll maximize your chances of positive coverage.
- (2) _____
Some spokespeople think that they're on a sales call when they meet the press. So they toss out puffery and hyperbole or try to "close on the objection." Then they become frustrated by the "poor" coverage, if any, that they receive. The key is simple: inform, don't sell.
- (3) _____
At first blush, it might seem that telling spokespeople to have message points is as obvious as telling them to wear clothes during an interview. But in fact, many spokespeople do arrive metaphorically naked for interviews - bereft of key message points. Deliver several strong messages well, and you might just see them in print or on the air.
- (4) _____
When spokespeople feel the need to educate the interviewer about everything that could be known about their products, services, or companies, the interview loses focus. An effective spokesperson knows when to cut to the chase and assess what level of detail the interviewer is seeking.
- (5) _____
Most inexperienced spokespeople don't know when to stop talking. By babbling on, they increase their chances of being misquoted or driving the interview off-topic. Don't snatch defeat from the jaws of victory - keep answers short and to the point.

- (6) _____
A guaranteed way to irritate an interviewer is to interrupt or finish his or her questions. You need to establish a rapport and communicate respectfully - just as you would with a colleague or friend.
- (7) _____
It's often tough for spokespeople to adjust their technical level to that of the interviewer. But it's also critical. If you talk over the interviewer's head, you'll decrease the chances of an accurate write-up; if you "dumb down" the information for a technologically-sophisticated interviewer, you'll likewise decrease the chances of getting the kind of coverage you desire.
- (8) _____
Too often, spokespeople focus on the intricacies of their technology and forget that ultimately, the game is about offering a better value proposition for your customers. Demonstrate how your products and services solve your customers' problems and help them achieve their goals.
- (9) _____
Spokespeople can easily lose credibility if they boast about overthrowing the 800-pound gorilla in their market space. Far better to talk about the unique features and advantages of your offerings and how you plan to increase market share. In short, take the high road when it comes to competitors - you'll do more to increase your chances of obtaining the good press you deserve.
- (10) _____
Some spokespeople believe that they need to come across as "tough," so that they can control the interview through intimidation. Bad idea; you might win a battle or two, but you'll still lose the war. Victory goes to he or she who controls the ink. So be a smart player and check your ego at the door. Are there other mistakes spokespeople can make during an interview? Sure. But if they can avoid the "Big Ten," they'll maximize their chances of a successful experience with the media.

After the Story Runs: How to Get the Most From Your Ink

The first time a magazine or newspaper writes about your company, it is a pretty heady experience. Everyone in the company sees it on the lunchroom bulletin board. You mail a copy to your mom, your best friend, even that teacher who encouraged you so long ago.

Unfortunately, some executives stop there or lose interest in subsequent coverage. Positive free media exposure is far more valuable than paid advertising; but if you don't make sure the right people see it, you aren't getting the most from your ink.

Often, even if the front page of your local paper writes a glowing story about you, the people who are most important to your company won't see it. Your customers may live in other cities,

states or nations. Many of your investors probably do, too. Even your competitors, who might see you as a more formidable opponent after hearing the story, could be out of earshot.

So it's your job to spread the word.

- An article by a third party is likely to have more credibility with your customers and potential customers than one of your ads. To make sure the news reaches them, print excerpts of the story in company brochures. Include portions of it in your advertising campaign. If the whole story is wonderful, consider purchasing reprints and mailing them to your prime customers or giving them to your sales staff to hand out at sales calls.
- If you are interested in raising capital or attracting investors, what others say about you is far more powerful than what you say about the company. So make sure the financial community also receives copies of your favorable press clippings.
- When you advertise, think about adding an excerpt from a positive story, particularly if the story rates you — including you, for example, in “Best Of” lists or consumer tests of your products.
- Enlarge a copy of a story and display it at your next trade-show exhibit. Be sure to pass out reprints at the show as well.
- Create a “news about us” spot on your Web site to post stories others have written, or to include at least a list of the headlines, publication, date and a small excerpt.
- Give each employee a copy. Encourage employees to take them home to show their families. It should add to their feeling of pride for working at the company.
- When you interview job candidates, hand them a packet that includes news clippings. In this hot economy, it's a tool that will help you attract the best workers.

Keeping Track

Before you can get a bigger splash from your ink, you'll need to find these stories and keep them at your fingertips.

Web sites change from day to day. If one writes about you, make a copy as soon as it appears. By the next day, the story may be moved to an archive or removed entirely.

For radio and television stories, you may need to call the station to order a tape of the story. Most will charge you a fee. Copy the station's tape to your own high-quality tape, and store both under archival conditions so you will have them for re-use.

News clippings are easy to misplace and can be damaged by repeated photocopying. The best way to keep them safe is to store each one in a plastic sleeve. Note the date and the publication name for each one on a separate label.

As your company grows, you may want to consider hiring a clipping service. Three national services — Luce, Burrelle's and Bacon's — will clip print stories and provide you with a copy. They cover literally every publication with an established circulation in the country.

Legal Issues

You don't own the stories written about you. If you want to reprint copies of newspaper or magazine stories for distribution beyond just a few office copies, you will need written permission from the publisher. Often, quick-print companies, such as Kinkos, will not allow you to make multiple copies without written permission. In many cases, the publisher will require you to pay a fee, though it is usually nominal. Most national magazines work with a reprint service that will automatically contact you and offer you nicely prepared reprints for a fee. Remember: it's in the publishers' best interest for you to "distribute" more of their work to others, so they are generally happy to accommodate your needs.

Reprinting a story on your Web site is still a murky business. You are indeed "distributing" it, so make sure you have permission to do it.

You may excerpt a small portion, such as a sentence or phrase, from a news story to use in your own materials, as long as you provide complete attribution: publication name and date. Never take parts out of context, for instance to make a negative comment sound complimentary. Publications have taken action over such matters.

HOW TO DO IT

- (1) Assign someone in the company to regularly find and file news clips, and make those files accessible to your sales staff and all new hires.
- (2) If you would like to supplement what was said in a print story, write a letter to the editor — even if there is no letter-to-the-editor column. It could get used in an editorial column or trigger an interview for another feature.
- (3) If you or your company are featured in a print article to which you'd like to add detail, send a copy to the editor of another publication or to a station manager with a cover letter saying what you'd like to add, and indicate that you or a representative are available to interview. The article is likely to get more attention than a press release.
- (4) Plan an advertising campaign around a strong media story.
- (5) Make sure that at monthly or quarterly company meetings, everyone sees recent clips. Include money in your marketing budget to cover the cost of reprinting and distributing to your customers at least two news stories a year.
- (6) If you or an employee have an article or book published or are featured as an expert in someone else's work, treat it like someone else's feature on your company.

Section F

Managing a Business

F.1 Operations Issues

Staying Open Around the Clock

Kinko's, Home Depot, Wal-Mart and 1-800-FLOWERS are among the best-known businesses in America that have created a marketing edge by staying open 24 hours a day, seven days a week. While these companies do not address needs in the traditional sense, they were able to address a growing need or create a need in the market. Who thought of ordering flowers at 2 a.m. until the service was available?

E-commerce has upped the ante. People now order everything from cosmetics to fine art to airline tickets at any time of day or night over the Internet. A bricks-and-mortar business might find that the best way to compete is by staying open around the clock – 24-7 as it's now known – with nighttime staffers who can give customers the kind of personalized service they can't get from the Internet.

Even if it hasn't been done in your industry before, starting an around-the-clock operation might give your company an important edge. But is it worth the investment you might have to make in overhead, personnel, security, advertising and possibly even product or service development? It's important to consider all factors and conduct your own cost-benefit analysis first.

Consider whether you could build your business around a 24-hour-a-day operation. If you are the first in your sector to stay open around the clock, you should create some expansion plans that make maximum use of the investment you've put into this feature and utilize the time that your night-shift employees spend on the job.

A small health club trying to compete with Bally's and other chains found that staying open all night brought in a whole new client base of people who worked odd hours, including police officers, firefighters, emergency medical workers and casino employees. Late-night and weekend customers may be a whole new market. A 24-7 gym might expand into a catalog operation selling fitness products. The late-night receptionist doubles as an operator to take phone orders, rather than starting an onsite fitness boutique that takes up valuable square footage and would not get a lot of walk-in traffic at night.

Before you even seek new markets, consider whether your current clientele can benefit from your value-added service. Rather than spending money on a focus group, you might conduct a less-formal survey, with a questionnaire asking pointed questions about whether they would use your service at night and on weekends if it were available. This is also a good way to plant the idea.

Kinko's is an example of a company that saw an opportunity in changing consumer habits. People who work long hours might need quick printing services at any time of day or night, as

well as on weekends. And many companies with a global reach, such as software consultants, Internet service providers, even Web-site designers, have seen the value of having staff available all night to assist clients on the other side of the world.

If your clients ever have emergencies, you can offer value-added service if you keep even a skeleton staff on call around the clock. Many plumbers, heating and air-conditioning repairers, auto mechanics, locksmiths, and dentists are now familiar with this emergency system. If a customer works ten hours a day and then goes out at night, he or she might come home at midnight to find the boiler on the blink and will pay almost any price to a company that can send a service technician before morning.

To evaluate the idea more precisely, follow these steps:

- (1) _____
There are no trade associations or publications geared specifically to around-the-clock companies, but you can conduct your own research of your industry.

Compile a list of all the companies that could be your competitors, including those in e-commerce, and investigate how each makes itself convenient to customers. If others have an after-hours emergency number or pager, could you go one step better?

Turn to a consultant who knows your industry, by checking with trade associations or your local Small Business Development Center. Ask the consultant specific questions such as: How is the market for this industry changing? How have others adapted? Where could I most effectively advertise?

- (2) _____
Factor in the following expenses:
- Utility costs for extra electricity, heating, etc.
 - Installation of surveillance cameras for night security.
 - Fees for a nightly security guard.
 - A shift differential in salaries for employees who work nights.
 - The cost of adding a new product or service that is related to your core business but utilizes your night and weekend hours.
 - The cost of an advertising campaign to get the word out. Call the media and get a breakdown of the costs in advance.

- (3) _____
Revenue you would have to bring in to justify the new expenses.
- Is there a market for an around-the-clock business, or do you have to create demand?
 - Is your potential revenue from the added hours of operation at least twice the money you would add for overhead? Then it might be worth your while to take the plunge.

HOW TO DO IT

- (1) Give your clients a questionnaire, asking about related services they use at night and on weekends. Evaluate potential clients by the foot traffic in your area after hours or by investigating related lines of business that stay open late.
- (2) Brainstorm a list of people who would be new customers who have never come through your doors before, like the health club-turned-fitness-equipment catalog.
- (3) Survey what your competitors are doing and what needs they haven't met. You might find that the best way to capture a market niche is with lower prices or another kind of value-added service, instead of staying open all the time.
- (4) Estimate all of your overhead expenses and weigh them against your anticipated revenue increase.
- (5) Find people who are willing to work odd hours or be on call late at night. College students are often good candidates.
- (6) Consider new lines of business that fit into your around-the-clock schedule.

When to Outsource Technology

As efficient and convenient as technology can be, it can also be intimidating, especially if you are not computer savvy. Even more daunting is the critical task of keeping up with technology: falling behind leaves your company with obsolete equipment and underdeveloped employee skills.

Outsourcing some or all of your technology needs allows you to concentrate on your core business while leaving technology headaches to the experts.

According to a PricewaterhouseCoopers survey (March 2000), eight out of ten of America's fastest growing companies outsource at least one element of their operation. Of the companies that outsource, 44% increased their gross margin, compared to 29% of those opting not to outsource.

What can be outsourced?

Thanks to the demands of both rapidly evolving technology and changing user needs and standards, the outsourcing service industry is booming. Companies can opt to outsource general office applications or department-specific needs, including:

- (1) _____
Professionally maintained e-commerce Web sites can be used to perform functions previously handled by traditional sales methods.

- (2) _____
Similarly, you can outsource credit card processing if your company doesn't yet have the sales to warrant a merchant number or you simply don't want to devote valuable staff time to such a tedious task.
- (3) _____
Customer service or technical support needs can be routed through an outsourced call center, providing you with expert help-desk staff while relieving you of the significant overhead cost of operating a professional help-desk.
- (4) _____
You can even outsource your office software programs, such as Word or Excel, with an application service provider (ASP). This allows you to pay for the programs as you need them and eliminates any licensing concerns.
- (5) _____
Human resources, customer billing, and e-mail — it can all be outsourced.

Why should I outsource technology?

- (1) _____
Reduce the cost of delivering your service — from both the technology and human resource standpoint. Outsourcing allows your staff to pursue more strategic activities and can eliminate the need to hire temporary staff.
- (2) _____
The initial — and usually substantial — investment in hardware and software is eliminated, allowing you to leave that capital in the bank or use it elsewhere in your company.
- (3) _____
Skilled technology workers are in high demand, and this is reflected in the salaries they now warrant.
- (4) _____
When evaluating outsourcing options, companies often overlook the cost of the ongoing training required by a tech staff. Technicians' skills must be continually updated if they are to keep up with the unrelenting developments in the technology world.
- (5) _____
Contracting with a third party to provide services involves just that: a contract. Outsourcing contracts include service level minimums as well as financial penalty clauses in the event these standards go unmet.

- (6) _____
Outsourcing provides your company with immediate use of new technologies and sophisticated tech staffs with the flexibility to offer new business solutions.
- (7) _____
Reduced overhead costs and the benefits of cutting-edge technology can both be passed on to the customer, so your company is more competitive.

When should I outsource?

Outsourcing can be a solution to an existing problem or a pro-active approach to growing your business. It's a big decision to make, but it may be an option for you if:

- You and your management team are overwhelmed, unable to adequately monitor your business and unavailable to your staff.
- A secondary or standard administrative element of your business has become time- or resource-consuming, disproportionately to the revenue it generates.

The next step in your business development calls for investment in new technology that is unfamiliar or too expensive.

Why shouldn't I outsource?

While outsourcing has its merits, it's not for everyone. There are circumstances under which outsourcing is not advisable or should be contemplated with more caution than usual, such as:

- (1) If outsourcing would require sharing proprietary details about your business. If you have patented technology or trade secrets that you would need to share if you outsourced, think twice.
- (2) If you need a high level of customization. Outsourcing companies prefer that their customers all use the same version of a product or service. Changes may not be an option unless the provider considers them an asset to all its customers.
- (3) If your outsourced service is hindered by outside influences. Outsourcing your customer database, for example, may leave you at the mercy of an Internet connection. Heavy traffic or a network outage will impede your access to customer information.
- (4) If you cannot get a comprehensive, written Service Level Agreement (SLA) to satisfy your needs. For example, a provider whose scheduled maintenance window falls during your customer's business day is not acceptable because this can mean service outages during your peak business period.

- (5) If the agency is not bonded to protect your business if the agency folds or is unable to provide the service you need. Similarly, you want an emergency backup and system recovery plan that guarantees your service will be restored within a reasonable period of time.
- (6) If the provider requires a long-term contract. You want the ability to change the terms of service to reflect reductions in market prices or to terminate the arrangement in the event of poor service.
- (7) If the provider requires access to your workplace that is against company policy. Some contracts require an in-house, full-time, provider service representative.
- (8) If you cannot find a reputable provider. Make certain that any potential outsourcing provider has financial stability, high security standards and the skills to implement and deliver your service.
- (9) If in doubt. It will be much harder and more costly to reestablish an MIS function to replace outsourced services that failed to deliver than it is to move the MIS function out to a service agency.

HOW TO DO IT

- (1) The first step is to identify which technical support functions necessary to provide your product or service monopolize a significant portion of your cash and personnel.
- (2) Decide if each such function is a core element of your business, or simply a process in supplying your product or service.
- (3) Answer these strategic questions:
 - What is the cost of maintaining technology professionals on staff to perform this function?
 - How do the initial investment, maintenance and staffing costs compare to the monthly outsourcing fee for equivalent service?
 - What benefits do you gain from maintaining the technology yourself, as compared to the contractual service minimums that come with outsourcing?
- (4) Do your homework. Outsourcing is now a competitive industry. Obtain multiple quotes for the service, and ask all prospective service providers for references. Seek unbiased, third-party references. Business and trade publications are a great source for review articles and often not shy about critiquing a service. Choosing the right provider can be just as important as your decision to outsource.
- (5) Do not overlook the value-added services you may get from outsourcing, particularly the elements that will not appear on your hard cost calculation. Guaranteed service-level expectations and complimentary add-on services, such as e-mail virus scanning or 24/7 telephone support, should be weighed appropriately.

Choosing a Distribution System or a Distribution Agent

You have a great product: you're proud of it, and you have a terrific promotional strategy to introduce it to the world. Still, that's not enough to reach your target customers and achieve the sales levels that spell success.

An effective distribution plan will help you place your product where those who want or need it will take notice. You must also have a distribution system that ensures what you have to offer actually reaches your end users.

Your distribution system needs to fit in it with the rest of your business

Different products lend themselves to different distribution systems. High-end software for corporations requires a relationship-building sales force and follow-up service. But Web sales might be the most effective way to distribute corporate office supplies or equipment parts.

Will your distribution system also allow for follow-up service? You might want your distribution system to give customers easy access to ongoing support or help for such problems as wrong or damaged goods, or poor service. Amazon.com uses package delivery services to get its goods to the customer. It also has a very efficient system for getting defective products returned. It sends you a replacement along with a postage-paid address label. The customer places the damaged item back in the box and uses the address label to send the defective product back to Amazon for processing. All the tracking information Amazon needs was preprinted on the label for easy processing back at the office.

Are you competing for shelf space? Be aware of your competition's distribution system. Decide whether you want to share shelf space or sell your product in entirely different venues. One option is to sign exclusive agreements with distributors so you aren't competing directly. But be careful because you, too, will be locked into such agreements. That could be a problem if the distributor isn't meeting your expectations.

Is location a factor when trying to get your product out? Whether you're aiming for local or national markets, you'll first need to understand where your customers prefer to find your product and then to arrange a distribution system or channel that can get your product to those markets on time and efficiently.

Using a distributor

Many entrepreneurs turn to distributors (also referred to as wholesalers or distribution agents) to get the widest coverage for their products at the lowest cost. Distributors will sell your product or service to other distribution channels, such as retail stores, or directly to your target customers. They may even add value by handling installation, follow-up service, complaints and repairs.

Finding a distributor you can work with

- (1) Get referrals. Don't believe distributors' sales pitches, which may promise more than they can deliver. Instead, ask retailers and other buyers to recommend favorite distributors.
- (2) Check out distributors' ads in trade journals, and visit with them at trade shows. Find out what other products your candidate distributors handle. Are yours likely to be lost among the multitudes? Do any of them directly compete with yours?
- (3) Seek a distributor who can sell to your target market. If you have a specialty product, don't put it in the hands of a mass-market distributor.
- (4) Be prepared to "sell" the distributor on the benefits of handling your product. Take along a sample to your first meeting with a potential distributor. Also take anything that could prove your credibility — perhaps a draft of your advertising plan, along with copies of marketing materials, such as brochures and price lists.

More options

Assuming you haven't granted exclusive sales rights to a distributor, you have several other options for distribution.

- (1) Your own sales force can be a powerful distribution mechanism. They are guaranteed to be focused exclusively on your products. They build relationships with your best clients. They actively turn up new business. The down side to a private sales force is the expense, especially if the customer base is widely dispersed.
- (2) Catalogs, mail order and telemarketing require very strong fulfillment operations to be successful. United Parcel Service and FedEx both can help set up distribution systems for an effective direct marketing business.
- (3) The Internet holds great possibilities for certain types of products. Selling groceries over the Internet seemed not to work out. Selling books works out well. Freelancers are finding they can sell their services over the Internet quite successfully. Niche retailers also sometimes find a place for themselves on the Internet, where a retail brick and mortar store wouldn't have the foot traffic to support the operation. Again you need to ask if your customers are likely to buy your products online. The most common marketing uses of the Internet are direct marketing — mounting product catalog entries on Web pages — and prospecting for customers through e-mail.
- (4) Franchises and affiliate programs offer you a way to expand your reach without expending extra capital. You lose some control because you are in effect outsourcing certain parts of your distribution to a divergent set of independent employees. While they can significantly help you enter new markets, franchising, if not done carefully, can be a disaster for a brand. Baskin Robbins has struggled with its franchise distributors who vary greatly in their commitment to quality from store to store.

Creative solutions

When Edward Lowe first started selling Kitty Litter, he sold it through retail pet stores. As sales grew, he looked for ways to expand his distribution and hit upon the idea of selling in grocery stores. Unfortunately, grocery stores mark prices up more than pet stores do. To keep the price reasonable for consumers, Lowe was required to cut his wholesale price to the grocers. This, in turn, angered his pet-store-owner distributors because he was offering the same product at a lower wholesale price to grocery stores.

His solution: create a new brand. The Tidy Cat brand was born and sold at a lower wholesale price to the grocery stores, and Kitty Litter remained the premium brand sold by pet stores. Sometimes creativity is required to achieve your distribution goals.

HOW TO DO IT

- (1) Think about how customers would want to buy your products, and then choose the distribution system to fit that buying pattern.
- (2) Treat distribution agents as your best customers. They're the frontline customers who put your product in the hands of end users.
- (3) Be honest with distributors. Never commit to more orders than you can fill.
- (4) Decide what aspects of your relationship with the distributor are important enough to specify in a contract. Consider:
 - ◆ Exclusivity: Can you use other distributors? Sell your product directly?
 - ◆ Quantity expectations: How many retail outlets? Where? How much inventory will the distributor warehouse?
 - ◆ Guarantees: Yours that orders for the product will be filled on short notice and the distributor's that it will not go out of stock at the retailers.
 - ◆ Billing and credit options: How much time does the distributor give retailers, and how much time should you give the distributor?
 - ◆ Retail sales reports
 - ◆ Electronic data interchange: Will either you or the distributor require online orders and payments?
 - ◆ Start-up fees, commissions and retail price limits
 - ◆ Advertising and promotion: Do you anticipate joint sponsorships with retailers?
 - ◆ Handling product failures and returns, and customer complaints
 - ◆ Claims for lost goods: Who "owns" the product once the distributor takes it?
 - ◆ Contract length and termination conditions

Protect Yourself from Supplier Dependence

Each day you work hard to develop your business, expanding it and making it stronger. After all you put into it, it's unsettling to realize one of your suppliers could bring your operation to a grinding halt. What would you do if a supplier were suddenly unable to deliver a product or service that is key to your core business?

Unless you have the rare good fortune to be self-sufficient, your business depends on one or more suppliers. The key is to minimize the extent of that dependence so that your suppliers can't, in effect, hold your business hostage.

Supplier dependence may take multiple forms. Consider the following categories as you assess your own relationships with suppliers.

- (1) _____
The supplier is not the only one to manufacture the type of product you need; but the product it provides is critical to your business, and it will take an unacceptable amount of time to obtain a substitute. Example: Ford Motor Company relies on a particular manufacturing company to supply all its brake pads. Finding an alternative supplier would take time and possibly even require Ford to do some reengineering.
- (2) _____
The supplier is the only manufacturer or service provider of its kind. Example: For certain equipment in its microchip manufacturing business, Intel relies on a sole supplier because no other company makes that equipment. If the company raises its price, Intel has to pay that price. Intel would have particularly serious problems if the company went out of business.
- (3) _____
Your core business is reselling products manufactured by another company. Example: If your business consisted solely of selling Viagra, you would be dependent on Pfizer and its willingness to supply the product.
- (4) _____
The supplier is a major manufacturer with whom you have advertised a partnership to take advantage of brand awareness. Example: A computer assembly shop might advertise the fact that it uses only Intel brand microchips and motherboards.

There are a number of things you can do to limit your dependence on any supplier.

- (1) _____
Get firsthand references from existing customers to determine whether the supplier you're considering is dependable. To confirm that the company is on solid footing financially, perform a credit check. If it is a public company, you'll have access to its financial records through the U.S. Securities and Exchange Commission Edgar database. Credit reports from Dun & Bradstreet and Experian (formerly TRW) may be purchased from Brainwave for

NewsNet. Typical costs are about \$40 for an Experian report and \$80 for a D&B report on a U.S. company. Because a workers' strike can be very disruptive to your business, you should also look for news reports on the company's management-employee relations. Finally, use the information you gather to assess the risk that your supplier will go out of business.

- (2) _____
Make sure your credit rating is good enough that you won't have to pay cash or have negotiation delays if you need to switch to a new supplier.
- (3) _____
Split your needs between two suppliers so you will not be completely out of business should one fail to deliver. Redundancy is a common solution for high-tech firms, with businesses subscribing to two Internet connections or running two network servers. You may have to pay slightly higher prices (for buying in smaller quantities), but the added security will be well worth the additional expense.
- (4) _____
If you do select a primary supplier, keep in touch with a competitor. Explain to the sales representative that, while you have chosen another provider, you want to secure a back-up provider. Give it a portion of your business to make it worth its while. Have it contact you once every four to six weeks, and give it an update concerning your company's current needs. Should you have to switch to this back-up supplier, valuable time will not be wasted as it tries to get to know your business needs.
- (5) _____
Understand your supplier's service guarantees, especially as they apply to the supplier's response time in an emergency. If the supplier is unable to provide written service guarantees, you will want to look elsewhere.
- (6) _____
Wherever possible, avoid using a product that is one-of-a-kind or proprietary. Look for a more mainstream alternative to prevent hassles with future expansion or upgrades.
- (7) _____
This can help cover the costs of lost business while you look for a new supplier.
- (8) _____
No matter what options are open to you now, talk about supplier disruption before it is a problem. Document how your business should proceed if a supplier fails to deliver and test this plan in advance.

In some instances, fewer options may be available to you, and you will be forced to depend on a single supplier. This may be especially true if your business is in a rural area or if your product is unique. In these instances:

- Nurture a good relationship with the supplier. Maintain regular communication, and make sure you are aware of any unusual turns in its operations. Focus, in particular, on building relationships with the key individuals in the supplier's organization. In an emergency, whom you know could be very valuable.
- Do not scrimp on service contracts. Many suppliers allow you to upgrade your service contract for an additional fee, giving you technical support 24 hours a day, seven days a week, or a 2-hour turnaround on all service calls. Think of these premium service packages as insurance policies on your business.

If the product you rely on is nonperishable, maintain a back-up supply that will keep you in business until an alternative solution can be found or your customers can be notified.

REAL-LIFE EXAMPLE

Example 1

IP Applications (IPA) is an application service provider, delivering outsourced Internet solutions to cable and telecommunications companies, broadband carriers, and ISPs throughout North America. IPA is responsible for mission critical elements of some high profile organizations. Simultaneously, IPA's ability to operate its business depends on a few key suppliers of its own, effectively giving IPA a unique perspective when it comes to supplier dependence issues.

The best defense against supplier dependence is taking preemptive measures, explains Sarah Scarfe, operations manager. "For example, we purchase key services from multiple suppliers so that if one fails, we have an immediate back-up and the business is not adversely affected. In the case of less urgent issues, we have a secondary supplier in the background in case it is needed."

Scarfe recommends you also negotiate an ironclad service agreement with the supplier to ensure you are financially compensated for poor or undelivered service. The amount should reflect the supplier's monthly charge or your lost revenue, whichever is greater. IPA requires inclusion of the compensation clause whenever it signs a contract with a mainstay supplier and in turn writes it into every service agreement with IPA clients. Scarfe notes that your supplier's willingness to stand by its service is an indicator of how dependable the service will be.

Example 2

When UPS went on strike in 1997, companies that depended on the shipping giant to deliver their goods to customers were left high and dry. As products were left sitting on the shipping docks, UPS's competitor, Federal Express, was suddenly deluged with requests for shipping. The demand was more than it could handle, so it gave priority to its current customers. Those companies that had relied solely on UPS for shipping were left stranded. Companies that had

used both shippers (reducing supplier power) and already had accounts with FedEx continued to do business during the strike.

HOW TO DO IT

- (1) _____
Classify them as primary or secondary, with primary being those suppliers critical to the operation of your core business.
- (2) _____
Determine what you will do in each case if the supplier's product or service becomes temporarily or permanently unavailable.
- (3) _____
It's never too late, even if you are already doing business with them. It's especially important to know when labor contract expirations could cause production interruptions.
- (4) _____
They will be pleased to work with you to prepare an emergency back-up plan, especially if it means keeping you from using a competitor for service.

F.2 Stopping Employee Stealing and Fraud

Preventing Employee Pilferage

Not all crooks roam the streets of the nation's cities. Many spend their time in the manufacturing plants of companies. There, disguised as honest citizens, they pilfer whatever comes to hand, often tampering with records to cover up their thefts.

To prevent pilferage, a manager must recognize that some employees cannot be trusted and make all employees aware that he or she is taking steps to thwart dishonest personnel. Such steps include setting up a system of loss prevention (devices and procedures), administering the system rigidly, and auditing it often to discourage dishonest employees who try to bypass the system.

To steal or not to steal? That is the question facing employees in plants. Many employees answer that question almost unconsciously. They see items lying around and pick them up for their own use. They slip small hand tools into their pockets. Or they dip into the bin for a fistful of nuts and bolts or snip off a few feet of wire for a home repair job.

But not all employees who pilfer are nickel-and-dime thieves. Some are professionals who carry off thousands of dollars worth of equipment and materials.

Misplaced Trust

One reason for pilferage is misplaced trust. Many smaller companies feel close to their employees. Some regard their employees as partners. These companies trust their people with keys, a safe combination, cash, and records. Thus, these employees have at hand the tools which a thief or embezzler needs for a successful crime.

Unfortunately, some of the “trusted” employees in many businesses are larger partners than their bosses anticipate. Unless you’re taking active steps to prevent loss from in-plant pilferage, some are probably trying to steal your business, little by little, right from under your nose. Few indeed are the businesses in which dishonest employees are not busily at work. Usually, these employees are protected by management’s indifference or ineptitude as they steal a little, steal a lot, but nevertheless, steal first the profit, and then the business itself.

One of the first steps in preventing pilferage is for a company is to examine the trust he or she puts in employees. Is it blind trust that grew from close friendships? Or is it trust that is built on an accountability that reduces opportunities for thefts?

A Climate for Dishonesty

In addition to misplacing trust, it is easy for a company to create an environment in which dishonesty takes root and thrives. Look at your accounting and inventory control procedures. Nothing deters would-be thieves like the knowledge that inventory is so closely controlled that stolen goods will be quickly missed.

And what about the plant where its common practice for a close relative or two of the boss to help themselves from the stockroom without signing for the items they take? Soon such a plant becomes a place where inventory shrinkage soars as employees get the message that record keeping is loose and controls are lax.

In a manufacturing plant, no materials and no finished goods should be taken without a requisition or a removal record being made. Exceptions? Absolutely none.

Similarly, a company who does not exercise tight control over invoices, purchase orders, removals (for example, for tools, materials, and finished goods), and credits is asking for embezzlement, fraud, and unbridled theft. Crooked office workers and production and maintenance personnel dream about sloppily kept records and un-watched inventory. Why make their dreams come true?

One shipping platform employee’s dream came true to the tune of \$30,000 - the amount of goods he stole from his company. When caught, he said, “It was so easy, I really didn’t think anyone cared.”

Let people know you care. Make them aware of the stress you place on loss-prevention.

This point must be driven home again and again. And with every restatement of It - whether by a security check, a change of locks, the testing of alarms, a systems audit, a notice on the bulletin board - you can be assured that you are influencing that moment of decision when an employee is faced with the choice-to steal or not to steal.

Haphazard Physical Security

Also high on the list of invitations to theft is haphazard physical security. Companies who are casual about issuing keys, locking doors, and changing locks are, in effect, inviting the dishonest employee into the plant or office after work. But intelligent key control and installation of timelocks and alarms are ways of serving notice to crooked workers to play it straight.

Sometimes profits go out the window - literally. For example, one distributor caught “trusted” employees lowering TV sets and tape recorders from a third-story warehouse window to confederates below. Unfortunately they were not caught until they had milked their boss of thousands of dollars worth of merchandise.

But more often, the industrial thief uses a door rather than a window. And the more doors a plant has, the more avenues of theft it offers.

The plant that’s designed for maximum security will have a minimum number of active doors and a supervisor or guard, if warranted, stationed near each door. Moreover, a supervisor should be present when materials or finished goods are being received or shipped and when trash is being removed. As long as a door stays open, a responsible employee, a supervisor, or a guard should be there.

Central station alarm systems should be used to protect a plant after hours. Their purpose is to record door openings and closings and to investigate unexpected openings. Timelocks are also designed to record all openings.

“Breaking-out”

A record of door openings can be important because the dishonest employee is often a specialist at “breaking out” (hiding and leaving the plant after closing hours). If your plant is not protected against break-out, you can be hurt badly because this method of operation allows a thief to work pretty much at his or her own speed.

After-hours thieves put out of commission the alarm system that works beautifully against break-in. They can often leave by doors equipped with snap-type locks-doors that do not require keys from the insides. Quickly and easily, they can pass goods outside and then snap doors closed behind them. Thus, they leave no evidence.

A motion detector, electric eye, or central station alarm will deter such thieves. You can also discourage break-outs with locks that need keys on both sides, provided that fire regulations do not prohibit such locks. When goods, materials, or money are missing and evidence of forced entry is lacking, begin to look immediately for the inside thief, the dishonest employee.

Audit Control Methods

Loss prevention controls and procedures by themselves are not enough to protect your assets. Controls and procedures must be audited from time to time or they will break down. No loss-prevention control is stronger than its audit.

One effective auditing method is to commit deliberate errors. What will your people do if, for example, you see that more finished goods than the shipping order calls for reach the platform? Will the shipping clerk return the excess to stock? Will he or she try to divert it for personal use (perhaps in collusion with a truck driver)? Or will the clerk simply ship the order without ever knowing that the excess existed?

If the bookkeeper and the accounts receivable clerk are not dependable, alert, and honest, disaster can result. Check them by withholding an invoice from each of them and watching to see what they do. Will they miss the invoice? Will they realize that a missing invoice means lost revenue and call it to your attention?

Unannounced inspections are another excellent method of checking your preventive procedures. Such inspections are most effective during overtime periods or when the second or third shift is working. For example, one owner-manager popped up on the shipping platform after the second shift left. He noticed a loaded truck parked at the platform and ordered it unloaded. The cartons in the rear were legitimate deliveries, but he found the front half of the truck crammed with stolen goods. The checker, who was hired to see that such stealing did not happen, had gone to sleep and let the accommodating driver load his own truck.

Influence Employees

You should never underestimate your ability to influence your employees in the direction of honesty. Your use of good controls, stiff loss-prevention procedures, and cleverly located physical security devices are powerful reminders to employees that the boss does indeed care.

But controls and devices can be wasted if the company fails to set a personal example of honesty and conscientiousness. A personal example of high integrity by the boss is the most important step in demonstrating to employees that dishonesty is intolerable.

Such an example includes following the same loss prevention rules that apply to employees. For instance, all manager should sign for items he or she takes from the stockroom just like any other person.

Keep Crooks Off Balance

The crooked employees who are the most successful at their “second trade” are the ones who test the system and are convinced that they can beat it. They can steal you blind. With every “score,” their confidence increases and along with it their danger to the company. The best way to stop

such crooks is to keep them off balance - keep them from developing the feeling that they can beat your system.

Here's an example of how one manager keeps crooks off balance. When inventory shrinkage became a major problem, he made a loss-prevention survey. To help keep employees honest, he tightened certain existing controls and put in some new ones. He reduced the number of exits employees could use by half. He scheduled "unscheduled" locker inspections for the unlikeliest possible moments. Employees were no longer allowed to take lunch boxes or bags of any kind to their work stations. Package inspection procedures were tightened.

To date, this manager has caught no thieves. But by simply tightening controls and adding a number of surprise elements to his loss-prevention maintenance system, he reduced his inventory loss drastically.

Don't Play Detective

Dishonest employees, working alone or in collusion with others, can find ways to beat the system no matter how theft-proof you try to make it. "Smart cookies" can devise ways to get away with substantial amounts of money, materials, or goods.

Managers who suspect theft should not attempt to turn detective and try to solve the crimes themselves. Even the best manager may botch a criminal investigation because it's an area in which the average manager is an amateur.

When you suspect a theft, bring the police or a reliable firm of professional security consultants into the picture without delay. Where dishonest employees are bonded by insurance companies, ironclad evidence of theft must be uncovered before you can file a claim with the insurance company to recover your losses. Professional undercover investigation is among the most effective ways to secure such evidence.

Rules Can Help Reduce Pilferage

- (1) Employees who are caught stealing will be prosecuted. (Settling for restitution and an apology is inviting theft to continue.)
- (2) Rotate security guards. Rotation discourages fraternizing with other employees who may turn out to be dishonest. Rotation also prevents monotony from reducing the alertness of guards.)
- (3) Never assign two or more members of the same family to work in the same area.
- (4) You can expect blood to be thicker than company loyalty.
- (5) Key employees will be kept informed about the activities and findings of the person who is in charge of security.
- (6) Thus weak points in security can be strengthened without delay.)

- (7) Make a dependable second check of incoming materials to rule out the possibility of collusive theft between drivers and employees who handle the receiving:
- (8) No truck shall approach the loading platform until it is ready to load or unload.
- (9) Drivers will not be allowed behind the receiving fence. (Discourage drivers from taking goods or materials from the platform by the using the following approaches: heavy-gauge wire fencing between bays, with the mesh too fine to provide a toehold; closed-circuit television cameras, mounted overhead so as to sweep the entire platform; and locating the receiving supervisor's desk or office to afford him or her an unobstructed view of the entire platform.)
- (10) At the loading platform, drivers will not be permitted to load their own trucks, especially by taking goods from stock.
- (11) Every lunchbox, tool box, bag, or package must be inspected by a supervisor or guard as employees leave the plant.
- (12) All padlocks must be snapped shut on hasps when not in use to prevent the switching of locks.
- (13) Keys to padlocks must be controlled. Never leave the key hanging on a nail near the lock where a crooked worker can "borrow" it and have a duplicate made while he or she is away from work.
- (14) Trash must not be allowed to accumulate in, or be picked up from, an area near storage sites of valuable materials or finished goods.
- (15) Inspect disposal locations and rubbish trucks at irregular intervals for the presence of salable items when you have the slightest reason to suspect collusion between employees and trash collectors.
- (16) Trash pickups must be supervised. (Companies have been systematically drained over long periods by alliance between crooked employees and trash collectors.)
- (17) Control receiving reports and shipping orders (preferably by numbers in sequence) to prevent duplication of fraudulent payment of invoices and the padding or destruction of shipping orders.
- (18) Receiving reports must be prepared immediately upon receiving a shipment.
- (19) Delay in making out such reports can be an invitation to theft or, at best, result in record keeping errors.)

Stop Fraud Before it Starts

Theft of money...theft of inventory or equipment...theft of intellectual property. At one time or another, nearly every business experiences some kind of employee theft or fraud.

Small businesses are particularly vulnerable to these swindles because they rarely have the resources or security controls in place to stop them. For example, many small businesses rely on one person to complete all their accounting/bookkeeping transactions. This person opens mail, processes accounts, makes deposits, handles invoices, and oversees petty cash. While most will

handle this work with complete honesty, this kind of unrestricted access makes a business vulnerable.

Employee theft and dishonesty cost U.S. business billions of dollars each year. Unfortunately, small companies have the most to lose because embezzlement, stolen trade secrets, or missing inventory can cripple a small firm or even put it out of business. The only way to prevent this is to devise prudent, effective controls in all areas of potential exposure.

Creating Effective Financial Controls

Embezzlement and other kinds of financial fraud are perhaps the most common kind of employee theft. Small businesses tend to fall prey to this swindle because they don't have the controls in place to prevent it.

(1) _____

No single employee should control a financial transaction from beginning to end. The person who writes your checks should never be the person who signs your checks. The person who opens the mail should not also record the receivables and reconcile the accounts. By dividing up responsibilities, you will make it more difficult for a person to steal from you and manipulate your records to cover it up.

(2) _____

Don't give a person who is in a position to embezzle a chance to destroy or remove evidence of the wrongdoing. The business owner or an outside accountant should receive unopened bank statements and canceled checks each month. Review these checks carefully. Examine the payees, signatures and endorsements on each check. Keep an eye out for indications of fraud such as:

- Checks to suppliers or people you don't know
- Checks made out to cash that are larger than the amount you allow for petty cash
- Signatures that look forged
- Missing checks, or check numbers that are out of order
- Checks made out to a third party but endorsed by someone in your company
- Checks where the payee listed does not match the name in your register

(3) _____

Don't be careless with your corporate checks. Keep them in a locked drawer and don't give out the key. Use pre-numbered checks, and check for missing check numbers frequently. Have a "voided check" procedure in place that requires you (the owner) to validate all voided items. Require all checks above a nominal amount to have two signatures (one of which is yours). And never, ever sign a blank check.

(4) _____

This may take some time, but it is generally worth it. Review the checks to make sure they are for people you know. If there's a name you don't recall, go find that person. Keep a weekly count of the number of people on your payroll, and verify that number against the number of checks you have. Make sure that changes can not be made to your company's payroll master file

without your approval and signature. Another option: have a separate bank account for payroll, and deposit the exact amount of your payroll in that account; then insist on a prompt monthly reconciliation.

(5) _____

Have more than one employee involved in counting and verifying incoming receipts. Make sure all incoming checks are properly endorsed. Consider buying a “for deposit only” stamp, and use it on all incoming checks - this can prevent an employee from cashing them. Personally investigate customer complaints that credit has not been received for payments. Get a copy of the front and back of the customer’s check, and be sure it was deposited into your business account.

(6) _____

An employee who is embezzling from you may need to make a continuous effort to conceal this kind of stealing. Many small business owners are surprised to discover employees who appear loyal-they never take vacations and never stay home sick-are actually stealing from them. The reason these people have to be in the office constantly is to cover a complicated paper trail. Insist that employees who perform accounting/bookkeeping take vacation every year. Ideally, this vacation should be at two weeks in length, and occur at month end, when the books are being closed. Use this time to have someone else review your books and look for discrepancies.

(7) _____

Bring in a third party at least once a year to conduct an audit of your books. This makes it difficult for an embezzler to cover his or her actions. This audit should be unscheduled and a surprise; make sure it does not occur at the same time every year. If you suspect fraud, consider specifically requesting a “fraud audit” instead of a “general audit.” This type of audit is designed to uncover and prevent these kinds of losses.

(8) _____

Embezzlement commonly occurs when bookkeeping is sloppy and unsupervised, which makes it easy for an employee to keep cash and receipts. As the business owner, you must be familiar with your company’s bookkeeping and record keeping system. This way you can easily review the books and make sure nothing is amiss. If you’re not a “number person,” have your accountant spend some time with you to show you what to look for, or take an accounting or bookkeeping class at your local college. Trusting someone else to oversee this most important part of your business only opens the door to fraud.

(9) _____

Don’t allow unauthorized access to your bookkeeping software. Don’t put the computer that holds your books on your network. Make sure both the computer and the software are password-protected. Change the password frequently to lock out unauthorized persons from this program. If you still use paper ledgers, keep them under lock and key.

Guarding Your Intellectual Property

Theft of confidential information and trade secrets can be just as damaging to your business as embezzlement or other employee fraud. Protect your competitive advantage with these tips.

(1) _____

Be careful when you are throwing out copies of sensitive or confidential documents. These include: financial statements, proposals, customer information, reports, receipts, bills, invoices, etc. Don't just toss these in the trash. Shred them first. Putting them in the garbage unshredded opens up a range of security issues. If your trash is not disposed of properly, these documents could easily end up in the wrong hands...or blowing down the street past your competitors. In addition, industrial spies have been known to go through garbage looking for confidential data. Make shredding a company-wide practice-insist that your employees dispose of all papers this way.

(2) _____

Have a plan for handling employees that are terminated or quit.

(3) _____

Require your employees to use passwords to access your computers or your network. This will serve to keep unauthorized people away from important files. Don't let employees get lazy with their passwords - make them change them on a monthly basis. Dissuade people from using features that "remember" passwords - this can make it easy for an unauthorized person to gain access to your system. Insist that users log off your network whenever they're away from their desks, so unauthorized users can't jump in from their workstations.

(4) _____

Make sure employees understand that theft of intellectual property is as serious to your business as theft of physical property. Use a non-disclosure agreement, or a non-disclosure clause in an employment contract, to spell out employees' responsibilities regarding confidential or trade secret information. Be sure you define what your company considers to be confidential. This is critical, since it clearly differentiates which information belongs to your company and which belongs to the ex-employee. The agreement also should outline steps the employee must take to maintain confidentiality, such as using computer passwords, not removing sales lists from the premises, not copying documents to disk, etc.

(5) _____

Set and enforce strict procedures for access to confidential or trade secret information. Create a hierarchy of access among your employees for sensitive information -allow only those who need certain information to see it. For example, a sales rep may need customer contact information for his or her territory. But the rep does not need your entire client list, and does not need access to billing data. Label key electronic documents (such as your customer database) as "read only" so they can not be altered or written to disk.

(6) _____

Don't make it easy for people who aren't supposed to see confidential documents to snoop. Encourage everyone at your business to take certain basic precautions. Never leave documents

lying around. File things away when you're done with them or when you're away from your desk. Lock your filing cabinet and your desk when you're away. Close computer files when they are not being used and never leave a file on your screen when you go away from your desk.

Securing Your Inventory and Property

It's difficult to prove that an employee is stealing your equipment or inventory, but this can be extremely costly fraud. The key is not to catch someone in the act, but to enact policies that prevent it from happening.

(1) _____

Occasional inspections and audits of inventory will help prevent fraud and theft. Like your accounting audits, make these inventory checks a surprise. These audits will keep records current, and make it easier to detect theft. Keep track of valuable equipment or inventory by serial number or other identifier, and match these numbers to your records.

(2) _____

Different industries will require different controls, but be sure your business institutes some of these basic steps:

- Match actual counts of units, cartons, etc. to shipping documents before merchandise is released to a shipper.
- Never allow merchandise to leave the premises without an invoice or appropriate shipping documentation.
- If you have expensive components, products, or tools, consider putting them in a locked closet or cage, and limit access to this area.
- Make sure all purchase orders, invoices and shipping documents are consecutively numbered, and review them regularly for missing documents.
- Keep purchase orders, invoices and shipping documents under lock and key.
- Have all employees exit through one door at the end of their shift, supervised by the owner or a trusted employee.

(3) _____

Employees who want to steal from your business will come up with creative ways to get it done. One common method is to put items in the trash or in a dumpster, then return when the office is closed and no one is around to take it home. Conduct regular spot checks of your trash after hours - a quick glance in the dumpster could alert you to a possible theft. Have someone flatten all trash cartons and bundle them before throwing them out so they can't be re-used to steal inventory or merchandise.

(4) _____

Only specified employees should have keys to your business. Make your employees fill out a form when they receive keys to your office. Record the number of the key and other pertinent information. Make certain the original key is returned when the employee leaves your company. If keys are lost, replace locks immediately. Have your locksmith mark every office key "Do Not Duplicate" to prevent unauthorized copying.

(5) _____

Be careful not to create a corporate culture that invites fraud. Employees look to their managers for direction. If you do business in an unethical manner, your employees may believe its okay to steal. For example, employees who see a business owner taking home office supplies may believe its okay for them to do so as well.

(6) _____

Investigate every employee's prior work history before you offer employment. Take extra precautions with anyone you hire who will have financial responsibilities. Check references closely. Call previous employers to verify resume and application information. Invest time to make sure that applicants do not have a record of stealing from previous employers.

(7) _____

A fidelity bond is a form of insurance that protects your firm in cases of employee theft. The bonds can be used to reimburse you for any established losses your firm is able to verify. Fidelity bonds are most commonly used to cover cash losses, but can also be used to cover merchandise losses as well. An added bonus - some bonding companies will check an employee's background before bonding, which can help you weed out potential problem employees. Your insurance agent will be able to help you regarding cost and coverage.

F.3 Managing a Family Business

No small business is easy to manage, and this is especially true in a small family business. It is subject to all the problems that beset small companies plus those that can, and often do, arise when relatives try to work together.

The family member who is charged with managing the company has to work at initiating and maintaining sound management practices. By describing what is to be done and under what circumstances such practices help prevent some of the confusion and conflicts that may be perpetuated by self centered family members. Such relatives sometimes regard the company as existing primarily to satisfy their desires.

(1) _____

The time of the owner-manager is one of the most valuable assets of a small business. It should not be dribbled away in routine tasks that can be done as well, if not better, by other employees. Never lose sight of the fact that you as owner/manager, have to make the judgments that will determine the success of your business. You may want to run a check on how your time is used. You can do so by keeping a log for the next several weeks. On a calendar memorandum pad jot down what you do in half hour or hour blocks. Then review your notes against the questions: Was my time spent on management tasks such as reviewing last week's sales figures and noting areas for improvement? Or did I let it dribble away on routine tasks such as opening the mail and sorting bills of lading? You may want to ask your key personnel to run the same sort of check on their time.

(2) _____

Goals and objectives help a small company to keep headed toward profit. Goals and objectives should be specific and realistic. In addition they should be measurable, time phased, and written. List your goals and objectives by writing them out for your present successful operations. Objectives that are written out in straight-forward language provide a basis for actions by your key personnel. For example, state that you will sell certain number of units this year rather than saying you will increase sales.

(3) _____

Flag this question and return to it later. Working through this checklist should suggest changes that may be needed if you have written policies. By the same token, your business will provide input for writing out policies if there are none in writing.

(4) Is planning done to achieve these goals and objectives?

In a sense, planning is forecasting. An objective, for example, for next year might be to increase your net profit after taxes. To plan for it you need to forecast sales volume, production of finished goods inventory, raw materials requirements, and all the other elements connected with producing your forecasts, you will want to make provision for watching costs, including selling expenses. If there are key employees who can provide input into the planning, ask them to become involved in that process

(5) _____

Outside advisors may spot "bugs" that you and your people did not catch in the press of working through the details of goal setting and planning.

(6) Are operations reviewed on a regular basis with the objective of reducing costs?

Costs must be kept in line for a profitable operation. Review operations periodically such as weekly or monthly, to insure that overtime is not excessive, for example. And what about quality product acceptance by customers? Costs may be excessive because of obsolete methods or machinery that has seen its best days. And what about plant layout or materials flow? Can changes be made that will save time and materials? Determine the frequency of your reviews for the various types of operations and place a tickler on your calendar to remind you of these review dates.

(7) Are products reviewed regularly with the objective of improving them?

Products that your customers benefit from are the key to repeat sales. A regular review of your products help to keep them up to the expectation of customers. Feedback from customers can be useful here. To reduce costs sometimes a product can be modified without sacrificing use and

quality. If product obsolescence is a hazard, what plans are being made to substitute new products as existing ones become obsolete?

(8) _____

Outside persons, such as friends in non-competing lines of business and management personnel from local colleges and universities can help you see the facts about your products and operating procedures. They can provide a fresh viewpoint - the viewpoint of persons who are not so involved in the products and operations as you and your key personnel. The suggestions and counsel from a local management consultant may provide benefits far in excess of his or her cost. In this area some small companies set up a board of directors to satisfy the law concerning small corporations. But that is the end of it. Members of the board are not used for their knowledge and skill in business. They can make valuable contributions and the owner/manager should use all possible opportunities for getting such concerned opinions about the various phases of the company.

(8) Are marketing and distribution policies and procedures reviewed periodically?

The best made product in the world can run into trouble if marketing and distribution policies and procedures are not right for it. Periodical checks can help you to be aware of changes that may be taking place in the channels through which you distribute. One approach is to check your competition; does it seem to be changing channels and policies? Can you still meet the requirements of your customers by using your traditional channels of distribution?

(9) Are there periodic reviews of profit and loss statements and other financial reports?

In these reviews you can compare your operating ratios to those for your industry. It is also helpful to review your cash flow projections to see what, if any, changes are needed in your financial planning.

(10) _____

You may need only a simple organization chart to show accountability and to establish a chain of command. In a family business, accountability and chain of command should be spelled out so that the one who is the chief executive of the company has the "mandate" he or she needs for managing.

(11) _____

When you and your key personnel write descriptions for their jobs, you and they have a clear understanding of what is to be done and by whom. Such an understanding is essential in any small business but especially critical when relatives are involved. Spelling out duties may not prevent conflicts between you and an in-law, but such detail can help you resolve misunderstandings, if and when, they occur. In addition, when, and if, a key person leaves, the job description is a helpful tool in recruiting and training a replacement.

(12) Do you periodically compare performance of key personnel with their job descriptions?

Periodical comparison of performance helps your key personnel to be efficient. It also helps to pinpoint weak spots for you and them to work on for improvement.

(13) Do you provide opportunities for key personnel to grow?

Your aim should be to help key personnel stay alert to new and more efficient ways to do things. Conferences, seminars, and workshops which trade associations and agencies sponsor can help key personnel to grow in their management skills and outlook. Rotating job assignments is a way to make key personnel aware of the problems that their counterparts face. Include in your budget an amount that can be spent during the year for personnel training and education.

(14) Do you face the issue when key personnel stop growing?

Some owner-managers try to avoid the unpleasant task of facing the fact that a key person has stopped growing. It may be the result of not matching personnel and the job. Or in some family businesses, the cousin or brother-in-law never was interested in personal growth or any aspects of management. If there is little or nothing you can do about such a mismatch, face it and don't waste time trying to do the impossible. On the other hand outside problems may be crowding in on the key person. Once you know why he or she stopped growing, you can determine what needs to be done. In some cases, additional training is the answer. In other cases, the motivation that results from broadened job responsibilities resolves the problem.

(15) _____

Working through others is but no means an easy task. First of all, people are not puppets that can be moved by strings. Life may be a stage, as the poet said, but most people in small business are reluctant to submit to directors. Look for ways - good communications, respect for their viewpoint, incentive pay, and so on - to encourage people to want to do what you need them to do as employees in your company.

(16) Do you have adequate employee benefit plans?

This includes life and health insurance, major medical, and pension. Benefit plans often are necessary to meet competition for skilled employees. Substantial plans can help to hold non-family key individuals in a family-owned business.

(17) Do you have key personnel insurance on yourself and is your family protected against your untimely passing?

If these precautions are not taken, your death could result in the rapid dissolution of the business.

(18) Is there lack of communication among key personnel?

The routine passing of information among you and your key personnel may be all that you want it to be. But what about disagreement? Do key personnel refrain from expressing disagreement with you? Good communications should provide a forum for exchanging ideas and for airing differences of opinion. Possibly an early morning meeting once a week among you and your key personnel would provide a forum for exchanging ideas.

(19) Does your record keeping system present a realistic picture of your business? Is this the same type of record keeping system that other companies in your industry commonly use?

Appropriate records should give the owner/manager answers to questions such as: Is there sufficient cash to operate the business? To pay back the bank? To pay taxes? Is too much capital tied up in inventory? Are accounts receivable being collected promptly? Bankers and other lenders need a realistic picture. Corporate records, if your company is a corporation, should be up-to-date including corporate minutes and record books. In checking out your record keeping, keep in mind that a poor system can result in excessive and meaningless information.

(20) Do you seek legal and financial advice on major transactions?

The fine print in contracts causes trouble for some small business owners. They did not realize until it was too late what they had agreed to do. Legal and financial advice at the appropriate time can help the owner-manager to comprehend the full scope of your company's contractual obligations and allow you to make decisions based on facts rather than assumptions. Whenever possible use your standardized contract in making contractual obligations.

(21) Do you document informal agreements with customers, suppliers and others?

"He's as good as his word," is a fine attitude to have about customers, suppliers, and others with whom you work on a daily basis. But think for a moment; in being as "good as your word," how often do you forget? Memory slips. A note to yourself, or to a supplier to confirm a telephone conversation, for example, helps both of you to recall what you agreed, or did not agree, upon and prevents misunderstanding and hard feeling. Keep dated copies of all correspondence you send out. At some later period these copies could be invaluable.

(22) Do you plan your major financial decisions with the help of your accountant, Lawyer, and other tax advisors?

An owner-manager cannot ignore the impact of income taxes, as well as other taxes, on your business. You should plan major financial decisions with the help of an accountant, lawyer, and other tax advisers.

(23) _____

Sometimes an owner-manager sets up training for everyone in the company except him or herself. Because conditions change so rapidly you should set aside some time for activities that will help you to keep abreast of your industry and the economic world in which your company operates. Your trade association should be a source about meetings, conferences and seminars which you can use in such a program for yourself.

(24) _____

The successor may not be the same person who substitutes when the chief executive officer is sick or on vacation. Whether the successor is a family member or a non-family employee, the business should make the transition smoother when the family agrees upon a successor ahead of time. Such agreement is necessary if the business is to bear the expense of grooming the successor.

F.4 How to Handle Stress

How To Handle Stress

You need stress in your life! Does that surprise you? Perhaps so, but it is quite true. Without stress, life would be dull and unexciting. Stress adds flavor, challenge, and opportunity to life. Too much stress, however, can seriously affect your physical and mental well-being. A major challenge in this stress-filled world of today is to make the stress in your life work for you instead of against you.

Stress is with us all the time. It comes from mental or emotional activity and physical activity. It is unique and personal to each of us. So personal, in fact, that what may be relaxing to one person may be stressful to another. For example, if you're a busy executive who likes to keep busy all the time, "taking it easy" at the beach on a beautiful day may feel extremely frustrating, nonproductive, and upsetting. You may be emotionally distressed from "doing nothing."

Too much emotional stress can cause physical illness such as high blood pressure, ulcers, or even heart disease; physical stress from work or exercise is not likely to cause such ailments. The truth is that physical exercise can help you to relax and to handle your mental or emotional stress.

Hans Selye, M.D., a recognized expert in the field, has defined stress as a "non-specific response of the body to a demand." The important issue is learning how our bodies respond to these demands. When stress becomes prolonged or particularly frustrating, it can become harmful-causing distress or "bad stress." Recognizing the early signs of distress and then doing something about them can make an important difference in the quality of your life, and may actually influence your survival.

Reacting to Stress

To use stress in a positive way and prevent it from becoming distress, you should become aware of your own reactions to stressful events. The body responds to stress by going through three stages:

(1)

(2)

(3)

Let's take the example of a typical commuter in rush-hour traffic. If a car suddenly pulls out in front of him, his initial alarm reaction may include fear of an accident, anger at the driver who committed the action, and general frustration. His body may respond in the alarm stage by releasing hormones into the bloodstream which cause his face to flush, perspiration to form, his stomach to have a sinking feeling, and his arms and legs to tighten. The next stage is resistance, in which the body repairs damage caused by the stress. If the stress of driving continues with repeated close calls or traffic jams, however, his body will not have time to make repairs. He may become so conditioned to expect potential problems when he drives that he tightens up at the beginning of each commuting day. Eventually, he may even develop one of the diseases of stress, such as migraine headaches, high blood pressure, backaches, or insomnia. While it is impossible to live completely free of stress and distress, it is possible to prevent some distress as well as to minimize its impact when it can't be avoided.

Helping Yourself

When stress does occur, it is important to recognize and deal with it. Here are some suggestions for ways to handle stress. As you begin to understand more about how stress affects you as an individual, you will come up with your own ideas of helping to ease the tensions.

(1) _____

When you are nervous, angry, or upset, release the pressure through exercise or physical activity. Running, walking, playing tennis, or working in your garden are just some of the activities you might try. Physical exercise will relieve that "up tight" feeling, relax you, and turn the frowns into smiles. Remember, your body and your mind work together.

(2) _____

It helps to talk to someone about your concerns and worries. Perhaps a friend, family member, teacher, or counselor can help you see your problem in a different light. If you feel your problem is serious, you might seek professional help from a psychologist, psychiatrist, or social worker. Knowing when to ask for help may avoid more serious problems later.

(4) _____

If a problem is beyond your control and cannot be changed at the moment, don't fight the situation. Learn to accept what is-for now-until such time when you can change it.

(5) _____

You are special. Get enough rest and eat well. If you are irritable and tense from lack of sleep or if you are not eating correctly, you will have less ability to deal with stressful situations. If stress repeatedly keeps you from sleeping, you should ask your doctor for help.

(6) _____

Schedule time for both work and recreation. Play can be just as important to your well-being as work; you need a break from your daily routine to just relax and have fun.

(7) _____

One way to keep from getting bored, sad, and lonely is to go where it's all happening: Sitting alone can make you feel frustrated. Instead of feeling sorry for yourself, get involved and become a participant. Offer your services in neighborhood or volunteer organizations. Help yourself by helping other people. Get involved in the world and the people around you, and you'll find they will be attracted to you. You're on your way to making new friends and enjoying new activities.

(8) _____

Trying to take care of everything at once can seem overwhelming, and, as a result, you may not accomplish anything. Instead, make a list of what tasks you have to do, then do one at a time, checking them off as they're completed. Give priority to the most important ones and do those first.

(9) _____

Do other people upset you - particularly when they don't do things your way? Try cooperation instead of confrontation; it's better than fighting and always being "right." A little give and take on both sides will reduce the strain and make you both feel more comfortable.

(10) _____

A good cry can be a healthy way to bring relief to your anxiety, and it might even prevent a headache or other physical consequence. Take some deep breaths; they also release tension.

(11) _____

You can't always run away, but you can "dream the impossible dream." A quiet country scene painted mentally, or on canvas, can take you out of the turmoil of a stressful situation. Change the scene by reading a good book or playing beautiful music to create a sense of peace and tranquility.

(12) _____

Although you can use drugs to relieve stress temporarily, drugs do not remove the conditions that caused the stress in the first place. Drugs, in fact, may be habit-forming and create more stress than they take away. They should be taken only on the advice of your doctor.

The Art of Relaxation

The best strategy for avoiding stress is to learn how to relax. Unfortunately, many people try to relax at the same pace that they lead the rest of their lives. For a while, tune out your worries about time, productivity, and “doing right.” You will find satisfaction in just being, without striving. Find activities that give you pleasure and that are good for your mental and physical well-being. Forget about always winning. Focus on relaxation, enjoyment, and health. Be good to yourself.

Get a Life!

“Get a Life” -- By Stephanie L Gruner (Inc. magazine - October 01, 1997)

Get a Life! If you're still chained to your desk, here are six steps to revamp your management style

Cathey Cotten works like a maniac. From 9 a.m. until midnight, Cotten toils away at MetaSearch Inc., her two-year-old, \$360,000 technical-recruiting company. At midnight an alarm in Cotten's San Anselmo, Calif., office goes off--her way of reminding herself to quit working. But more often than not, she ignores the clock and keeps going. She typically heads home sometime between 2 a.m. and 4 a.m.

Sound familiar? Although Cotten is extreme, she's hardly unusual. Entrepreneurs like her--in the midst of launching a start-up business--know that working around the clock is often a necessary evil. The problem is that many entrepreneurs never get past that 12-hour-workday stage. Look at the CEOs on the Inc. 500, our list of the fastest-growing privately held U.S. companies. In a recent Inc. survey, 41% said they work at least 60 hours a week.

Why do entrepreneurs work so much? “Some do it because their businesses demand it,” observes consultant Lanny Goodman, owner of Management Technologies Inc., in Albuquerque. “Some need the rush. Some people work hard because they don't want to go home and spend time with their spouses.” And, of course, still others put in long hours because they love what they do. Nevertheless, if you're regularly working more than 60 hours a week, be careful. “You can't run machines at 100% capacity indefinitely. It's the same with humans,” warns Goodman.

The irony is that company founders often view their new enterprises as tickets to greater independence and flexibility. But all too often, those same entrepreneurs get so consumed by the business that their expected freedom never comes. However, there are successful entrepreneurs who work 40 or fewer hours a week while managing thriving companies. What's their secret? We've discovered six steps to getting a life--while building a business.

- (1) _____
One day Ron Huston's wife said to him, “You're the boss. Why don't you take Friday off?” He agreed. Another Friday rolled around, and something came up at home, so Huston took that one off, too. And the one after that. Pretty soon Huston realized that his absence apparently didn't affect profits, employee morale, or growth projections at his company,

Denver-based Advanced Circuits Inc. For the past two years, Huston has taken Fridays off to be with his family. At the same time, revenues at his \$6.2-million circuit-board manufacturer have grown more than 30% annually.

How has Huston done it? By learning to say no to nonessential tasks. When a salesperson calls to pitch a product, Huston says, “Sorry, I can’t help you,” and forwards the call to someone who can. His staff knows he doesn’t help with day-to-day decisions, such as materials-and-supplies purchases. Huston believes his reduced workweek helps him focus only on important business issues. “If I worked 12 hours a day, I’d get caught up in the day-to-day details,” he says.

- (2) _____
Saying no isn’t enough, however. Huston has also identified the issues that have a high impact on his business, and he devotes his limited time to those. He knows he needs to meet with important outsiders like bankers. He stays close to the company financials and reviews critical numbers each day he’s at work. He meets with key managers and salespeople four mornings a week.

Like Huston, Robin Bradford, owner of Bradford Staff, in San Francisco, has thought about what duties really matter to her company. Recently, she and the top managers at her \$12-million staffing business wrote down both the essence of their jobs and all their responsibilities. The results were surprising. Bradford discovered she was wasting time writing marketing literature and making sales calls--tasks that other employees could do. Delegating those duties freed her up to focus on the big-picture planning that is essential to her job. She also can devote one day a week to her outside interests, painting and art.

- (3) _____
Here’s the tough part. If you want more free time, you’ll have to delegate. What typically traps entrepreneurs is an inability to let go of the details. It hasn’t been easy for Susan Davies, principal of Davies & Monahan PC, a six-person accounting firm in Boston, to give up control. However, Davies was determined to devote two days of her workweek to nonprofit work with homeless women. “Just grit your teeth,” advises Davies, who now puts in only three days at the office, except during tax season. “You have to let someone else do it--maybe the way you wouldn’t do it.”

There are, of course, key tasks Davies can’t delegate. She keeps lists of those and does the most urgent work first.

- (4) _____
Sound difficult? A strong motivation--such as Davies’s passion for nonprofit work--helps. For Rick Pratt, owner of CC&A Construction Co., in Denver, an instant family provided the incentive to change. When his wife’s children from a previous marriage moved in, the remodeling contractor saw that he “needed to create a better balance” between his personal life and his business life.

For Pratt, achieving balance meant shrinking the business. He went from working more than 60 hours a week to putting in fewer than 40. Then he trimmed his staff by two-thirds and cut revenues by a third. Working less didn't come easily---especially since Pratt discovered that his ego stood in the way. He realized that taking on big projects had made him feel like a big shot. "I've found that the real reason people work a lot isn't because they have so much to do, but because they find refuge and status in being busy," Pratt says. "I wanted to be a broader person." (He claims that because he's now more selective about the jobs he takes, his business's net income, ironically, is bigger than ever.)

(5)

Like work obligations, personal commitments are easier to keep if you put them in writing. Pratt started putting family activities on his "to do" list. "Most of us don't put into our schedule what time we're going to have dinner with our family," he says. "It ends up taking place only if everything else gets done, but an entrepreneur's job is never done." At first, Pratt admits, he felt sheepish telling potential clients he couldn't meet with them at night to estimate jobs, something most of his competitors do regularly. But, he found, "nobody will argue with you if you want to put your family first."

(6) STEP SIX: Develop Systems

If you can't cut back now, you can still plan for the future. When John Sobeck started his company, in Wilkes-Barre, Pa., in 1983, he worked 80 hours a week. But Sobeck had a vision: by age 55, he'd be his own man. Today, at 54, he works about 20 hours weekly at his \$2-million fire- and water-damage restoration business, First General Services of Northeastern Pennsylvania.

For Sobeck, the years of preparation paid off. Early on, he wrote up policies and procedures so that new workers can learn their jobs quickly. He customized a computer program that holds all employees accountable, by keeping tabs on their activity. "The business could pretty much run by itself," boasts Sobeck, who annually invests from \$20,000 to \$30,000 in computer software and equipment that track the business's pulse.

The business is still growing: he and some partners opened a new field office last year. Meanwhile, he continues to spend his summers fishing in North Carolina. And when he's in town? He hits the links by 2 p.m.

Finding Balance As an Entrepreneur: Work, Family and Personal Time

Creating a successful business is an endeavor that takes more time and more energy than you ever dreamed. Boot camp is probably easier. But along with the rewards of fulfilled dreams and financial security come risks — health-endangering stress, strained relationships and a gnawing feeling that "something" is missing.

You may need to get your life back in balance. For most people, a well-balanced life includes family, personal, spiritual, community and leisure components, in addition to satisfying work. Far too often, entrepreneurs, in their pursuit of success, neglect themselves and their families.

So much to do and so little time. For entrepreneurs, meeting the dual demands of work and home is a constant challenge. Growing businesses require vast amounts of attention, and so do growing families. Perhaps you feel guilt no matter what you do. When you are at work, you feel you should be at home. When you are at home, you feel you should be at the office.

The consequences of such a high-stress lifestyle can be downright dangerous. The American Institute of Stress reports that more than 60% of all visits to primary care physicians are stress-related. Insurance companies say that stress is the number one employee health hazard. Stress contributes to heart disease, cancer and respiratory distress.

On the other hand, a balanced lifestyle offers numerous benefits, including:

- Greater effectiveness while at work.
- Better overall health.
- Relationships that are more satisfying.
- Greater sense of well-being.

Some entrepreneurs feel that to be successful they must devote all of their time to their businesses. In reality, taking time to rejuvenate your mind and body will make you more, not less, productive. Exercise and proper nutrition will improve your concentration, too.

If your life is out of kilter, identify your priorities. Compare those priorities to the ways you actually spend your time. Eliminate or delegate to someone else those activities that do not support your goals, and look for ways to add activities that will bring you more satisfaction. These might include recreational reading, volunteer work, walking the dog or attending a house of worship. An activity such as coaching your child's athletic team doubles as volunteer work and family time.

Remember the Pareto Principle: 20% of the effort brings about 80% of the result. When this holds true in your life, concentrate on the 20%, and give yourself a break now and then.

HOW TO DO IT

- (1) Pursue an interest that is not work-related. Make that pursuit something your family can enjoy as well.
- (2) _____
They will feel included, and they might have great ideas to contribute.
- (3) _____
Some suggestions: doing mailings, passing out freebies or flyers at trade shows, planning the company picnic and selecting furniture.
- (4) Designate an inviolable time period, perhaps bedtime or Sunday night dinner, to spend with your children.

Likewise, set aside time for your spouse. To reduce the pressure this can create, accept in advance that this time may indeed need to be postponed occasionally. Never cancel it completely.

- (5) Schedule your next getaway, even if it is only for a weekend. Though it may be a year away, you'll still have something pleasurable to look forward to.
- (6) Expect your employees to balance work, self and family — and establish policies that make it possible (such as flexible hours, family-member sick days and days off for personal business). Then seek opportunities to practice those policies in your own life.
- (7) Plan informal events at work. For example, you might advertise, "Employee Break: Wednesday, May 24, at 9:30 a.m., in the Headquarter Breakroom. Fruit, breakfast bars, juice and coffee will be served." This can double as an informal meeting time across the organization.
- (8) Focus on good nutrition. Start by adding healthy habits such as taking vitamins and eating more fruit, rather than trying to get rid of bad habits all at once. Arrange for fruit and health bars in worksite vending machines.
- (9) Move your body — exercise improves the flow of blood and oxygen to the brain. If you can't fit an exercise program into your schedule, walk to the train or take the stairs instead of the elevator. Or do isometrics at your desk.
- (10) Many simple relaxation techniques can be also be done at your desk, such as meditation, breathing exercises or visualization. For quick relief, take a few minutes to clench and release different muscle groups, rotate your shoulders, or roll your head slowly side to side.
- (11) Pamper yourself. Get a manicure or a massage. Work the crossword puzzle instead of working on a report while riding the train home. If you drive, treat yourself to an audiotape of a best-seller instead of making phone calls.
- (12) Participate in "Take Your Kids to Work Day" and other similar programs and/or...

Time for A Vacation

Is the stress in your life relentless? Are you physically and mentally drained no matter how much you sleep at night? Is your work suffering? If these symptoms sound familiar it's probably time to take a vacation. Take this quiz (True/False) to find out how badly you need to get away.

- (1) I haven't felt very creative lately.
- (2) I have trouble keeping my temper in check when little things go wrong.
- (3) I find myself daydreaming more than usual.
- (4) It's common for me to work more than ten hours a day, six days a week.
- (5) Lately I wonder if I'm in the right line of work.
- (6) It's harder to get started in the morning than it used to be.

- (7) I'm nervous about being away from my business for more than a few hours at a time.
- (8) My sleep pattern is off lately -- I'm sleeping more or less than usual.
- (9) I've been gaining/losing weight over the past few months.
- (10) I'm working hard, but feeling less satisfied with my accomplishments
- (11) Friends and family have remarked that I'm not myself lately.
- (12) I've been having headaches/stomach complaints/general aches and pains.
- (13) My energy level is definitely lower than it used to be.
- (14) I resent it when colleagues tell me about the vacations they've managed to take.
- (15) Difficult as it is, work seems to be my only source of satisfaction lately.

Your Pre-Vacation Checklist

You can alleviate the stress and panic that can accompany pre-vacation planning by creating a list of tasks and issues that need to be managed when you're not there, then checking off each item as it's handled. This systematic planning enables you to leave for vacation with a clear conscience and get some well-deserved R&R.

At the very minimum, you'll need someone in your organization to cover for you while you're out. If you have no employees, a professional colleague can stand in as backup support for client or customer emergencies.

(1)

Do a complete inventory of recently completed projects, current work, and upcoming assignments. For each item on your list create another list of all possible issues that could arise while you are away. Plan for each of these developments. Be sure not to overlook recently completed projects. Work that you have "put to bed" can often generate client or customer inquiries in the weeks following.

(2)

Come up with a list of possible scenarios on current projects and brief internal staff or colleagues. A little bit of Murphy's Law planning can prepare everyone for the things that will undoubtedly go wrong. What are the chief concerns for each client? What's the worst thing that can happen with each account? This kind of planning means that clients will be speaking with someone who understands their concerns should a problem arise. For example, your notes on a particular project might say, "If Mrs. Green calls, her concerns are likely to be about x and y. The last time we completed a project like this we had difficulty in the following areas."

(3)

Don't let your lengthy absence come as a surprise to clients. Give them some notice about your absence -- a minimum of two to three weeks, preferably longer. Let them know how long you'll be away, who they should contact in your absence, how they can contact this person (phone and fax numbers, and email address), and what how this person will be able to help them. Communicate your confidence in the ability of staff or a stand-in to help them should a problem arise. If they're dealing with someone new in your organization, arrange for both parties to speak

before you go away. It's important that your clients feel comfortable with the arrangements you've made.

(4)

Make sure you're prepared to handle your voicemail, email, and incoming faxes. **Voicemail:** If someone else in your office is handling your workload, put their extension or phone number in your outgoing message so your callers will be able to reach a real person who can respond to their needs. If you aren't referring callers to someone else, script a reassuring message that lets clients know when you will return and how they can get what they need in the meantime. **Email:** Check with your ISP to see if they offer Auto Respond, a service that sends an automatic reply to anyone who emails while you're away. Like your voicemail, your reply message should indicate how long you'll be out of the office, and who people can contact if their message requires immediate attention. If you don't have this option, be sure to have someone check your mailbox regularly and deal with any messages that need a direct response. **Faxes:** Have someone in your office collect, read, and traffic faxes so that no pressing issues slip through the cracks. You may want to have someone in your office forward your faxes to a local fax number so you can collect them yourself while you're away.

(5)

If you'll be leaving staff or co-workers behind, make sure they have enough office supplies to continue working in your absence. Check the petty cash supply and make sure it's adequate, or leave a signed check for that purpose.

(6)

Check the due date on your regular payments for rent, utilities, supplies and so forth. If you don't want to pay them ahead of time, write out the checks and entrust someone with the job of mailing them on the appropriate dates. Don't let accounts become past due just because you've gone on vacation.

(7)

Make sure those people still in the office won't be stranded if they run into technical or maintenance problems in your absence. What happens if a drain backs up or the boiler blows? Leave the phone number of your building's electrician, plumber, and other maintenance people. Don't forget about your computers or phone network. Make sure there's contact information for those repair people or consultants as well.

(8)

Don't forget about housekeeping and security measures. Write down all the chores you take care of in your office without even thinking about it. Are you the person who routinely pulls the shades in the late afternoon to keep the equipment from overheating? Are you the one who puts toilet paper in the employee's rest room? Think of all those small jobs and make sure they get done while you're gone. If you're the one who closes up at night, make sure someone else knows the procedure for securing the building.

F.5 Exit and Succession

How to Kick Back

So you've decided you want to work less--but you don't know how to start. Consider these tips from consultant Lanny Goodman, owner of Management Technologies, in Albuquerque.

- (1) _____
Get away for a three-day weekend with your partner and envision what you'd like your lives to be like. Talk about what you'd do with your free time. If you've been putting in 70-hour weeks for years, it will take time to develop other interests and get used to spending more time with family and friends.
- (2) _____
Announce to key employees that by such and such a date you're going to reduce your hours. Be specific about both your new schedule and the target date. Then work together to figure out how to make the plan fly.
- (3) _____
An old time-management trick is to list everything you do during the day. You'll probably find that much of your workload is driven by your expectation that you ought to be working hard, rather than by any real logic. Go through your list and ask of each item, "Is this the best use of my time, creativity, talent, knowledge, and experience?" If the answer is no, look for another way to handle the task.

How to Create an Exit Strategy

Entrepreneurs become so focused on serving their customers that they often neglect to plan for the company's long-term future. They allow all of their net worth to become tied up in the company, they don't develop second-tier management, and they don't learn to delegate responsibility. Owners then aren't prepared if a disaster keeps them from working for an extended period, nor do they begin planning for their own departure in time for it to occur smoothly.

Entrepreneurs rightly think of themselves as irreplaceable. But as a business matures, the owner must prepare so the company can withstand their absence and ultimate retirement. Such a process must be considered earlier than most owners think because it can take five to 10 years to put the appropriate pieces in place. Five key steps are required to create an exit strategy:

- (1) _____
The owner must decide what his/her long-term role will be, what plans must be made for retirement and when a second generation of management should be in place. In some cases, the plan may be only to loosen the reins enough for the owner to be gone for a month at a time. In others, it may mean shifting responsibility so the owner can visit the office once a

week, once a month or never. The target date for this shift can change, but without a deadline in place, the plan usually is treated negligibly and resources aren't devoted to achieving it.

(2)

Especially in a family business, the owner must learn the perspectives of others who are affected. For instance, parents should not assume a child will want to shoulder ownership responsibility, but they should pick a successor and let others cope with that choice. A family meeting held away from the business, possibly with a facilitator, can ensure all concerns are considered before a plan is drawn up. This is vital so people don't work against the developed strategy behind the scenes. This planning can take several years to be finalized to the acceptance of all concerned, so it must begin early.

(3)

Ultimately, the owner must decide what evolution will occur in the business to remove him/her from ownership and supervision on at least a full-time basis. There are three ways to change ownership of the company: sell, merge or go public.

- Sell. The owner must decide who will buy the company. Four key options exist:
 - Sell to children. It must be established how they can buy it, whether through stock gifts, purchase or inheritance. In partnerships with many children among the families, finalization may take time and compromises, especially if the children don't have the money to buy it and the owner needs cash income to retire.
 - Sell to employees. This can occur via an employee stock ownership plan (ESOP), which strengthens employee commitment. However, it can be expensive to establish and may not bring the highest price.
 - Sell to a strategic partner. A broker typically is used to find an appropriate company to buy the firm to enhance the buyer's own position in the market. This takes time but can result in a high selling price and ensure the company's continued value in the marketplace.
 - Sell to a financial buyer. A broker shops the company based on its financial potential, using a presentation to attract venture capitalists. An auction also can achieve a high selling price, but only by making private financial data public and eliminating control over the takeover.
- Merge. A company too small to attract buyer interest may merge with another small company to create a larger, more significant and better-capitalized business. Two types are most typical: A tuck-under merger in which the other company receives a stake in the profits, and absorption in which the selling company becomes part of the other company (as a branch or separate division).
- Go public. This approach raises significant capital and offers strong growth opportunities, but it is not practical for a company with a value under \$100 million.

Public stocks also make the company responsive to outside investors and require positive results on a quarterly basis, making it attractive to plan for the short term rather than the long term. An initial public offering (IPO) also is expensive (costing as much as \$500,000) and can take several years to prepare.

- (4) _____
Ensure that all management and family members know the owner's long-term goals so they can plan accordingly. This also allows interim deadlines to be set for the activities that lead to the final result (such as hiring a second in command, selling stock to new management, etc.). These deadlines are set by working backward from the final target date.
- (5) _____
The actual implementation runs smoothly if the other four sections have been considered carefully. Be sure to include advice and direction from a financial or estate planner.

HOW TO DO IT

- (1) Have the company valued to determine its worth. This must be done if any stock will be changing hands as part of your exit strategy. It also will help determine which sales options may be most viable. Quick-Read "How to Value Your Company," provides guidance to help you get started.
- (2) Evaluate what would happen to your company if you could not operate it for an extended period. Determine what steps to take to ensure that it could progress if the owner was not available. Such a contingency plan is not a succession plan, but it can be just as important.
- (3) Consider if your long-term plans involve staying in contact with the business even after day-to-day involvement ends or if you want a clean break. (Your successor also may have an opinion on this.)
- (4) Talk to your spouse about his or her considerations for retirement, especially if he or she works in the business.

Section G

Hiring Employees

G.1 The Interview

Your Role as the Interviewer

Your role as the interviewer includes conveying the following information to the applicant:

- (1)
- (2)
- (3)
- (4)
- (5)
- (6)

As the tables turn. Applicants are sharper these days, and most applicants will have some questions for you, too. As the market of qualified applicants shrinks, high-quality applicants may become rarer, and it may be the employer who has to sell his or her business as the place to work. You have to give applicants information that keeps their interest in working for you high. But don't *oversell* — it can be dangerous.

An employer in Denver was held liable for getting an applicant to move from New Orleans and take a job even though the employer knew that the project the employee was being recruited for was in serious financial trouble.

What if an applicant asks tough questions? Be honest. There's no sense in giving applicants a false sense of what to expect.

If an applicant asks about the possibility of becoming a partner in the business later on and you don't have any intention of taking on a partner, don't tell the applicant that it's possible. The applicant may take the job for that reason alone, and when it becomes clear that it isn't going to happen, you'll have one resentful employee on your hands. You can also be held liable in a breach of contract lawsuit, if the employee decides to sue.

Job Application Interview Script

When the applicant arrives, put him or her at ease using a friendly, businesslike attitude. Let the applicant know that you're glad that they've come and that you have set aside sufficient uninterrupted time to conduct the interview. You can start the interview with chatter about hobbies, interests, etc., if you are comfortable doing so and are confident that you can stay away from personal questions that might be considered discriminatory. Or you can simply ask one of the following questions:

“How did you happen to become interested in our organization?”

“How did you hear of the opening?”

Depending on the response, you can work in an overview of what you have planned.

“Before we start, let me give you some idea of what I'd like to cover today. I want to review your background and experience so that I can decide whether the job is suited to your talents and interests. So, I'd like to hear about your job, education, interests, outside activities, and anything else you'd like to tell me. And after we have covered your background, I want to give you information about our organization and the job, and answer any questions that you might have.”

Work Experience

A discussion of work experience should vary widely based, in part, on how long the applicant has been employed. Questions appropriate to a recent high school or college graduate will make little sense when interviewing a professional with 15 years of experience. For an applicant with substantial experience, a reasonable starting point would be a discussion of the most recent position. In addition to focusing on the jobs themselves, it might also be helpful to discuss why the applicant has changed jobs in the past, the duration of each prior employment, chronological gaps in employment, etc. The following script would be appropriate when interviewing someone who has not been working long.

“A good place to start would be your work experience.”

“I'm interested in the jobs you've held, what your duties and responsibilities were, your likes and dislikes, and what you felt you may have gained from them.”

“Let's start with a brief review of your first work experiences, those you might have had part-time during school or during the summer, and then we'll concentrate on your more recent jobs in more detail.”

“What do you remember about your very first job?”

Select specific follow-up questions for each job and move forward chronologically. It's been suggested that you move forward chronologically because there's a more natural conversational

flow and you can see patterns of behavior emerge.

Your follow-up questions should ask for specific examples of behavior, not general or hypothetical responses. Don't ask "Are you dependable?" because all you will get in response is a "Yes."

Instead, say, "Tell me about a day you got to work on time, only because of extra effort." It is focused on specific examples of behavior. Similarly, instead of asking, "Are you organized?" say "Tell me about a time when your organizational skills made a project successful" or "How did you organize your work in your last position? How did you handle the unexpected?"

Ask specific, clear questions one at a time and let the applicant answer uninterrupted. Resist filling in every lull in the conversation; wait to see if the applicant will do so.

Avoid either verbally or physically giving the applicant a clue as to how you regard their answers; remain neutral.

To draw the applicant out without revealing what you're thinking, try using his or her own words. If the candidate says, "I like to work independently," you could respond with "Independently?" Of course, you could also use the opportunity to ask the applicant to give an example of what he or she did working independently.

After you have covered the applicant's work experience, you could move on to education.

Education

As in the case of the work experience portion of the interview, the education discussion must be tailored to suit the applicant's educational level. The sample interview that follows would be appropriate for a younger applicant who has not been out of college for any length of time. When interviewing for a professional position, the focus would shift to the professional education.

"You've given me a good review of your work experience—now let's talk about your education. Why don't we start with college briefly and any specialized on the job training you may have had. I'm interested in the subjects you preferred, your grades, extracurricular activities, and anything else of importance."

"What was college like for you?"

Select specific follow-up questions for each educational experience and move forward chronologically. Don't necessarily accept answers at face value. Chronology reveals patterns. Take the information and patterns of behavior that you're being told and analyze them in terms of the performance skills you determined that you needed before the interview began.

Activities and Interests

“Turning to the present, I’d like to give you the opportunity to mention some of your interests and activities outside of work—hobbies, what you do for fun and relaxation, any community activities, professional associations, or anything else you’d like to mention that you think might be relevant to our job. What would you like to mention?”

Select specific follow-up questions.

Show interest and attention, as well as respect for the applicant. Don’t talk down. Do use an appropriate language level.

Self-Assessment

“Now let’s try to summarize our conversation. Thinking about all we’ve covered today, what would you say are some of your strengths—qualities both personal and professional that make you a good prospect for any employer?”

Select specific follow-up questions as needed.

“You’ve given me some real assets, and now I’d like to hear about areas you’d like to develop further—all of us have qualities we’d like to change or improve. What are some of yours?”

Select specific follow-up questions as needed.

Transition to Information-Giving Phase

If you are still interested in the applicant, proceed to this phase of the interview. On the other hand, if you have already decided that the applicant isn’t suitable, there isn’t much point in describing a position that the applicant won’t be filling.

“You’ve given me a good review of your background and experience, and I have enjoyed talking with you. Before we turn to my review of our organization, and the job, is there anything else about your background you would like to cover?”

“Do you have any specific questions or concerns before I give you information about the job and the opportunities here?”

All right, now I have some information I’d like to give you.”

Review the organization, the job, benefits, location, etc.

Tailor your presentation as appropriate to your interest in the candidate.

Closing

“Do you have any other questions about us, the job, or anything else?”

Close the interview graciously. If you have already decided not to offer the applicant a job, you can let them know at this point. Do so cordially and uncritically; you needn't be specific about why you've rejected the candidate.

“I've enjoyed talking with you today, but we won't be able to offer you this position.” If you think that you would consider the applicant for another position in the future, say so. You've already spent the time on an interview.

If pressed for a reason why an applicant won't be offered a job, you always have the option of telling the applicant that you do not discuss the reasons for your hiring decisions. Or, you may explain that, for example, you have already interviewed other, more qualified applicants. Use your judgment, realizing that it can create a very awkward situation if you merely tell an applicant that he or she is “unqualified” or “lacking experience.” Be honest, but don't be confrontational.

If you've found a promising candidate, you can continue.

“What is your level of interest in us at this point?”

Explore any doubts or reservations the applicant might have.

“Let me review what the next steps are.”

Let the applicant know what's likely to happen next, whether another interview will be needed, and how long it will be before a decision is made.

“I want to thank you for coming today....”

Typical Questions to Ask an Interview Candidate

- (1) What do you know about our company?
- (2) Why did you choose our company?
- (3) Tell me about yourself.
- (4) What are your career goals?
- (5) Where do you expect to be in your career within five years? Ten years?
- (6) What are your educational goals?
- (7) What future training do you plan in connection with your career goals?
- (8) What do you know about the position I'm interviewing you for?
- (9) Why did you attend _____ university?
- (10) Why did you major in _____?
- (11) What subjects did you enjoy the most? The least?
- (12) What types of extracurricular activities did you participate in during college?

- (13) I noticed you worked for the student newspaper. Can you tell me about your work? What did you do?
- (14) What leadership positions did you hold in college?
- (15) How does your degree prepare you for working as a _____?
- (16) If you had a choice of three one-week training programs to attend, which ones do you feel you would benefit the most from? Why?
- (17) How much time do you spend each month keeping up with new developments in your field?
- (18) What do you normally do during your summer breaks?
- (19) What are two things you would like to improve about yourself?
- (20) Do you ever lose your temper?
- (21) How do you deal with stressful situations?
- (22) How well do you work under deadlines?
- (23) What will you bring to this position that another candidates won't?
- (24) How do you feel about working with superiors who may be less well educated, intelligent, or competent than you?
- (25) Do you prefer working with others or alone?
- (26) How do others view your work?
- (27) How do you normally deal with criticism?
- (28) Do you consider yourself to be a risk taker? Could you give me examples of risks you've taken in previous jobs?
- (29) Do you consider yourself to be someone who takes greater initiative than others?
- (30) Are you a self-starter? Could you give me examples?
- (31) Why should we hire you?
- (32) What really motivates you to perform?
- (33) Why do you want to leave your present job? Why did you leave your previous jobs?
- (34) How important is job security?
- (35) How long do you expect to stay with our company?
- (36) How do your career goals differ from your career goals 10 years ago?
- (37) What would be the perfect job for you?
- (38) What skills, experience, and training do you have that make you qualified for the job?
- (39) What other positions have you had that qualify you for the position?
- (40) How well do you communicate in writing and orally? Give me some examples of this.
- (41) Can you meet deadlines? If so, give me an example.
- (42) What would your boss say about you?
- (43) What motivates you?
- (44) What are your hobbies?
- (45) What do you do in your spare time?
- (46) Have you ever traveled? If so, where?
- (47) If your career demanded it, would you be willing to relocate for advancement?
- (48) Do you know about other countries and cultures? If so, which ones?
- (49) What are your salary requirements?
- (50) What do you really want to do in life?
- (51) How do you plan to achieve your career goals?
- (52) What are the most important rewards you expect in your career?
- (53) How much do you expect to be earning in five years?

- (54) Why did you choose the career for which you are preparing?
- (55) Which is more important to you, the money or the type of job?
- (56) How has your college experience prepared you for a career?
- (57) Describe the relationship that should exist between a supervisor and their subordinates.
- (58) What led you to choose your field or major study?
- (59) What college subjects did you like best? Why?
- (60) What changes would you make in your college or university?
- (61) Do you think your grades are a good indication of your academic achievement?
- (62) What have you learned from participation in extracurricular activities?
- (63) Do you have plans for continued study? An advanced degree?
- (64) How do you work under pressure?
- (65) In what part-time or summer jobs have you been most interested? Why?
- (66) What criteria are you using to evaluate the company for which you hope to work?
- (67) Do you have a geographical preference? Why?
- (68) Are you willing to spend at least six months as a trainee?
- (69) Why do you think you might like to live in the community in which our company is located?
- (70) What major problem have you encountered and how did you deal with it?
- (71) What have you learned from your mistakes?
- (72) Tell me about yourself.
- (73) What is your greatest weakness?
- (74) Why should I hire you?
- (75) How do you handle rejection?
- (76) Do you consider yourself a leader or a follower?
- (77) Why do you want to leave your current job? (or why did you leave your previous one)?
- (78) What is your current salary?
- (79) Why are you applying for this position?
- (80) I see on your resume that you served as chairperson of such-and-such committee. What was that experience like?
- (81) What would members of your basketball team/business school cohort/ butterfly catching expedition say about you? Tell us about a time you had to deal with a difficult team member.
- (82) Why did you decide to switch careers/Why did you decide to go back to school/Why did you take time off during college?
- (83) Where do you see yourself in 5 years?
- (84) So you just graduated. How did you like school?
- (85) What do you consider your biggest fault?
- (86) What do you have to offer us?
- (87) What has prompted you to apply for this position?
- (88) What do you want from us?
- (89) What appeals to you about this job?
- (90) What are your long-term plans?
- (91) List three of your most important/proudest accomplishments.
- (92) While this position involves some specific skills (language, computer, administration, etc.), it is more of a generalist position. How do you feel that your background fits into this?

- (93) What are the personal characteristics and qualities that you would bring to this position that would be particularly helpful in fulfilling the responsibilities of this position?
- (94) Tell us about yourself.
- (95) What professional groups are you a member of, and how active have you been in those groups?
- (96) Do you prefer to work independently or as part of a team?
- (97) What appeals to you about this position and/or this company?
- (98) What are some aspects of your present (or most recent) position that you like?
- (99) What are some aspects of your present (or most recent) position that you dislike?
- (100) What do you see yourself doing five or ten years from now?
- (101) Starting with your last job, would you tell me about some of your achievements that were recognized by your superiors?
- (102) What are some things you would like to avoid in a job? Why?
- (103) What are some of the things on your jobs that you feel you have done particularly well?
- (104) What traits or qualities do you feel could be strengthened or improved?
- (105) What kinds of things do you feel most confident in doing? Somewhat less confident in doing?
- (106) What are some of the thing you are either doing now or have thought about doing that are self-development activities?
- (107) Tell me about a time when you had work problems or stresses that were difficult for you.
- (108) Customers frequently create a great deal of pressure. What has been your experience in this area?
- (109) What types of pressures do you experience on your current job? How do you cope with these pressures?
- (110) Describe a time when you were under pressure to make a decision. Did you react immediately or take time in deciding what to do?
- (111) What types of things make you angry? How do you react?
- (112) In your current position what types of decisions do you make without consulting your immediate supervisor?
- (113) What types of experiences have you had in dealing with difficult customers?
- (114) Describe a problem person you have had to deal with. What did you say or do?
- (115) What have been your experiences in dealing with the general public? When have people really tried your patience?
- (116) What important goals have you set in the past, and how successful have you been in working toward their accomplishment?
- (117) What things give you the greatest satisfaction?
- (118) How would you describe yourself?
- (119) In what ways do you think you can make a contribution to our department?
- (120) Describe your most rewarding experience.
- (121) What do you know about our company?
- (122) Why do you think we should hire you?
- (123) What will your last supervisor tell me are your two weakest areas?
- (124) If you were hiring someone for this job, what qualities would you look for?
- (125) How did you organize your work in your last position? What happened to your plan when emergencies came up?
- (126) Describe how you determined your priorities on your last job.

- (127) Describe how you schedule your time on an unusually hectic day. Give a specific example.
- (128) Are you a person who likes to “try new things,” or “stay with regular routines”? Give an example.
- (129) What do you do on your days off ?
- (130) What would you do if your staff comes to work late regularly?
- (131) What makes you happy?
- (132) Tell me about you!
- (133) What do you know about our company?
- (134) Why do you want to work for us?
- (135) What would you do for us? What can you do for us that someone else can't?
- (136) What about the job offered do you find the most attractive? Least attractive?
- (137) Why should we hire you?
- (138) What do you look for in a job?
- (139) Please give me your definition of a (the position for which you are being interviewed).
- (140) How long would it take you to make a meaningful contribution to our firm?
- (141) How long would you stay with us?
- (142) You may be overqualified for the position we have to offer.
- (143) What is your management style?
- (144) Are you a good manager? Give an example. Why do you feel you have top managerial potential?
- (145) What do you look for when you hire people?
- (146) Did you ever fire anyone? If so, what were the reasons and how did you handle it?
- (147) What important trends do you see in our industry?
- (148) Why are you leaving your present job?
- (149) How do you feel about leaving all of your benefits?
- (150) How would you evaluate your present firm?
- (151) How many people did you supervise on your last job?
- (152) Do you like working with figures more than words?
- (153) In your current or last position, what features did you like the most? Least?
- (154) In your current or last position, what are or were your five most significant accomplishments?
- (155) Had you thought of leaving your present position before? If so, what do you think held you there?
- (156) What do you think of your boss?
- (157) Would you describe a situation in which your work was criticized?
- (158) What other types of jobs or companies are you considering?
- (159) If I spoke with your previous boss, what would he say are your greatest strengths and weaknesses?
- (160) Can you work under pressures, deadlines, etc.?
- (161) How have you changed the nature of your job?
- (162) Do you prefer staff or line work? Why?
- (163) Do you feel you might be better off in a different size company? Different type company?
- (164) How do you resolve conflict on a project team?
- (165) What was the most difficult decision you ever had to make?

- (166) Do you generally speak to people before they speak to you?
- (167) What is the toughest part of a job for you?
- (168) Are you creative?
- (169) How would you describe your own personality?
- (170) Are you a leader?
- (171) What are your future goals?
- (172) What are your strengths?
- (173) What are your weaknesses?
- (174) What career options do you have at the moment?

Tough and Probing Interview Questions

- (1) Provide a “unique” situation and see the candidate’s logic in solving it. Want to see that you would do to solve the problem. Do they plan? Do they give up easily? Do they seek assistance from other people? How do they budget their time and money?
 - (a)

 - (b)

- (2) At the end of the first year, if you got this job, how would you measure your success?
- (3) How would you describe the essence of success? According to your definition of success, how successful have you been so far?
- (4) If you could go anywhere for 24 hours, with an unlimited budget, where would you go?
- (5) What lessons did you learn from your last job that you think can be transferred to this position?
- (6) What else besides your school and job experience qualifies you for this job?
- (7) Give me an example of when you came up with an innovative solution
- (8) Give me an example of a time you exceeded expectations.
- (9) Why do you think you might like to live in the community in which our company is located?
- (10) In your current position, what types of decisions do you make without consulting your immediate supervisor?

- (11) What was the last book you read?
- (12) Who or what in your life would you say influenced you most with regard to your career objectives?
- (13) If you were hiring someone for this position, what qualities would you look for?
- (14) How would you rate your communication skills and what have you done to improve them?
- (15) What about this job is the least attractive to you?
- (16) What specific goals, other than those related to your occupation, have you established for yourself for the next ten years?
- (17) Why haven't you found a new position before now?
- (18) In your present position, what problems have you identified that had previously been overlooked?

For new graduates

- (19) If you could do so, how would you plan your academic studies differently? Why?
- (20) You obviously were not a star performer in college. Why didn't you do better than a GPA of 2.6?
- (21) If you had to do it all over again, what would you have changed about your college education?

For someone with experience

- (22) What are you particularly good at in your present position? Why?
- (23) If you could start your career again, what would you do differently?
- (24) Describe what you feel to be an ideal working environment.
- (25) How have you helped increase sales? Profits?
- (26) Have you helped reduce costs? How?
- (27) How much money did you account for?

For someone seeking a supervisor

- (28) What would you do if your staff regularly comes to work late?
- (29) What do you see as the most difficult task in being a supervisor/manager?
- (30) What do your current/former subordinates think of you?
- (31) What is your biggest weakness as a manager?

What You Cannot Ask During an Interview

Even though you need to ask a lot of questions to conduct an effective job interview, you cannot just ask anything. Certain questions are legally forbidden, and asking them can lead to a discrimination lawsuit.

Asking questions without the intent of using the answer to discriminate against potential employees is no defense. Furthermore, even if someone volunteers information during the interview that could lead to discrimination, you can still be held liable. For that reason, never write down any information that falls into the categories of questions covered below or into any others you may believe could get you into legal trouble. In these circumstances, state that the volunteered information is not relevant to the interview and move on.

Luckily, you can easily avoid legal trouble by avoiding certain kinds of questions. Most of the forbidden questions are non-job related and you can keep yourself within legal bounds by sticking to professional topic in an interview.

Questions to steer clear of include:

(1) _____

People over 40 are protected by state and federal law to prevent age discrimination and therefore you may not inquire about a candidate's age. Because most people graduate from high school at age 17 or 18, you may also not ask the year someone graduated from high school. However, you may ask about year of graduation from college because people attend college at different stages of life.

(2) _____

Leave this kind of question for getting acquainted after an offer has been extended.

(3) _____

Although you will need to verify that someone is a citizen in order to hire them legally, you cannot find out by asking this question. You may ask it another way however: "Could you, after employment, submit verification of your legal right to work in the United States?"

(4) _____

You may describe job requirements including travel, overtime and hours, and ask candidates if they have any reason they cannot meet the requirements, but you may not ask about plans for childbearing.

(5) _____

Because knowing a maiden name may provide information about someone's national origin, it opens you up to charges of discrimination. Likewise, you cannot ask for the name of a relative to contact in case of emergency. You may ask for someone to contact as long as you do not stipulate that the person be a relative.

(6) _____

The 1992 Americans with Disabilities Act (ADA) prohibits job discrimination based on disabilities of any kind. The questions listed above are just a few examples. It is safest to assume that you cannot ask questions about a person's health or physical capabilities. What you may do is describe job responsibilities and ask the candidate if he/she is capable of performing the job functions "with or without accommodation?"

More on What NOT to Ask

If you have 15 or more employees, you are subject to federal laws prohibiting discrimination in hiring. Many states also have laws that mimic federal discrimination laws and apply them to smaller employers, sometimes even those employers who have one employee or more. Therefore, you are limited in what types of questions you can ask. Even if you are not subject to laws prohibiting unfair inquiries, we recommend that you stay away from them.

Preemployment interviews have traditionally been instruments for eliminating, at an early stage, unqualified persons from consideration for employment. They have also, unfortunately, often been used in such a way as to restrict or deny employment opportunities for women and members of minority groups.

In seeking information from a job applicant, you should ask yourself:

- Will the answer to this question, if used in making a selection, have an inequitable effect in screening out minorities or members of one sex?
- Is this information really needed to judge an applicant's competence or qualifications for the job in question?

Basically, stay away from any question that concerns race, religion, age, ethnic background, gender, marital status, or national origin. Some municipalities have local statutes that prohibit discrimination on the basis of sexual lifestyle or preference, or smoking habits. If it has nothing to do with the job, don't ask.

Some questions you might ask are things you might consider small talk and aren't meant to get information for use in discrimination. It doesn't matter. Don't ask them. Be on guard even when you're chatting informally.

Some questions that could be considered discriminatory:

- (1)
- (2)
- (3)
- (4)
- (5)
- (6)
- (7)
- (8)
- (9)

Crawling	_____	Acuity - Far	_____
Turning/Twisting	_____	Depth Perception	_____
Bending at Waist	_____	Accommodation	_____
Other _____	_____	Color Vision	_____
		Field of Vision	_____
		Other _____	_____

PHYSICAL CONDITION

Working Area

Inside _____ %
 Outside _____ %

	<i>Code</i>		<i>Code</i>
Temperature		Atmospheric Conditions	
Constant cold	_____	Fumes	_____
Constant heat	_____	Odors	_____
Changing temperatures	_____	Mists	_____
		Dusts	_____
Humidity or Damp	_____	Oil/Grease	_____
		Dirt	_____
Noise		Gases	_____
Noise level (dB)	_____	Ventilation	_____
Exposure (hours/day)	_____	Lighting	_____
		Other _____	_____
Unavoidable Hazards		Protective Clothing or Personal Devices	_____
Mechanical	_____		
Electrical	_____		
Burns	_____		
Moving objects	_____		
Heights	_____		
Cramped quarters	_____		
Other _____	_____		

MENTAL REQUIREMENTS

	<i>Code</i>
Understand and carry out oral instructions.	_____
Read and carry out simple written instructions.	_____
Read work orders, scrap tickets, job lot tickets, graphs, logs, schedules.	_____
Read and verify car numbers, alloy identities, etc.	_____
Read and carry out complicated instructions.	_____
Observe and read instruments, gauges, dials, etc. to determine operating conditions.	_____
Read and interpret detailed prints, sketches, layouts, specifications, etc.	_____
Identify and list production data such as quantities, pressures, alloys, operating conditions.	_____
Prepare detailed records or reports such as inventory records, receiving reports, operating logs, lab analyses, quantities, etc.	_____
Estimate size, form, quality or quantity of objects.	_____
Estimate speed of moving objects.	_____

- Inspect, examine and observe for obvious product or equipment defects. _____
- Inspect, examine and observe for product or equipment defects not easily identified. _____
- Count, make simple arithmetic additions and subtractions. _____
- Compute and calculate amounts of additives, results of tests, etc. _____

- Use measuring devices such as tapes, gauges, rules, weight scales, where reading is direct and obvious. _____
- Use measuring devices such as micrometers, calibrated steel tapes, calipers, etc. where precision and interpretation are required. _____
- Make routine lab tests, such as titrations, specify gravity, etc. _____
- Plan and schedule movement or flow of materials or products. _____
- Operate automotive equipment such as autos and trucks. _____

- Operate industrial trucks such as forklifts, flat beds, tractors. _____
- Operate overhead cranes and hoists. _____
- Use non-power hand tools such as hammers, wrenches, etc. _____
- Use hand power tools. _____
- Set up and operate machine tools such as lathes, milling machines, saws, etc. _____

- Assemble or disassemble objects. _____
- Determine malfunctioning of units by observing. _____
- Determine nature and location of malfunction. _____
- Perform repair and maintenance of equipment. _____
- Perform a journeyman craft activity. _____

- Make adjustments to obtain specified operating conditions such as turning valves; switches; moving and setting controls; adjusting furnaces, pumps; etc. _____
- Control activities of a single processing unit. _____
- Control activities of several processing units. _____
- Operate equipment requiring specialized knowledge of process. _____
- Plan own work activities. _____

- Plan work activities of others. _____
- Direct work activities of others. _____
- Coordinate work activities of others. _____
- Train other workers. _____
- Work alone. _____

- Work as a member of a team. _____
- Work without supervision. _____
- Work with minimum amount of supervision. _____
- Work under pressure. _____
- Work rapidly for long periods. _____

- Work on several tasks at the same time. _____

G.2 Performing Background Checks

After you've collected information about applicants and done several interviews, you're ready to check the background of your most promising candidate.

Because so many people misrepresent their background and credentials, it is important to do at least a little checking to see if what the applicant says about his or her background is true. A lot of employers don't do any checking, and they often regret that decision. The applicant may be unqualified for the job, or may have some personality trait or past experience that causes problems for you later.

Moreover, if your applicant will have contact with other employees or with customers, an important reason to do that checking is to avoid negligent hiring claims. If you have an employee who turns violent and harms either a customer or another employee, you could be slapped with a lawsuit if reference checking would have kept you from hiring that person.

If you have employees who have or will have significant contact with the public, customers, patients, or children, you'll want to be particularly careful about doing a thorough background check, including a check of criminal records to the extent permitted by law.

Use the following checklist to help you check references:

- Tell each applicant that no employment offer will be made until satisfactory reference checks are made.
- Call or write to each reference given. If you are not going to check references, do not ask for them.
- If you don't get a response to a written request to a local employer, call them. The conversation may reap more information than a letter would anyway, although you should be aware that many employers are reluctant to disclose much about a former employee because they are afraid of being sued, too.
- If you request references in writing, include a signed release by the job applicant permitting the information you want to be given out. Document all information that you receive.
- Also document unsuccessful tries at gathering information, to protect yourself from negligent hiring claims.
- If the former supervisor won't tell you anything, record the fact that he or she refused to give any information about why you shouldn't hire the applicant.
- If you can't get the requested information from references, ask the job applicant for more information or to clear the way for you with the references he or she gave.
- Don't make a job offer until you've completed your reference checking.

Simple Background Check Permission Form**BACKGROUND CHECK PERMISSION**

I hereby authorize all corporations, companies, credit agencies, schools, government agencies, persons, military services, and former employers to release information they may have about me to _____ or its agents and employees, and release all persons or companies from any liability or responsibility from doing so. Further, I authorized the procurement of a consumer report and credit check, and understand that such a report may contain information about my background, character, and personal reputation. I understand that this notice will also apply to any future update reports that may be requested.

Applicant's Signature

Applicant's Printed Name

Date:

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Comprehensive Background Check Permission Form**BACKGROUND CHECK PERMISSION FORM**

In connection with my application for employment with _____ (the "Company"), I hereby agree as follows:

1. GENERAL CONSENT TO BACKGROUND INVESTIGATION

As a condition of Company's consideration of my employment application, I give permission to Company to investigate my personal and employment history. I understand that this background investigation will include, but not be limited to, verification of all information on my employment application.

2. CONSENT TO CONTACT PAST EMPLOYERS

I specifically give permission to Company to contact all of my prior employers for references. I further give permission to all current or previous employers and/or managers or supervisors to discuss my relevant personal and employment history with Company, consent to the release of such information orally or in writing, and hereby release them from all liability and agree not to sue them for defamation or other claims based upon any statements they make to any representative of Company. I further waive all rights I may have under law to receive a copy of any written statement provided by any of my former employers to Company. I further agree to indemnify all past employers for any liability they may incur because of their reliance upon this Agreement.

3. CONSENT TO CONTACT GOVERNMENT AGENCIES

I further give permission to the Company to receive a copy of any information obtained in the file of any federal, state, or local court, or governmental agency concerning or relating to me. I further consent to the release of such information and waive any right under law concerning notification of the request for a release of such information. In the event a law does not provide for prospective employers to have access to information, I hereby delegate Company as my agent for the receipt of information. I understand that the scope of this investigation will be limited as required by applicable law.

4. COOPERATION WITH INVESTIGATION

I agree to fully cooperate in Company's background investigation, and to sign any waivers or releases that may be necessary or desirable to obtain access to relevant information. In the event that any former employer or federal, state, or local governmental agency will not release reference information or criminal history information directly to the employer, I agree to personally request such information to the extent permitted by law.

5. MISCELLANEOUS

This Agreement represents the entire understanding and agreement relating to its subject matter. Company shall be entitled fully to rely on this Agreement. I understand that I have no guarantee of employment and that the Company may determine not to hire me for any lawful reason.

Applicant's Signature

Date

Applicant's Printed Name

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Checking Professional References

Former employers are in the best position to tell you about an applicant's work history. Make sure the information you get agrees with what the applicant gave you. Employers' references can give you some or all of the following information:

- employment dates
- job titles
- rates of pay
- nature of the tasks performed
- work habits – including conscientiousness, sense of responsibility, and ability to work with others
- whether they would hire the individual again, knowing what they know about him or her

When you talk with former employers, ask for specific examples of times when the applicant demonstrated positive traits. They make excellent documentation, should you run into negligent hiring claims.

Sometimes, the employer won't tell you anything more than "name, rank, and serial number" information for fear that the employee may sue them. If you run into that, remind the employer that most states consider the information "qualifiedly privileged." That means that the information is protected, and the employer who shares it is protected unless the information is given:

(1)

(2)

(3)

Sometimes you can get more information from coworkers or supervisors, but often they too are instructed not to discuss why the employee left or if the employee would be rehired. A number of states require former employers to provide a job reference letter or some information about people who worked for them.

No matter what, document whatever information you do get and note who gave it to you. Also note the information they would not give you.

Checking Personal References

Most employers don't check personal references, even when they ask for them. There is a common perception that personal references are usually friends of the applicant, and that they will not convey any negative information, in the event that it exists, because they are friends.

If you do ask for and check personal references, keep these pointers in mind:

(1)

(2)

(3) Like employment references, personal references are more likely to say things on the phone than they are to put them in writing. So call rather than write, if possible.

(4) Have an information release signed by the applicant and ready in case the reference requests it.

Checking Education Records

Educational credentials are frequently misrepresented on resumes and job applications, because many employers don't check educational references. It's important to do it, though, to make sure that the applicant has the qualifications and background you want.

Common problems are the applicants' saying that they have a degree that they don't have, saying that they graduated from a particular school when they may have only attended it for a short time, or saying that they have a degree in one field when they really have a degree in another field.

Most colleges or universities will verify a job applicant's degree or dates of attendance, and many will do it over the phone. In many cases, you can also obtain a transcript if you follow the school's guidelines for releasing records.

If you've never heard of the institution, you might also want to check to see:

- what type of institution it is
- which degrees it awards
- if it is accredited
- transcripts

Checking Credit Records

If an applicant is going to be handling large sums of money or exercising financial discretion at your business, you may want to run a credit check. Unless you're worried about the applicant stealing money or expensive equipment, a credit check probably won't be necessary. There are a lot of federal restrictions on credit reports, so doing them can be more trouble than it's worth.

What's in a credit report? A credit report will include the following information about the applicant:

- address
- Social Security number
- bankruptcies
- tax liens
- judgments
- child support obligations
- loans
- the names of other employers who have checked the applicant's credit

What's not in a credit report? Credit reports do not provide information on:

- previous income
- college background
- bank accounts
- personal investments
- criminal history
- medical history

There are a number of things to consider if you decide to run a credit check.

- You will have to pay the credit agency for the credit report. The fee can range anywhere from \$25 to \$50 or more for one report.
- *Federal law on credit reports:* there is federal legislation that governs the use and disclosure of credit information. You must follow the law if you're going to run a credit check.
- *State laws on credit checks:* A number of states currently have laws on the books that require employers to provide notice and/or copies of credit checks whenever they're used for employment-related decisions.
- *Anti-discrimination laws also apply:* you can also get in trouble with anti-discrimination laws if you can't show a business reason for the credit check if screening on that basis has a disproportionate impact on minorities.

Checking Driving Records

If your job opening requires any driving of a vehicle on company business, the applicant's driving record should be checked. By checking with the motor vehicles department, you'll not only get information about the applicant's driving record, but you can use it as a chance to verify the applicant's identity.

Where do you get driving records? Driving record information is available from a state's Department of Motor Vehicles. Generally, they keep records of:

- all traffic violations
- driving-related offenses
- identifying information contained on the license

What information do I need to provide? Usually, the DMV will ask for:

- full name
- date of birth
- address
- license number

Be aware that sometimes the DMV will charge you for checking these records. The cost can range anywhere from \$2.00 to \$10.00 or more per record. Your DMV may require that you complete a certain form for the request. Before you send a request for a record, call your DMV to find out what is required.

How can you use driving records? While it may not matter that an applicant had a speeding ticket, a driving record check can reveal other more serious offenses. If an applicant's license is suspended or expired, how can that applicant legally perform a job that requires driving?

Checking Criminal Records

You'll need to protect your business from liability by doing criminal checks on applicants who will:

- be bonded because of access to money or valuables
- carry a weapon
- drive a company vehicle
- have access to drugs or explosives
- have access to master keys
- have a great deal of contact with the public, patients, or children
- be filling a position that requires a criminal record check under state law

Checking criminal records is a sensitive issue. There are legal restrictions under federal law and under many state laws as well. Checking conviction records is generally permitted. Checking arrest records is generally not permitted, except for special circumstances.

Documenting the Reference Check

In case of a lawsuit, or even just to protect yourself in case an employee you hire later proves unsatisfactory, you should document every step of your reference check in order to show that you acted reasonably in hiring the applicant based on the information that you had.

For employers of 15 or more, employment application and reference check records must be kept for at least one year, even for the applicants you don't hire.

In order to avoid questions regarding your hiring methods, it is a good idea to create the following documents as you perform a reference check:

- a list of all references checked
- the name of the person who actually contacted the references
- how you contacted the references, namely, by telephone or by letter
- notes on all telephone conversations made
- name and job title of every person you spoke with
- a copy of the return letter
- copies of actual records received, e.g., credit bureau checks, driving records, etc.
- the fact that you made every reasonable effort to contact the reference listed but could not do so
- the fact that you did contact the reference given but could not get sufficient information from the source.

Keep the records, once you have gone to the trouble of documenting your actions, as indicated below:

- So long as the employee works for your company, include the reference checks as part of the hiring papers and keep these records in the employee's personnel file.

- Treat an ex-employee’s reference records and reports as merely part of that ex-employee’s personnel file. No one has time to go back and weed out the file. A common rule of thumb is to keep an ex-employee’s personnel file for seven years.
- Do not throw out records of your reference checks on unsuccessful applicants. They are considered part of the employment records “having to do with hiring” that the Equal Employment Opportunity Commission requires you to keep for at least one year after the date of the employment decision (if you have 15 or more employees).
- Once a discrimination charge has been brought or any court action has been pursued, keep the records until the matter has been resolved.
- Remove any especially sensitive records from the file. If the reference records include credit reports or criminal record reports, you may want to put them in a separate file with the employee’s medical records (which also by law must remain confidential). This would prevent supervisors from seeing the information when reviewing a personnel file.
- If you take reference reports out of a personnel file, leave a note in the file indicating where they are.

G.3 Sample Rejection Letter

[Company Letterhead]

[Date]

Dear _____,

Thank you for giving us the opportunity to consider you for employment. We have reviewed your background and qualifications and find that we do not have an appropriate position for you at this time. We appreciate your interest in [name of company] and wish you success in your job search.

Sincerely,
[Name of Company]

By: _____

Title: _____

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G.4 Government Regulations for Employers

Government Regulations

Once you become an employer, you take on a whole new set of responsibilities. A host of federal and state laws govern many aspects of the employer-employee relationship. These measures assure that workers are paid at least minimum wage, that they are not discriminated against in the workplace, that they will work in a safe environment and have the appropriate state and federal taxes withheld from their paychecks.

It's best to check with the government agencies whose regulations you must comply with so you don't overlook anything. The law prohibits discriminating against employees for reasons of race, color, national origin, gender, age or disability. If you violate the law, you could find yourself facing steep penalties that will not only be bothersome but could jeopardize your business.

Americans With Disability Act

This law requires employers of 15 or more for 20 or more weeks of the year to make reasonable accommodations for workers with disabilities, provided they are qualified to perform the job and the safety of others in the workplace is not compromised.

Fair Labor Standards Act

FLSA regulates minimum wage and overtime, which apply to all companies. It also includes such laws as the Family and Medical Leave Act, which only applies to you if you employ 50 or more people.

Civil Rights and Employment Discrimination

The Civil Rights Act, Equal Pay for Equal Work, Age Discrimination in Employment Act and other laws to protect workers against discrimination are regulated by the Equal Employment Opportunities Commission (EEOC). EEOC regulations typically apply to companies with 15 or more employees.

Taxes

As an employer, you are governed by a variety of federal and state tax rules. Failing to follow these regulations can often result in significant penalties and costs. Here are some of the basics:

Typical taxes you need to withhold include: federal income tax; FICA (Social Security and Medicare); state income tax; and state and federal unemployment tax.

A new employee is required to fill out a W-4 form stating his/her marital status and the number of exemptions he/she is taking. As the employer, you keep this form on file and use it to calculate withholding.

As the employer, you are also required to deposit employment taxes on a timely basis; file quarterly Form 941 employment tax returns; provide your employees with an annual W-2; and provide independent contractors with an annual Form 1099.

Before doing any of this, you need to receive a federal Employer Identification Number (EIN). You do this by filing Form SS-4 with the IRS.

Occupational Safety and Health Administration

OSHA regulates workplace health and safety laws, and covers everything from hazardous wastes to the correct way to sit at your computer. While it does cite workplaces for egregious violations, much of the emphasis has shifted towards employer education and voluntary compliance. Small businesses in particularly high-risk fields can request an OSHA consultation on their premises.

Immigration Laws

Under the Immigration Reform and Control Act of 1986 (IRCA), employers are responsible for ensuring that their employees are eligible to work in the United States. Once hired, employees must fill out the Employment Eligibility Verification Form I-9, on which they attest they are eligible to work and employers must certify that documents presented appear to be genuine and relate to the individual presenting the documents.

Foreign students/workers can work for a US company in several ways.

- Before graduation, they can be employed through their university to work at a company
- After graduation, students are allowed a 1 year Practical Training. During this time, they can be employed in the United States. It takes 6 to 8 weeks for this paperwork to be processed before a new graduate can work for you. There is no cost to the company.
- At the expiration of the 1 year Practical Training, you may only employ a non-US resident by sponsoring them for a H1-B Visa. In this visa application, the company expresses a need for their person's technical skills. The visa is valid for 3 years and can easily be renewed. The cost is approximately \$500 (\$1200?) and takes a few months to be processed. The visa is only valid for the worker to work for your company.
- A company may also sponsor a non-US resident for a "Green Card". This requires a long process (3 to 6 years, depending upon country of origin) and costs on the order of \$3000 (application fee and lawyer fees). In the application, the company claims there is no US resident meets the employment requirements. Once granted, the non-US resident is allowed to work for any company.

Workers Compensation

If you have employees, then you need to carry workers' compensation insurance. That's the law. Unfortunately, many business owner don't know a lot about their workers' compensation commitments. It's to your benefit to understand how workers' comp works, where you can get it, and how much it will cost you.

What is workers' compensation?

Workers' compensation insurance, often called workers' comp, covers your employees when they are made sick, injured or killed on the job. Benefits include medical expenses, lost wages, vocational rehabilitation, and death benefits.

For example, if you had a painting company and one of your employees fell off a ladder, your workers' comp coverage would pay the medical bills, any necessary physical therapy, and roughly two-thirds of the wages lost while the person recovers from the injury.

Workers' comp exists both as a way to benefit injured workers and as a way to protect employers. Before workers' comp laws existed, serious injury to an employee could bankrupt an employer. Workers' compensation is a no-fault insurance system. Negligence on the part of workers or employers is not an issue in paying benefits.

What companies need to have workers' compensation?

In general, if your company has employees, you need to carry workers' comp insurance. Requirements vary from state to state - each state has its own workers' comp laws, as well as its own administrative and legal structure for handling claims and disputes.

Several states don't require workers' comp insurance for very small companies - those with fewer than 3-5 employees. Sole proprietors and partnerships are also usually exempt. Think twice before you exercise this option. Without coverage, you may be sued by an injured worker for medical and disability costs, plus damages.

Some states also require workers' comp only for employees in "hazardous" occupations. What falls under the "hazardous" category, however, can vary widely, so speak with your state agency or your insurance broker for information on which employees you must cover.

There are some professions that are usually exempt from workers' compensation coverage. These include farm laborers and domestic workers.

How do I find out my state's workers' comp requirements?

Since workers' comp requirements are set by the state government, they can vary greatly from state to state. Call your state's insurance commissioner's office. You should be able to find the phone number in the government pages of your telephone directory.

Your insurance agent or broker should also be able to provide details of your state's requirements.

How do I purchase workers' comp?

In most states, employers may buy their workers' compensation insurance from a private insurance company. This is often referred to as the "voluntary" market for workers' comp.

However, workers' comp is available only through a state-run fund in six states - Nevada, North Dakota, Ohio, Washington, West Virginia, and Wyoming - creating a virtual monopoly. If you live in one of these six states, you have no choice but to buy your policy from the government-run fund.

Another 13 states operate government-run funds that compete with private insurers; you have the option of going to either. They are: Arizona, California, Colorado, Idaho, Maryland, Michigan, Minnesota, Montana, New York, Oklahoma, Oregon, Pennsylvania, and Ohio.

Why might a private insurance company not want to write my workers' comp policy?

Although you must have workers' compensation coverage, private insurance companies are under no obligation to sell it to you. They each have their own underwriting guidelines and regularly reject business.

Rejection usually occurs for one of three reasons:

- ***High risk*** - Some industries, such as construction, roofing and window washing, are considered high hazard. The higher the hazard, the greater the potential for costly claims.
- ***High claims history*** - Companies that have a history of high workers' comp claims activity will find it difficult to find insurance from private companies. Insurers maintain that this level of claims indicates a lack of attention to safety.
- ***Small size*** - Start-ups and many small businesses find themselves being rejected because they are either too new or too small. Insurers maintain that these companies are difficult to insure and they can't make a profit from small policies.

If my company cannot get workers' comp coverage from a private insurer, where do I go?

Every state has a mechanism for providing workers' comp insurance for companies that can't get it elsewhere. In most areas, it comes in the form of an "assigned risk pool" that acts as the workers' comp insurer of last resort.

If you use the assigned risk pool, you must apply for coverage with the state agency that administers workers' comp. Applications are then assigned to an insurance company that agrees to do business with the assigned risk pool

You do not want to be in the assigned risk pool if you can avoid it. Assigned risk plans almost always cost more than private insurance, and you will probably receive poorer service and less attention.

How are workers' comp costs determined?

There are three primary factors that will determine your workers' comp premiums:

(1) _____

Most states use a classification system developed by the National Council on Compensation Insurance that lists more than 600 different types of businesses. Each business classification has its own premium rate stated in dollars and cents per one hundred dollars of payroll. The higher the hazard potential, the higher your premium. Watch your classification carefully. If your company is misclassified - a home furnishings designer who makes decorative pillows who is listed as "bedding" manufacturer, for example - you may end up paying higher premiums than you have to.

(2) _____

Rates for the same classification vary from state to state, and even within states. Much of this has to do with the disability benefit levels that each state law requires. Again, higher weekly benefits mean higher rates.

(3) _____

If you pay more than \$5,000 in annual workers' comp premiums, your rates will be affected by your claims history. Insurance companies use what is called your "experience rating," which compares the claims history for your company to that of other companies in your industry classification. The greater your number of claims, the higher your premiums.

Checklists for Handling Workers' Compensation Claims

Checklist for handling claims

The initial period is critical in handling workers' compensation claims. Be sure to:

Immediately

- administer first aid
- accompany injured worker to a selected medical provider
- report incident within company
- notify family
- assign responsible person to follow claim

First day

- report to claim handler outside company (insurance company or third-party administrator)

- determine, on a preliminary basis, whether the injury is covered by workers' compensation
- counsel employee and/or family on claims procedures, available benefits, company's continuing interest in employee's welfare, etc.
- follow up with the employee or family

First week

- coordinate payment of initial benefits
- talk to treating physician to learn diagnosis and treatment plan
- evaluate whether medical rehabilitation is necessary or appropriate
- develop return-to-work plan
- forward mail
- contact the injured employee and/or the family

First month

- use a "wellness" approach (cards, phone calls, visits) to continue to reinforce company's concern
- consider medical examination by independent physician, if warranted
- reevaluate treatment plan based on new medical information
- update return-to-work plan
- contact the injured employee and/or the family

Ongoing

- continually reevaluate treatment plan
- update return-to-work plan
- refer for vocational rehabilitation
- refer for pain management evaluation of chronic pain, if appropriate
- maintain contact with the injured employee and/or the family

Checklist for collecting information

Whether it's the businesses owner, or someone assigned by the business owner to keep track of the claim, here's some advice for the types of information the person overseeing the claim should be gathering:

About the employee

- name, nicknames, maiden name, previous names
- address—current and previous (length of time living at both addresses)
- phone number, pager number, cellular number
- social security and driver's license numbers

- sex
- date of birth
- marital status
- dependents and immediate family contact
- non-relative contact
- date of hire (state hired, if applicable)
- job classification, if applicable (insurance class or company classification)
- vehicle (type, year, license number)
- interests—hobbies
- length of time as a state resident

About the injury

- time and date of injury
- date of death (if applicable)
- state of injury
- nature of injury (sprain, fracture, etc.)
- body part(s) affected; any previous injury to the affected body part(s)
- source of injury (machines, hand tools, buildings, etc.)
- type of injury (fall, struck by object or vehicle, overexertion, repetitive motion trauma)
- witnesses
- work process involved (lifting, carrying, etc.)
- to whom was the injury reported
- who filled out the first report of injury report
- plant or location
- job
- time and date the injury was reported
- shift, if applicable

About the claim

- date employer first notified
- who was notified, by whom?
- date employer was notified of workers' compensation claim
- date insurance company or service company notified
- date state agency notified
- state case number
- average weekly wage
- benefit rate
- health care providers
- health care costs
- other benefits lost (Did the employer stop paying vacation, health benefits, etc.?)
- other benefits received
- offset for other benefits

- date disability started
- date of first payment
- projected return-to-work date
- date case closed
- date of maximum medical improvement
- impairment rating
- lost days
- total benefits paid
- reserves
- vocational rehabilitation activity
- subrogation (Is some third party responsible?)
- second injury fund potential

Oral statement from injured worker

- conduct the interview in a nonadversarial setting
- demonstrate concern and empathy
- allow the worker to talk
- do not rush the worker
- reenact the accident
- check for photos and/or video of the accident

Written statement from injured worker

- note the location where the statement is taken
- let the employee write the statement, if possible
- statement should be written in ink
- statement is taken ASAP after the injury
- describe the worker's preinjury and postinjury actions
- request that the worker and any witnesses sign the statement
- make sure the employee initials any changes
- give copy of statement to employee
- list the date and time of the statement

Oral statement from witness(es)

- note witness' location at the time of injury
- record witness' relationship to the injured worker
- interview witnesses individually
- do not rush the witness
- make sure the statement is unrehearsed

Written statement from witness(es)

- make sure the witness writes the statement in ink
- record the stated ASAP after the injury
- make sure the witness records his/her actions before, during and after the time of injury
- request that the witness sign the statement and initial any changes
- record the date and time of the statement
- give a copy of the statement to the witness

If litigation occurs

- defense attorney, law firm
- claimant attorney, law firm
- judge
- costs of litigation (spending more than paying?)
- history of dispute
- settlement

Warning Signals of Workers' Compensation Fraud

You may not discriminate against a worker who has filed previous workers' compensation claims. However, when you have several of the following suspect behaviors present or you observe an emerging pattern, don't be afraid to investigate further for possible fraud or to forward your suspicions to the appropriate authority.

About the worker

- the injured worker has an unstable work history; i.e., an employee who often changes jobs
- the claimant has a history of reporting subjective injuries which may include workers' compensation or liability claims
- the claimant is consistently uncooperative
- the injured worker has been recently terminated, demoted, or passed over for a promotion
- the injured worker is in line for early retirement
- the injured worker is making excessive demands
- the injured worker calls soon after the injury and presses for a quick settlement of the case
- the injured worker moves out of state soon after the injury
- the injured worker changes his or her address to a post office box or receives mail via a friend or relative

About the workplace

- the injured worker's workplace is experiencing labor difficulties

- the accident occurs just prior to job termination, layoff, after formal discipline of the employee, or near the end of the employee's probationary period

About the injury

- the injured worker was not injured in the presence of witnesses
- the injury is a subjective one, like stress, emotional trauma, or is hard to prove, like back pain, headache, insomnia, etc.
- the accident is not promptly reported by the employee to the employer
- the employers' first notice of the injury is from an attorney or a medical clinic, and not from the injured worker
- physicians who have examined the injured worker have vastly differing opinions regarding the injured worker's disability
- there is no sound medical basis for the disability; all physicians' reports indicate a full recovery
- the injured worker is claiming disability exceeding that which is normally consistent with such an injury
- the accident occurs late Friday afternoon or shortly after the employee reports to work on Monday
- the claimant has the accident at an odd time, such as at lunch hour
- the accident occurs in an area where the injured employee would not normally be
- the task that caused the accident is not the type that the employee should be involved in; i.e., an office worker who is lifting heavy objects on a loading dock
- the details of the accident are vague or contradictory

About the medical relationship

- the claimant frequently changes physicians or medical providers
- the claimant changes physicians when a release for work has been issued
- a review of medical reports provides information that is inconsistent with the appearance or behavior of an injured person; i.e., a rehabilitation report describes the claimant as being muscular, with callused hands and grease under the fingernails
- the employer's first report of injury contrasts with the description of the accident set forth in the medical history
- the injured worker develops a pattern of missing physician's appointments

About the claim itself or the claimant's attorney

- the injured worker's attorney requests that all checks and correspondence be sent to the attorney's office
- the claimant's attorney is known for handling suspicious claims
- the attorney lien or representation letter is dated the day of the reported accident
- the same doctor/lawyer combination previously known to handle the same kind of injury is handling this claim
- the claimant is unusually familiar with workers' compensation claims-handling

procedures and laws

- the claimant's attorney complains to the carrier's CEO at the home office to press for payment
- the claimant initially wants to settle with the insurer but later retains an attorney and files increasingly subjective complaints
- the claimant's attorney threatens further legal action unless a quick settlement is made
- there is a high number of applications from a specific firm
- the claimant's attorney inquires about a settlement or buyout early in the life of the claim
- the claimant writes unsolicited statements about how much better he/she is, but treatment continues and the claimant doesn't return to work

About outside activities

- there are tips from fellow employees, friends, or relatives suggesting that the injured worker is either working or is active in sports
- the injured worker's rehabilitation report shows evidence of other activity
- the injured worker is in a trade that would make it possible to otherwise work while collecting compensation
- the injured worker is exaggerating an injury in order to get time off to work on personal interests; i.e., the injured worker is remodeling or building a home concurrently with the injury
- the injured worker is in a seasonal business that would make it attractive to be "injured" during the off-season; i.e., occupations in fields such as roofing, landscaping, plumbing, farming, masonry, etc.
- the injured worker leaves different daytime and evening telephone numbers
- the injured worker is never home when called or is always "sleeping and can't be disturbed" (especially during work hours)
- return calls to the claimant's residence have strange or unexpected background noises that indicate it may not be a residence
- the claimant has several other family members also receiving workers' compensation benefits or other "social insurance" benefits, such as unemployment

Section H Consulting

H.1 Why Consulting Is Tough

A Story

Consider the following story:

On the first day of spring, Zeke and Luke decided to go bear hunting. It was too late to hunt when they reached their cabin, so they spent the first evening reducing their beer inventory. Just before dawn, Luke awoke and went out into the woods to answer the call of nature. Unfortunately, on his way back, he crossed the path of a huge grizzly bear out looking for breakfast. The bear started for Luke, and Luke started for the cabin. Just as the bear was about to grab Luke by the neck, Luke tripped and fell flat on his face. The bear, which was going to fast to stop, ran right past Luke and through the open front door. Thinking quickly Luke jumped up, slammed and latched the door, and called into his sleeping partner, “You skin that one, Zeke, while I go fetch another.”

From a manager’s point of view....

From a consultant’s point of view....

The following are three laws that all consultants must remember when taking on a new assignment:

The First Law of Consulting

In the culture of management, the worst thing you can do is admit to anyone that you have a problem you cannot handle by yourself. If you really do need help, they have to sneak it in somehow without admitting in public that there is any problem at all.

Think of it this way – there is no curing sick people who believe they are well. The way around this is to ask:

As a result...

If you do achieve more than a ten percent improvement, make sure it is not noticed. The best way to do this is to help the client take all the credit.

The Second Law of Consulting

Most problems can be traced to management action or inaction. A corollary to the second law of consulting is:

At the very least, the people problem is either lack of imagination or lack of perspective. People who are close to the problem tend to keep repeating what didn't work the first time. If it did work, they wouldn't have called in a consultant. Since every hard-working person loses perspective at times, executives should be wary of managers who never call in outside consultants. They are so close to their problems that they don't know how much trouble they are in.

The Third Law of Consulting

While this can be interpreted that the consultant should bill the client for as much hourly money as possible, but that's not what it is about. Many good consultants have tried to get paid by the solution, but few succeed. To succeed, you would first have to get the client to admit that there was a problem, then that the problem was big enough to justify paying you well for solving it. Remember, if the client wanted a solution, they would have paid for a solution.

In short, managers may not be buying a solution, but an alibi to give to their management about why they have not solved a problem.

In addition, as a consultant....

The Lone ranger fantasy

When the clients don't show their appreciation, pretend that they're stunned by your performance – but never forget that it's your fantasy, not theirs.

The fourth Law of Consulting

You must never allow yourself to forget that consulting is the art of influencing people at their request. Among consultants, the most prevalent occupational disease is offering unsolicited “help.” It's bad for the bankbook and it usually doesn't work.

The Law of Raspberry Jam

Consider the job of being a dishwasher – turning a dirty world into a cleaner world. There is always a sense of accomplishment when, in the end, you triumph over some sticky raspberry jam. Not so, unfortunately, in one's attempts to change the world as a consultant, trainer, lecture, or author.

Washing dishes provides a satisfying, intimate relationship with the object of your work. Whatever your hands do is reflected immediately in a clean fork, a broken cup, or a sparkling glass. If someone discovers peanut butter encrusted on the handle of a coffee mug, you take full blame. If another person admires her face in the gleaming bottom of a frying pan, you take full credit. Although you struggle with defeats, you learn to achieve more victories, and that's the essence of job satisfaction.

As a dishwashing consultant, you lose this immediate satisfaction. If your client is having problems with encrusted peanut butter, you can offer advice or even demonstrate an improved technique. But in spite of your best efforts, the peanut butter may remain encrusted, but its up to your client to implement the ideas.

As compensation for losing the intimacy of dishwashing, the consultant gains the satisfaction of a much wider effect on the world's gunk, grease, and grime. In the time it would take to wash a hundred coffee mugs, you can advise two other people on how to wash dishes. That is....

As a dishwashing trainer, you intensify the quality/quantity tradeoff, because training is merely a cheaper form of consulting. Instead of giving one client your undivided attention, you design a workshop that can handle fifteen or twenty. Each participant gets a little less, but the cost goes down, so the market for your message expands. Sure, a couple of participants will miss some essential points, and may leave their dishes actually grungier than before.

As a dishwashing lecturer, you can spread your consulting advice even further, reaching several hundred clients at one time. True, some of them may be sleeping with their eyes open, and a few might even think you said to rub peanut butter on, rather than off.

Though the miracle of the printing press, you can reach hundreds of thousands of clients with your sterling advice. If your book is a bestseller, you might reach millions.

What about money? The going rate for a dishwasher is \$18,000 a year. A consultant probably makes \$75,000 a year; a trainer \$90,000, a lecturer \$150,000, and an author \$250,000. In each case, the wider the audience, the more you make.

The Law of Raspberry jam

One potato, two potato

As a consultant, one thing to remember is that...

and the client always wants to know that it is.

H.2 A Paradoxical Frame of Mind

Theory of Evolution

Many years ago, Sir Ronald Fisher noted that every biological system had to face the problem of present versus future, and that the future was always less certain than the present. To survive, a species had to do well today, but not so well that it didn't allow for possible change tomorrow. His *Fundamental Theorem of Natural Selection* said that *the more adapted an organism was to present conditions, the less adaptable it tended to be to unknown future conditions.*

To generalize:

Consider a company's hiring policies. Often a decision must be made between hiring older workers, who are more experienced in a particular skill, and younger people, who may prove more adaptable to learning new skills that may be required in the future.

Consider a company's training program. People want training that makes them better adapted to the present task, rather than training that makes them more adaptable to future tasks.

Looking at the cost of risk versus certainty. Consider the following game:

One can argue that on the average, they will win \$1.05 per play if they play many times – but we are not going to play many times – we are going to play once.

The Third Time Charm

Many consultants are upset with clients who were conservative about implementing great ideas, especially when they seemed to promise great future payoffs for small present results.

Think of it from both point of view: If a consultant's idea is ignored, the consultant loses his consulting contract. If it is implemented, the consultant might be a hero, but even if it flopped he merely loses his contract which he was going to anyway.

A client's risk is different: if he does nothing, he probably won't be any worse off than he is now. If he does what is suggested, he might be better off, but if the idea flops, he would be much worse off. With a secure job, most are adapted to their present situation.

The advantage of a consultant is:

In general,

Most clients do not know this and hire a consultant only once or hire them indefinitely.

The Orange Juice Test

Imagine you had to choose a site for an annual sales convention – accommodating seven hundred people. The orange juice test will help you eliminate some of the poorer hotels you might consider.

When you see the banquet manager for a hotel, you pose the following problem: “The founder of our company has established a hallowed tradition for our sales meeting, requiring that each morning’s sales breakfast start with a toast for success, using orange juice.”

The breakfast must start with the ceremony precisely at 7 a.m. and that each of the seven hundred people must have a *large* glass of freshly quizzed orange juice.

A large glass is a drinking-size glass and freshly squeezed is no more than two hours before serving.

That is the Orange Juice Test...

They can say, “it cannot be done.” If yes, then they fail the orange juice test. They might say, “no problem.” In which case, they probably also fail since either they are lying or really don’t think this will be a problem.

The winner is the one that says, “That’s a real problem. I can help you with it,and this is how much it is going to cost.” So they pass the Orange Juice Test.

In addition, it is not the banquet manager’s job to decide if it will be too expensive for me or not – his role is to say yes, and here is the cost. It is for you to decide if you want to pay for it.

H.3

Being effective when you don’t know what you are doing

Consultants as Specialists

Most consultants start out life as specialist. It’s easier that way, but it does present problems to their clients since consultants will look for problems/solutions based on their specialty.

The First great secret

Does this translate to consulting? It all depends on the system the consultant is trying to “cure.” If the system has a long history of practice in curing itself, then the consultant should lean towards the “do no harm” approach.

For instance, people have been working in small groups for thousands of years, so they can be expected to have certain inbred skills for curing group ills. If a consultant is brought in, the trouble is likely to be “cured” by patient waiting.

In contrast, we cannot expect that a computer will cure itself. The remedy might have to be drastic and harsh. In general, this secret means:

This secret, should be well known to engineers as the...

The First Law of Engineering

The second great secret

In medicine, think of getting a cold. If you routinely start taking antibiotics with the first sniffle, then over time, the effect of the antibiotics will be negligible. This is especially true since a cold will usually cure itself over time.

The third great secret

In the medical field, when prescribed an antibiotic by a doctor, many people stop taking it as soon as they feel well, which potentially will allow the infection to spring back, and this time it will probably be resistant to the antibiotic.

In consulting, sometimes it is more important to follow up on your suggestions with a client than on giving them.

The fourth great secret

The fifth great secret

To summarize, up to now, two of the secrets say, in effect:

The sixth great secret

H.4

Avoiding traps

The Laws of Marketing Yourself as a Consultant

Consider the following riddle:

Question: How do you tell an old consultant from a new consultant?

Answer: The new consultant complains....

The old consultant complains...

First Law of Marketing

For consultants, there are lots of free lunches, but there's no such thing as "just the right amount of business."

A consultant should have realistic marketing goals. Consultants who started by accident may temporarily have just the right amount of business, which gives them a false impression of what consulting is like.

The Best Ways to Get Clients

Why is it not possible to have just the right amount of business? For one thing, the amount of business you have partially determine the amount of business you get. Consider the second law of marketing:

Second Law of Marketing

As a result, the time to be looking for consulting business is when you have too much consulting business. Everyone likes to go with a winner. There's no better marketing tool than a sincere refusal to consider additional work. Because a lot of consultants spend a lot of time in State I (Idle), prospective consultants see most consultants as overly eager to get work. If they happen to encounter you when you are in State B (Busy), they decide you must be something special. They want you for their consultant, and even if they can't have you right now, they'll call you first when they have another project.

Exposure Time

Because the best way to get clients is to have clients, the rich get richer and the poor, poorer. Most of the poor consultants get discouraged and drop out of the business. Most of the rich ones, however, eventually make a mistake that drops them out of State B and back to State I.

Third Law of Marketing

State I (idle) consultants have no trouble accepting this lay – they have nothing better to do with their time. But State B consultants are too busy. If you can convince them that their business might drop some day, they respond by working harder – to squirrel away cash for the hard times to come.

What they fail to realize is that there are three kinds of exposure:

- (1)
- (2)
- (3)

Advertising is exposure you pay for, and is of little interest to individual consultants. Rarely do independent consultants get their money's worth from advertising.

The only essential advertising expense is for business cards and stationary so people can remember your address and phone number. You can distribute the business cards wherever you

get free exposure, that is, in professional groups you join, at meetings you address, to people you meet at airports. If you're enterprising and committed to spending one day a week getting exposure, you'll have no trouble thinking of free exposure.

If you are even more enterprising, you'll manage to get paid for getting exposure. If you cultivate your speaking skills, many groups will pay you to address them. If you polish your writing skills, there are hundreds of magazines hungering for articles. Just be sure they include your address. If you develop your training skills, you can conduct seminars in which people will pay to be introduced to your abilities.

Many consultants have found their promotional activities transformed into their main source of revenue. Even if that doesn't happen, the type of revenue generated by such activities tends to run on a different cycle from consulting revenue.

How Important Are you?

Most people are sensitive to rejection, and if you spend so much time trying to get exposure. This leads to the fourth law...

Fourth Law of Marketing

Some of your clients will have businesses grossing billions of dollars a year. If they give you \$10,000 worth of work, you will certainly appreciate it, but they don't even notice it. One always has to remember that the job can easily go away: cut 0.5% of their budget, operation moved overseas, manager moved, etc.

In other words, no matter how solid your business seems, you'd better follow the law that says to average one day a week getting exposure.

Big Clients

Many consultant's have lost all of their business with a single phone call. They had fallen into the most common of all consulting traps: that of letting one client get such a large share of their business that they could not survive the loss of that client.

Fifth Law of Marketing

There are dozens of ways to slip into an unhealthy dominance by one client. One way is to be an internal consultant, an employee. But even employees have several advantages over the external consultant whose business is one hundred percent with one client. They get employee benefits

and have a fair measure of job security. Even so, internal consultants should heed the Fifth Law and not allow themselves to get locked onto a single supporter in their organization.

Satisfied Customers

Sixth Law of Marketing

A previous client is twenty times better as a future prospect than somebody entirely new if you've done your job properly. But when you do try to sell yourself to somebody new, a specific reference triples your chances of landing the contract.

In addition clients usually are in the same professional community and talk with one another and recommend people to each other.

Giving it Away

SEVENTH LAW OF Marketing

The key to success is to encourage clients to take over the work after you are done. It is possible to destroy business by giving clients too complete of a project.

Consider the case of Duncan Hines cake mix. Just after World War II, there were numerous packaged cake mixes on the market. All one had to do was add water and bake. They did not sell very well. Along came Duncan Hines (a restaurant critic) who introduced his own cake mix that was a great success. What Duncan Hines had done, was appreciate the psychology of the "housewife" in a way that his competition had missed. Earlier mixes had emphasized convenience and simplicity – add water and bake. The average housewife felt degraded in her role as a family baker when all she had to do was add water. It just wasn't real baking.

Duncan Hines made it a little harder – you had to add an egg. This leads to the Eighth law...

EIGHTH LAW OF Marketing

The "egg" that makes the difference can be almost anything, as long as it's something consumers contribute for themselves. That is, you need to encourage and help clients participate in solving their own problems.

Doing Nothing is Doing Something

Ninth LAW OF Marketing

By “nothing”, this means that you should not be doing anything that is billable to any client, you should not be getting any exposure, and you should not be doing administrative work at your office.

Why is doing nothing an important marketing tool:

- (1) If your time is solidly booked, you will not be in a position to take advantage of a sudden opportunity for new business
- (2) Although you don't want to jump in response to every command from your present clients, it is an important part of your service to be able to respond quickly to a genuine emergency
- (3) As a human being, you are subject to failures, like blizzards, sick children, and broken legs, that might prevent you from keeping promises if you have no slack in your schedule
- (4) You are your only product – without slack time to replenish yourself, you will soon either burn out or run out of fresh ideas. Either way, you won't sell.
- (5) Practice at doing nothing will help you learn not to give your clients too much

But can you afford to take so much time doing “nothing”? You certainly can if you're an employee or have lots of employees to earn money for you. If you work for yourself, you can't – unless you price your services properly.

Let's do some very rough calculations. If you allot one-quarter of your time to marketing and one-quarter to slack, your billable time is only half your actual time. Continuing with the calculation, figure that you'll spend about half of what you earn on administrative expenses, and that you will need an additional twenty-percent as a contingency reserve, giving you a billable rate of about five times your target salary.

Marketing for Quality

Most people starting a business work under the assumption that the purpose of marketing is to get more business. Although this is the case for the beginner, the experienced consultant has a different perspective.

Tenth LAW OF Marketing

H.5

Putting a price on your head

The Price of Lipstick

Consider Greta's story concerning a new lipstick her firm had introduced into various stores all over the country. Priced competitively at one dollar, it was a dismal failure. The lipstick was withdrawn, but there was an enormous inventory already manufactured. Then, someone came up with the bright idea of raising the price to five dollars so the lipstick would be marketed in fancier stores. It was an immediate success, selling out the entire inventory in two weeks.

First Law of Pricing

As we will see...if your entire focus is on the money aspect, you'll probably set the wrong price.

Maintaining your Image

Lipstick that won't sell for one dollar may sell enormous quantities at five dollars, which is exactly the kind of psychology that works for some consultants. Remember, there's no way a client gets the best possible consultant for minimum wage. This leads to the second law...

second Law of Pricing

Within a certain range, the higher your price, the more business you get. Eventually, too high a price will prevent clients from retaining you. Even though they'll love you, you won't get their business.

You can lower your fees to get business, but don't forget the *inverse of the Second Law of Pricing*:

More than Money

Suppose you want to work with an organization that really has no possibility of meeting your usual fee scale. Don't let the Second Law of Pricing discourage you: you can still make the client respect you by setting the proper price. All you need to remember is the third law...

THIRD Law of Pricing

The third law is especially important to the internal consultant, making it possible for the employee on a fixed wage to be respected as much as any high-priced outside authority.

If you examine the total “cost” to a client of using your service, you’ll find that there are many costs besides money. There is the psychological cost of admitting there is a problem, the labor to get approval for your visit, the difficulty of changing schedules, the time and trouble to line up people to see you, plus all the extra work the client might have to do after you’ve left.

Alternative Fees

Look at consulting as a way of getting a paid education...

Forth Law of Pricing

That is, your gains do not have to be a customer’s loss. For example, your visiting a new area (if you like to travel) might be a good opportunity to have your client show you around and create an informal partnership.

Need for Money

All of the previous rules illustrate that in order to set fees properly, you have to start from a base of knowing what you’re trying to accomplish with your fee. One thing that most people think of when setting fees is that they’re trying to make a living. This is a big mistake...

Fifth Law of Pricing

Why not? If you need the money badly, you may set your price too high in order to get solvent from this one job, or you may set your price too low, hoping to sell the job on the basis of price.

If you really need the job, chances are you will not get it since the client will see your desperation. Things are no better even if you get the job. Suppose you set your price too high in the hopes of a big payoff. Then, because you realize the price is high, you may start making exaggerated claims on the kind of service you’re going to be able to provide. If you price the job too low and get it, the job will not take care of your financial problems. So, the next time, you’ll be in that much more trouble.

Fee as Feedback

If you’re desperate for business, the best strategy may be to offer your services free. Be nice and up-front about the fact that you’re just starting out and you have a lot to learn. Another possible deal is to offer your services on the basis of a fee that will be paid only if your client is completely satisfied with your work.

A good way to do this is to explain after you are finished that if the client does not agree that it was worth the fee, they can have their money back.

SIXTH Law of Pricing

Special Effects

Seventh Law of Pricing

This means that can use the exchange of money to create the conditions you need in order to be successful at consulting. For instance, when clients want you to hold a certain date, you may ask for a nonrefundable fee to compensate for possible loss of business if they change their mind. Such a fee forces clients to consider the contract more carefully and to be respectful of your time.

For many first face-to-face visits with a client, the client may not do any preparation until you actually arrive. To counter this, set-up an advance-payment clause, which usually motivates people, and gets them working. Once a fee has been paid, people feel that the job has actually started, and they're more likely to buckle down and get ready to work (and have the right people at the first meeting).

If a client asks you to do a job you are not certain you can do, set up your fees in stages. This gives both of you a way to assess as the project develops, without considering cancellation as a failure.

Negotiation

Eighth Law of Pricing

Buy a book on negotiation or have someone else negotiate for your services.

Principle of Least Regret

Ninth Law of Pricing

When you set a fee, there are two possibilities: one is that the client will accept it, you'll do the work, and you'll be paid that fee. The other is that the client will reject it, you won't do the

work, and you won't get the fee. The key to setting the fee is to set it so that you'll feel more or less the same.

Fee as Feeling

TENTH Law of Pricing

Section I Selling Stock: An IPO

I.1 What is an IPO?

What is an IPO?

An Initial Public Offering (IPO) is the process of a company first selling its shares to the public. These shares are initially issued in the Primary Market at an offering price determined by the lead underwriter.

The Primary Market consists of a syndicate of investment banks and broker dealers that the lead underwriter assembles and that allocate shares to institutional and individual investors. Being allocated shares at the Offering Price is referred to as participating in the IPO. Participation in the IPO happens before the security is first traded on any of the stock markets.

Why and how does a company go public?

A company goes public to raise capital for financing business plans, capital expenditures, and growth opportunities. When a company intends to go public:

The company picks a lead underwriter to help with the securities registration process and the distribution of the shares. The company must develop a preliminary prospectus that includes information on the management team, the company's target market, competitors, all financial data for the company, and the expected price range and number of shares to be issued. The lead underwriter files a registration statement on behalf of the issuing company with the SEC. The company must typically wait a minimum of 20 days for the SEC to review the registration statement.

The SEC reviews the statement and preliminary prospectus to determine if the issuer meets legal and regulatory requirements. However, the SEC neither approves nor disapproves the issue itself, it only clears the issue for sale.

During the SEC review process, the lead underwriter assembles a group of other investment banks and broker dealers to become members of the underwriting syndicate.

After the registration statement is filed and preliminary prospectuses are distributed, the underwriting syndicate and selling group members act as a distribution channel by recording indications of interest in the IPO on the part of institutional and individual investors.

After the SEC declares the registration statement effective and the offering price has been determined, the selling group members are able to accept the confirmed indications of interest and begin the share allocation process.

When will the offering be priced for sale?

The lead underwriter sets the offering price on a new issue typically on the evening of the day when the SEC declares the registration statement effective. Once the registration is declared effective and the offering price has been set, confirmations of indications of interest can begin.

How is the offering price determined?

The price is normally based on such factors as the company's financials, products and services, income stream, as well as the demand for the shares and current market conditions.

The underwriter must determine a fair offering price which takes into consideration the need for the company to raise capital while offering the new issue at a price which represents a fair value of the shares.

The offering price and/or number of shares issued could be raised or lowered from what is described in the preliminary prospectus. Additionally, the offering can be delayed or postponed based on unfavorable market conditions.

When do the shares begin trading?

Typically, the day following pricing is the first day that the new security will trade on the secondary market (i.e., NYSE, Nasdaq or AMEX).

I.2 Timeline of an IPO

Although taking your company public may not be in your immediate plans, there are several steps you can take sooner rather than later in the growth of your organization that will lessen the possibility of delay, mitigate the demands on your time and reduce the cost of a future initial public offering ("IPO").

The most important thing you should know about the IPO process is that timing is everything. Generally speaking, the faster the IPO process moves toward completion, the better the chances of success. The market's receptiveness to IPOs can swing quickly and dramatically. Underwriters speak of a "window," which represents the optimum time for a company's stock to hit the market, given market conditions and the anticipated valuation of the company at that time. A lack of preparation for the IPO can cause delay and result in the window closing before the registration statement is declared effective and selling can begin. As a result, the IPO may be "pulled" or "put on ice" until the underwriters feel that a new window of opportunity opens, which could take months or, even worse, could never happen at all.

The IPO process, from the first "all hands" organizational meeting until the first sale of shares to the public, generally will take from two-to-four months depending upon the complexity of your company and the extent of corporate "clean-up." During this period, you will be focused entirely on the preparation and filing of the registration statement, marketing the IPO on a "road show" and responding to comments on the registration statement from the Securities and Exchange Commission ("SEC").

In order to facilitate these monumental tasks and avoid the pitfalls that can arise from a lack of careful preparation, your management team and counsel should resolve virtually all significant matters prior to this crucial time.

Here are some of the most important tips to consider in planning your company's IPO. These issues can be resolved well in advance of the offering and will reduce the possibility of delay which could harm the chances of success of your IPO.

To enable you to better visualize and plan for these issues, the outline is organized chronologically according to the time periods preceding the IPO in which each issue should ideally be addressed.

12 months of more before the IPO

(1) _____

When selecting outside legal counsel and accountants to assist in the preparation and filing with the SEC of the your company's registration statement covering the stock to be offered to the public, choose firms that have significant experience in public offerings and ongoing public company representation.

(2) _____

It is necessary to adopt a stock option plan and begin issuing options as early as possible before the IPO. As it becomes more certain that a company will go public, the value of its stock will begin to rise dramatically. Therefore, it is desirable for management of a company to adopt an option plan well in advance of a prospective IPO and begin granting options to key personnel to establish their relative ownership interests in the company at the earliest possible stage. With a stock issuance and option plan in place, you will avoid the problems which typically arise out of granting stock options at an exercise price below the fair market value which is commonly referred to as "cheap stock".

(3) _____

Review with your company counsel all contracts with suppliers and corporate partners to make sure that an IPO will not trigger any change of control provisions that would terminate such contracts. Where necessary, amend or replace key contract and agreements that might be jeopardized by the IPO.

(4) _____

Analyze stock purchase agreements and other documents that may provide for the conversion of preferred stock or debt or the acceleration of the exercise periods of warrants upon the occurrence of an IPO. Failing to do so could have a negative effect on the underwriter's ability to sell the IPO or on the price of your company's stock.

(5) _____

The financial statement and accounting requirements imposed on public companies can be significantly more demanding than those you have implemented within your organization. Use a "Big Six" accounting firm experienced in securities matters to help set up management

information systems designed to ease the preparation of financial statements and compliance with public company reporting requirements.

(6) _____

Some loan documents may contain provisions that require you to obtain the consent of your lenders prior to offering a substantial amount of stock. To avoid any last minute hold-ups, talk to your banker and obtain all necessary consents.

6-12 months before the IPO

(7) _____

As the IPO approaches, begin to focus on technical issues such as auditing the corporate records with your lawyer to ensure your company is in compliance with all applicable laws (corporate, securities, regulation industry and the like). You may also consider simplifying the capital and corporate structure of your business so investors see the potential benefits of an investment in your company's stock

(8) _____

Choosing the right underwriter is key to the success of your IPO. Your attorney and accountant can provide helpful insights and often introductions as to specific investment banks and bankers that have the greatest expertise in your business sector.

(9) _____

If your company has granted registration rights to investors or lenders in connection with earlier stage financing transactions, you must open discussions with those parties in order to avoid confusion as to the number of shares available for sale to the public.

(10) _____

Transactions with insiders involving an amount greater than \$60,000 should be reviewed and modified so that they can be disclosed in the prospectus and reported as "arms-length" transactions.

(11) _____

The administrative and management demands placed upon your company once you are public will be significantly greater and it is likely you will need to add one or more new officers with experience in running public companies.

3-6 months before the IPO

(12) _____

"Gun Jumping" refers to attempts by a company and the underwriters to publicize a company's plan to go public before a registration statement has been filed. The SEC has the power to delay your offering until it believes the effect of such publicity has been sufficiently mitigated. It is also a good idea to have your lawyer review all promotional literature and press releases to be disseminated during the pre-filing process.

(13) _____

Section 16 of the Securities Exchange Act of 1934 provides for a rigid regulatory framework designed to prevent insider trading activities. Discuss the Section 16 compliance program and insider trading policies with your attorney. The reporting requirements of Section 16 are overwhelming and the penalties for violation can be stiff.

(14) _____

Review the existing ownership mix of your company to ensure shareholders are satisfied and prepare grants to new employees eligible for options. The importance of the option issues cannot be over-emphasized.

(15) _____

Once an IPO commences, underwriters' counsel will want to conduct a due diligence process. They will examine nearly all of your books, records, agreements, securities and material correspondence to ensure that all disclosures contained in the prospectus are truthful and that no material information required to be included in the prospectus is omitted. To prevent this process from holding up the IPO in any way, you may want to consider pulling together and organizing the documents that the underwriters' counsel is likely to request. Searching for missing documents and creating necessary documentation for matters at the last minute can needlessly delay the IPO and may create misimpressions about the company's organizational abilities and management controls.

0-3 months before the IPO

Three months before the projected effective date for the registration statement, you will begin drafting the registration statement with your management team and counsel. Shortly thereafter, the first "all-hands" meeting will be held to organize the many tasks involved in taking your company public. To the extent possible, it is a definite advantage to have anticipated and resolved the significant issues discussed above that are likely to arise in connection with the IPO.

From that point forward, your management team and counsel will be completely absorbed in the preparation and filing of the registration statement and applications to list your company's stock on a national exchange or the Nasdaq National Market, not to mention dealing with the last minute issues that always seem to arise.

I.3 Getting Listed On Nasdaq

The attached page containing listing requirements and costs for Nasdaq

Section J Government Regulation

J.1 New Business Checklist

- Identify a business opportunity that suits your skills and preferences.
- Conduct research to assess the market conditions of your business.
- Assess the total amount of expenses you will incur at the place of business (rent, utilities, renovations, signs, etc.).
- Estimate the amount of the loan you need to borrow (at least 25-30% of total expenses should be funded with your own money).
- Write a business plan and develop financial projections to help assess the feasibility of the proposed venture
- Submit your completed business plan and financial projections to a lender or investor to obtain the necessary funding.

According to your legal structure and type of business:

- Obtain a state license or local permit, if required.
- Obtain federal and state tax withholding information.
- Obtain federal and state identification numbers.
- Obtain sales tax permits and tax returns.
- Depending on your legal structure (partnership, corporation, LLC), contact the Secretary of State to file the appropriate paperwork.
- Register your business name with the Secretary of State and County Clerk.

Once your business has been set-up:

- Know how and when to pay estimated income tax.
- Open a separate checking account for your business.
- Select an insurance company and agent.
- Select an accountant and set up a bookkeeping system

J.2 Steps to Start a Business in Nebraska

- For all types of legal structure, a business owner should follow the subsequent steps:
 1. Obtain a local business license if necessary
 2. Obtain a Taxpayer Identification Number such as a Social Security Number (SSN) or an Employer Identification Number (EIN). Contact the IRS at (800) 829-3676 or the Social Security Administration at (800)

772-1213 to get a Form SS-4 (Application for Employer Identification Number).

3. Apply for Nebraska Tax Programs. Call the Nebraska Department of Revenue at (800) 742-7474 to request a copy of Form 20: Nebraska Tax Application.
 4. Contact the IRS to secure information on the Federal tax regulations that will apply to your business (Web site: <http://www.irs.ustreas.gov/>)
 5. Contact the Social Security Administration at (800) 772-1213 for insurance information (FICA).
 6. Open a separate checking account for the business.
- For specific types of legal structure, a business owner should follow the subsequent steps:

A. For a Sole Proprietorship:

1. Register the name of your company. Call the office of the Secretary of State at (402) 471-4079 to obtain an application for State Registration of Trade Name.
2. No formalities are required to start a company as a sole proprietorship.

B. For a partnership:

1. Register the name of your company. Call the office of the Secretary of State at (402) 471-4079 to obtain an application for State Registration of Trade Name.
2. No formalities are required to start a company as a partnership. However, it is highly recommended to have a written partnership agreement to reduce risks of conflicts among partners.

C. For a C or S-Corporation:

1. File the articles of incorporation with the Nebraska Secretary of State and pay the fee based on the par value of the corporation's capital stock. Contact the Secretary of State – Corporate Division at (402) 471-4079 to verify the fee amount.
2. Publish a notice of incorporation in a legal local newspaper of general circulation for three consecutive weeks.
3. File one copy of the affidavit of publication with the Nebraska Secretary of State, and keep another copy for your own records.
4. Buy a corporate seal and hold organizational meetings. One way to accomplish this step is by purchasing a corporate outfit kit. These kits are advertised in lawyer's trade journals or are available for purchase via mail order, bookstores, public libraries, etc.
5. File the annual report and pay the filing fee based on the capital stock each year with the Nebraska Secretary of State.

- Contact your financial institution to handle the issuance of stock for your business (i.e. stock value and procedure).

D. For a Limited Liability Company (LLC):

- Register the name of your company. Call the office of the Secretary of State at (402) 471-4079 to obtain an application for State Registration of Trade Name.
- File the articles of organization with the Nebraska Secretary of State and pay the filing fee. Contact the Secretary of State – Corporate Division at (402) 471-4079 to verify the fee amount.

Agencies to contact by types of business

Types of Business		IRS	Dept. of Revenue	Dept. of Labor			SSA	INS
				State		Federal		
				Unemployment Taxes	Wage & Hour	OSHA		
Sole Proprietorship	With Employees	✓	✓	✓	✓	✓	✓	✓
	Without Employees	✓	✓			✓ *		
Partnership	With Employees	✓	✓	✓	✓	✓	✓	✓
	Without Employees	✓	✓			✓ *		
C and S-Corporation		✓	✓	✓	✓	✓	✓	✓
LLC		✓	✓	✓	✓	✓	✓	✓

Legend:

- IRS:** Internal Revenue Service
SSA: Social Security Administration
INS: Immigration and Naturalization Services
SBA: Small Business Administration
 *Contact OSHA when sub-contracting

J.3

Incorporation, Name and Trademark Registration

The Secretary of State's office registers domestic corporations, foreign corporations, limited partnerships, out-of-state corporations doing business in Nebraska, trade names, trademarks, and service marks. **To register state trade names, trademarks, and corporation names, contact:**

Nebraska Secretary of State
P.O. Box 94608
State Capitol, Suite 2300
Lincoln, Nebraska 68509-1608
(402) 471-2554
Fax: (402) 471-3666

Corporation Division (402) 471-4079
Rules and Regulations (402) 471-2385

To check on currently registered federal and state(s) trademarks, contact:

Existing Business Assistance Division
Nebraska Department of Economic Development
P.O. Box 94666 - 301 Centennial Mall South
Lincoln, NE 68509-4666
(402) 471-3111 or (800) 426-6505

This will verify that the business name you plan to use is not already being used by someone else. Note that you may need to contact another office if you plan to do business in multiple states.

To register a business name nationally, contact the Patent and Trademark Office. This office has a complete Web page with directions on how to register your trademark. It also contains registration forms. The Web site is <http://www.uspto.gov>.

J.4

Forms, Form, and more Forms

The attached pages contain forms for reserving a corporate name, incorporating a company, and registering a trademark in the state.